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## *California State Senate*

COMMITTEE  
ON  
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL  
SACRAMENTO, CA 95814

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May 12, 2011  
9:30 a.m. or Upon Adjournment of Session  
Room 4203

<b><u>BILL #</u></b>	<b><u>AUTHOR</u></b>	<b><u>SUBJECT</u></b>
SB 14	Wolk	State Budget.
SB 15	DeSaulnier	State Budget.
SB 822	Evans	Infrastructure plan.

**SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW**  
*Mark Leno, Chair*

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<b>Bill No:</b>	<b>SB 14</b>
<b>Author:</b>	<b>Wolk</b>
<b>As Amended:</b>	<b>March 17, 2011</b>
<b>Consultant:</b>	<b>Keely Martin Bosler</b>
<b>Fiscal:</b>	<b>Yes</b>
<b>Hearing Date:</b>	<b>May 12, 2011</b>

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**Subject:** State budget.

**Summary:** This bill provides a statutory framework for the implementation of performance-based budgeting and for a systematic program performance review by the Legislature.

**Background:**

**Historic Budget Reform Efforts.** There have been numerous proposals to reform the budget process over the past several decades. Historical reform efforts include, but are not limited to, the following:

- Pilot projects on performance budgeting in four State departments starting in 1993 by then Governor Pete Wilson.
- Recommendations by the **California Constitution Revision Commission** that convened from 1994 to 1996 at the direction of statute and made various recommendations regarding the State budget process and alignment of programs between State and local governments.
- Recommendations by the **California Citizens Budget Commission** in 1998 that proposed statutory and constitutional changes to the budget process.
- Recommendations in the Governor's 2004 **California Performance Review** regarding the State budget process, including a recommendation to adopt a biennial budget and a performance-based budgeting system.

**Recent Reform Efforts.** The bipartisan *California Forward* organization has sponsored recent efforts regarding government reform. *California Forward* is an organization that was created by California Common Cause, the Center for Governmental Studies, the New California Network, and the Commonwealth Club of California's Voices for Reform Project in March 2008. The organization's main goal is to contribute to improving the quality of life for all Californians by creating a more responsive, representative, and cost-effective government. This organization is funded by the following foundations: the California Endowment, the Evelyn and Walter Haas Jr. Fund, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the David and Lucile Packard Foundation.

In 2008, *California Forward* started a process of consultation and engagement with the public and community leaders regarding a government reform agenda. They have made hundreds of presentations, consulted with hundreds of community leaders, conducted focus groups and public opinion research in the development of a reform agenda that includes budget process reform and local government reform. Performance-based budgeting and program performance review are just two of the reforms proposed by *California Forward*.

*California Forward's* efforts culminated with a comprehensive constitutional amendment in 2010 (SCA 19, DeSaulnier) that contained various changes to the state budget and legislative process. Specifically, these amendments would have implemented a pay as you go system for the majority

of legislation, the Governor's budget, and initiatives. This measure would have significantly limited how one-time revenues could be expended. This measure required the Legislature to review state programs once every ten years. This measure would have also lowered the vote threshold for the budget and increased the vote threshold for fees when they are being used to fund a program, service, or activity that was previously funded by revenue from a tax. This measure would also have reduced legislator pay if the budget was not passed by June 25 and provided the Governor with mid-year cut authority if the Legislature does not act prior to the 45<sup>th</sup> day of a fiscal emergency. This measure was not passed by the Legislature in 2010.

Two initiatives passed by the voters in November 2010, including Proposition 25 and Proposition 26 enacted pieces of the *California Forward* agenda. Proposition 25 lowered the vote threshold for the budget to a majority vote and reduced legislator's pay if the budget was not passed by the constitutional deadline. Proposition 26 also passed by the voters increased the vote threshold for some fees, including those that are being raised to fund a program that was previously funded by revenue from a tax.

### **Proposed Law:**

This bill does the following:

**Legislative Intent.** This bill states that the legislative intent in enacting this measure is to provide a system of analysis that supports a results-oriented framework for the delivery of public services. The bill prioritizes understanding the results of programs and funding that are subject to realignment from the state to county governments.

**Legislative Process for Program Performance Review.** This bill requires the Joint Sunset Review Committee to adopt a process, schedule, and deadline for reviewing the performance of all programs at least once every ten years, including tax expenditures. Programs include statutory or constitutional provisions that authorize services, regulate activities, evaluate services and programs, provide preferences in the tax system, or otherwise confer a benefit that would not otherwise occur. This bill does not limit this review to only programs administered by state agencies, but also programs administered by local agencies, contractors or others that have a material relationship with the state. The schedule shall provide for reviewing programs with expenditures that total one-third or more of total expenditures by July 1, 2015, and two thirds of total expenditures by January 1, 2018. Expenditures to be reviewed are not limited to those appropriated in the budget act and the review shall include the participating of the Senate Committee on Budget and Fiscal Review and the Assembly Committee on Budget.

