

Overview of State Fiscal Functions

LEGISLATIVE ANALYST'S OFFICE

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State Administration and General Government
Hon. Richard Roth, Chair





California's State Fiscal Functions

- Today's Presentation.** Much of this hearing is focused on the 2013-14 budgets of some of the state's key fiscal management entities. This presentation provides an overview of what these entities do.

- The State as an Organization.** The State of California is a very large organization, with 350,000 employees (including universities) spread across 58 counties and some other states.

- Large Workforce.** The state's workforce is roughly the size of the worldwide workforce of Target, the retail company.
 - **Large, Complex Financial Operations.** California state government manages state, bond, and federal fund expenditures of around \$230 billion per year currently, directing a large portion of these funds to local governments and universities. This is more than three times the amount of Target's revenues. California's budget is roughly comparable to the revenues of the 10th company on the Fortune 500 list, Toyota.

 - **Legislature Has the Central Role in Fiscal Decisions.** Nearly all fiscal decisions can be addressed by the Legislature during the annual budget process and in considering policy bills.

 - **Fiscal Flexibility, Viewed Over the Long Term.** In the short run, prior decisions of the state and voters constrain many fiscal decisions to a degree. In the long run, the Legislature and voters have flexibility to change most elements of state fiscal policy.

- State Fiscal Entities Exist to Carry Out the Legislature's Directives.** The Legislature sets fiscal and other policies of the state. It is generally the duty of the Governor, constitutional officers, departments, and boards to carry out legislative directives, as enacted into law.



California's State Fiscal Management Entities

Other than the Legislature, the state's key fiscal management entities include:

- Tax Agencies**
 - Franchise Tax Board
 - State Board of Equalization
 - Employment Development Department

- Fiscal Control Departments**
 - Department of Finance
 - State Controller's Office

- Banking, Treasury, and Credit Management**
 - State Treasurer's Office

- Independent Auditor**
 - California State Auditor



State Board of Equalization (BOE)

- Governed by Elected Board.** The board consists of four members elected from districts that are reapportioned after each Census. In addition, the State Controller sits on the board. The State Constitution establishes the board, but most of BOE's duties are established under statutory law.

 - **Income Tax Appeals.** Among BOE's statutory duties is to serve as an appeals board for taxpayers disagreeing with decisions concerning income tax liabilities by the Franchise Tax Board (FTB).

- Administers Sales and Excise Tax Programs.** In 2010-11, BOE collected about \$54 billion of state and local taxes and fees. Of this amount, about \$42 billion flowed to state accounts. Most revenues collected by BOE are sales and use taxes (SUT), which generally are paid to BOE by over 1.5 million California businesses with SUT permits. The BOE also collects cigarette, alcoholic beverage, fuel, and many other excise taxes and other taxes and fees.

- Workforce.** The BOE employs about 4,700 people, of whom over 3,800 work on BOE's SUT collection efforts. The *2013-14 Governor's Budget* proposes 4,847 positions for BOE in 2013-14 (an increase of 2.9 percent).

- Funding.** The BOE's 2012-13 total budget is \$527 million, of which \$297 million is paid from the General Fund and \$151 million is paid from reimbursements, generally from local governments that receive sales tax and other funds collected by BOE. The Governor's budget proposes \$556 million (\$313 million General Fund) in 2013-14 expenditures.



Franchise Tax Board

- Governing Board.** The board consists of the State Controller, the Chair of the Board of Equalization, and the Director of Finance.
- Administers Personal Income and Corporation Taxes.** The FTB has the lead responsibility for administering the state's personal income tax (PIT) and corporation tax (CT) collection, refund, administration, auditing, and related efforts. The department, for example, processes about 15 million PIT returns each year. In general, FTB collects PIT and CT payments except for PIT withholding payments received by the Employment Development Department (EDD). In 2011-12, non-withholding PIT and CT collections totaled over \$30 billion, and FTB oversaw PIT and CT refund payments of over \$12 billion.
- Workforce.** The FTB employs about 5,600 people. The *2013-14 Governor's Budget* proposes 5,771 positions for FTB in 2013-14 (an increase of 2.6 percent).
- Funding.** The FTB 2012-13 total budget is \$673 million, of which \$643 million is paid from the General Fund. The Governor's budget proposes \$750 million (\$719 million General Fund) in 2013-14 expenditures. One major reason for the increase is the continued ramp up of the Enterprise Data to Revenue information technology project, a major effort to improve tax compliance and administration efforts at the department.



Employment Development Department

- Administers PIT Withholding.*** Along with its other labor-related functions, EDD administers collection, accounting, and auditing of California's payroll taxes, including PIT withholding and other payroll taxes. The EDD processes tens of millions of employer tax documents and remittances annually. In total, EDD collects over \$50 billion of payroll taxes annually, including around \$40 billion in PIT withholding. The EDD's tax collections and benefit payments program has a state operations budget of about \$1.1 billion per year, of which about \$300 million is paid from the General Fund, with remaining amounts paid from unemployment funds. Of these General Fund state operations costs, over 90 percent relate to the state's required unemployment insurance interest payment to the federal government, rather than tax and other benefit programs.