Six months prior to the deadline for review of each program, the joint committee shall refer the initial program review to the appropriate policy committee of each house of the Legislature. Within 90 days of the deadline, the policy committees shall make recommendations regarding a program to the joint committee. A joint committee shall propose legislation based on the policy committee recommendations and other recommendations that will reduce costs, improve outcomes, consolidate programs with similar objectives, or terminate the program. The proposed legislation of the joint committees shall be submitted to the Rules Committee in each house and referred to appropriate committees for public hearings and further actions. This bill requires the proposed legislation to be posted on the joint committee's website.

The bill also requires a more detailed analysis of the potential benefits of a program if performance is improved if a recommendation to terminate a program is made.

**Defines and Requires Use of Performance-Based Budgeting.** This bill defines "performance-based budgeting" to mean a system of budgeting that uses information on performance to inform

resource allocation decisions thereby establishing clear accountability. Specifically, the bill specifies that a performance-based budget identify and update the following:

- The mission and goals of the agency;
- The activities and programs focused on achieving those goals;
- Performance metrics that reflect desired outcomes for existing and proposed activities and a targeted performance level for the following year;
- Prior-year performance data and an explanation of deviation from previous-year targets;
- Proposed changes in statute, including the creation of incentives or elimination of disincentives that could improve outcomes or hold down costs; and
- A description of the impacts and consequences to the current recipients or beneficiaries of a program proposed for modification or elimination.

This bill requires that budgets submitted to the department and proposed by the Governor shall use performance-based budgeting methods starting in 2014-15 and the data shall be posted on the Governor's website. This bill requires that the performance standards be included in the Budget Bill, which may be amended by the Legislature. This bill would also require performance standards and program performance information for programs that are not administered by the state, but which confer a benefit that would not otherwise occur were it not for the action of the state government.

**Review and Development of Performance Data.** This bill requires the Legislative Analyst's Office to review the adequacy of performance metrics and progress toward targeted outcomes in preparing its review of the Governor's Budget proposal.

This bill establishes a task force consisting of the Director of Finance, the State Controller, and the chairpersons and vice chairpersons of the Senate Committee on Budget and Fiscal Review and the Assembly Committee on Budget to do the following:

- Review and comment on guidelines and procedures drafted by the Department of Finance to be used by state agencies to develop performance-based budgets;
- Review and comment on a training program developed by the Department of Finance to ensure successful implementation of performance-based budgeting and management by state agencies;
- Review and comment on a plan prepared by the department for systematically phasing in performance-based budgeting, including ensuring that by 2012-13 performance-based budgeting methods are used in preparing, reviewing, and enacting one-third or more of a realignment enacted in 2011-12.

**Fiscal Effect:**

This bill is likely to require new state spending of at least ten million one-time to put in place a performance-based budgeting system. The ultimate costs of such a system will depend greatly on how this bill is implemented. For example, will the Administration rely on outside consultants or state staff and will the Administration invest in new information technology systems to manage this data.

At a minimum, there will be additional costs incurred by the Department of Finance to put in place a system for collecting and reporting the performance data required by this bill. However, there may be additional costs borne by departments that have not already invested resources in the collection of relevant performance metrics.

Furthermore, given the cumulative reductions to administrative expenditures over the last few budget cycles (across the board reductions to state operations and a workforce cap), it is likely

that redirecting existing resources for this purpose may in the short-run reduce other critical management activities.

In the long-term, there may be significant savings attributed to the bill related to better management decisions and informed budgeting decisions. However, these savings are not likely to occur until sometime in the future after the performance-based budgeting system is well established in the culture of the government and legislative process.

**Source:** California Forward

**Support:**

AARP

American Association of University Women

American Federation of State, County and Municipal Employees

Bay Area Council

Business Council of San Joaquin County

California Alliance of Child and Family Services

California Association of Nonprofits

California Church IMPACT

California Partnership for the San Joaquin Valley

California Senior Advocates League

California State Student Association

Contra Costa Council

Fresno Business Council

Greenlining Institute

Half Moon Bay Coastside Chamber of Commerce

Huntington Beach Chamber of Commerce

Kern County Taxpayers Association

Los Angeles Area Chamber of Commerce

Marin Builders' Association

San Francisco Chamber of Commerce

San Gabriel Valley Economic Partnership

San Mateo County Economic Development Association (SAMCEDA)

Santa Clara and San Benito Counties Building and Construction Trades Council

Santa Cruz County Medical Society

Saving California Communities

State Building and Construction Trades Council of California

Silicon Valley Leadership Group

Valley Industry & Commerce Association (VICA)

WELL Network

**Opposed:** None on file.

**Comments:**

1. **What Problem Does this Bill Seek to Solve?** The purpose of this bill is to create in statute a systematic legislative review of the performance of state government reviews. Presently, there are reviews of pieces of state government that occur in the Budget Subcommittee process and policy committees. However, these reviews are usually related to a specific incident or a specific budget issue and do not review all programs from a policy perspective or in any systematic manner. This bill could help

the Legislature develop a system that would collect longitudinal performance data systematically for more effective input into the budget and legislative process.