Department of Finance (DOF)

- Key Fiscal Control Entity in the Executive Branch.** Led by the Director of Finance, a gubernatorial appointee, DOF serves as the Governor's chief budget advisory entity in the executive branch. Working with other state departments, under the Governor's direction, DOF plays the lead role in developing the various documents associated with the presentation of the Governor's budget each year. It also plays a key role in administering various elements of the state budget each year, in accordance with the annual budget act enacted by the Legislature.
- Involved in Various Fiscal Control Efforts Across State Government.** The DOF is the project sponsor for the interdepartmental Financial Information System for California (FI\$Cal) project, the state's major technology effort to improve processes related to budgeting, accounting, procurement, and cash management. The DOF also houses the Office of State Audits and Evaluations, an auditing entity that works across the executive branch.
- Workforce.** The DOF employs around 500 people. The Governor's 2013-14 budget plan proposes a 1.4 percent increase in the DOF workforce.
- Funding.** The DOF has a \$69 million annual budget, of which \$35 million is paid from the General Fund and \$16 million from a cost recovery fund that receives payments from many state departments (for "central service" functions).



State Controller's Office (SCO)

- Issues State Checks and Payments, Plays Key Accounting Role.** Led by the elected State Controller, SCO accounts for and administers all disbursements of state funds. As such, SCO plays a key role in monitoring and managing the state's sometimes difficult cash flow situation. Under the State Constitution, money may be drawn from the state treasury "only through an appropriation made by law and upon a Controller's duly drawn warrant." Thus, SCO must determine the legality and accuracy of every claim against the state. The SCO also administers the state's unclaimed property program, which, among other duties, attempts to return hundreds of thousands of unclaimed assets to owners each year.

- Workforce.** The SCO employs around 1,500 people. The Governor's 2013-14 budget plan proposes 1,358 positions at SCO, a decrease of 12 percent due in part to expiration of prior limited-term positions and expiring programs (such as MyCalPAYS, discussed below).

- Funding.** The SCO's 2012-13 budget is \$248 million (\$87 million General Fund), and its proposed 2013-14 budget in the Governor's spending proposal is \$173 million (\$42 million General Fund). This reduction primarily reflects the exclusion of SCO's major technology project, known as MyCalPAYS, from SCO's item in the 2013-14 gubernatorial budget plan. (MyCalPAYS recently was suspended, such that realistic funding levels for 2013-14 are unknown.)



State Treasurer's Office (STO)

- Banking, Treasury, and Credit Management.** Led by the elected State Treasurer, the multifaceted STO coordinates state sales of infrastructure bonds and cash-flow notes (known as revenue anticipation notes, or RANs) to municipal bond market investors. The STO staff also manages the money of the state, as well as certain local entities, in the Pooled Money Investment Account, a large investment pool with a portfolio that totaled \$59 billion as of the end of February 2013. The STO oversees the state's ScholarShare program, California's tax-advantaged college tuition savings plan, and has a key role related to various finance-related boards and commissions.

- Workforce.** The STO employs around 230 people. The Governor's 2013-14 budget plan proposes 232 positions at STO, an increase of 0.3 percent. In addition to the STO budget, STO is closely related to the budgets of several finance-related committees, including two on today's agenda (the Tax Credit Allocation Committee and the California Alternative Energy and Advanced Transportation Financing Authority).

- Funding.** The STO's 2012-13 budget is \$27 million (\$5 million General Fund), and its proposed 2013-14 budget in the Governor's spending proposal is \$28 million (\$5 million General Fund).



California State Auditor

- Nonpartisan Office.*** The State Auditor is chosen for a four-year term by the Governor from a list of three qualified individuals nominated by the Joint Legislative Audit Committee (JLAC). State law prohibits consideration of party affiliation in the choosing of the Auditor and requires the administration to include the Auditor's proposed annual budget in the proposed gubernatorial budget without modification.

- Independent Auditor.*** The Auditor's office is the state's independent auditing office that has various functions, including opining annually on the compliance of state financial statements with generally accepted accounting principles and conducting the statewide "Single Audit," which includes an independent audit of numerous federal programs administered by California.

- Reviews Substantive Issues Across State Government.*** As the only state entity with full access to all records of state and local agencies, special districts, and school districts, the State Auditor performs financial, compliance, and other reviews as directed by statute or as approved by JLAC. The State Auditor administers the California Whistleblower Protection Act, investigating complaints that state workers have engaged in improper conduct. The State Auditor also issues a "high risk list" every two years highlighting key areas of concern across state government.

- Workforce and Budget.*** The State Auditor's staff numbers about 175. The *2013-14 Governor's Budget* includes a request for \$29 million of funding in 2013-14, of which \$14 million would be paid by the General Fund and \$11 million would come from the central service cost recovery fund.