This bill also establishes a performance-based budgeting system to be used by all state departments in the development of a budget and in the subsequent review of the budget by the Legislature. This bill assumes that performance outcomes are not being used in a widespread manner by managers in state government or by the control agencies or Legislature in evaluating and prioritizing expenditures in the annual budget process. Performance data has been collected by some programs and departments and is used to inform management decisions and budgetary decisions. However, at present, there is not a systematic approach across state government to collect relevant performance data and use it to make management decisions and inform budgetary decisions. This bill attempts to put a system in place to make performance data a regular part of government operations.

2. **Will Data Change the Culture and Decision Process?** Departments across state government currently collect performance data on programs, contracts, and other aspects of their operations. While this data is not necessarily collected systematically across state government, this data is often used to inform budgetary decisions. For example, the Franchise Tax Board is constantly evaluating audit techniques and other tax enforcement efforts to determine the most cost effective way of investing limited audit resources. Some departments literally have dozens and dozens of performance metrics; however, it is not always clear whether they are being used to inform budget decisions or other management decisions. Ultimately, using data to inform management decisions and budget decisions needs to be an ingrained part of the culture of the administration and legislative review. Practically speaking, performance data, while important, is often just one of the inputs used to make decisions and without leadership and commitment at every level of government to rely on data to inform decisions, data will not, in itself, change the outcomes of the decision makers.
3. **Agreeing on Metrics and Goals First Big Hurdle.** In the Legislative Analyst's review of the state's performance-based budgeting pilots of the early 1990s the Analyst found that performance-based budgeting was more successful when there was a collaboration with the executive and legislative branches in developing metrics and reporting procedures. Clearly, widespread buy-in into a system of performance metrics would result in a more successful integration of data into a decision-making process. However, what happens if there are divergent views on the fundamental goals of a program or department? These debates, while not a reason to forgo performance data, are a real hurdle to the successful integration of data into the management and legislative process. For example, numerous expert panels and actual data have shown that the residential restrictions placed on sex offenders in California have had no and possibly negative impacts on public safety. Nevertheless, proposals to change this law have not been forthcoming.
4. **Suggested Amendments.** The Committee would like to recommend the following amendments:
  - a. This bill has designated the Joint Sunset Review Committee as the primary committee responsible for reviewing the performance of all programs at least once every ten years. The Committee would like to recommend that a joint committee be named jointly by the Rules Committee of both houses to complement this legislation instead of the Joint Sunset Review Committee. The

work to implement this statute would be new and it would be appropriate for the respective houses to work together on a mutually agreeable system for accomplishing this workload in the most effective and efficient way possible.

- b. The Committee would suggest that the performance-related data not be included in the budget bill, but instead be included in the budget submissions made by the Governor. This would not preclude the Legislature from including specific performance metrics in the budget bill as determined appropriate by the Legislature. This amendment would streamline the actual budget bill and it is unclear what value, including these metrics in the actual budget bill, it would add.
- c. The Committee would also like to recommend that this statute go into effect only upon appropriation in the budget process. This bill, even under the most conservative estimates, will have costs to implement. Given the State's current fiscal crisis, investments in this effort should be weighed against other investments made in these difficult fiscal times.

AMENDED IN SENATE MARCH 17, 2011

**SENATE BILL**

**No. 14**

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**Introduced by Senators Wolk, DeSaulnier, and Huff  
(Principal coauthor: Senator Alquist)**

(Principal coauthors: Assembly Members *Bonilla*, Buchanan and  
Fletcher, *Gordon*, and *Olsen*)

**(Coauthor: Senator Harman)**

(Coauthors: Assembly Members *Block*, *Harkey*, and *Wagner*)

December 6, 2010

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An act to add Sections ~~9143.5~~ 9147.8, 13335.3, and 13335.5 to the Government Code, relating to the State Budget.

LEGISLATIVE COUNSEL'S DIGEST

SB 14, as amended, Wolk. State Budget.

(1) The California Constitution requires the Governor to submit annually to the Legislature a budget itemizing state expenditures and estimating state revenues and requires the Legislature to pass the Budget Bill by midnight on June 15.

This bill would require that the budget submitted by the Governor to the Legislature for the 2014–15 fiscal year and each fiscal year thereafter be developed pursuant to performance-based budgeting, as defined, for each state agency.

(2) Under existing law, a state agency for which an appropriation is made is generally required to submit to the Department of Finance for approval a complete and detailed budget setting forth all proposed expenditures and estimated revenues for the ensuing fiscal year.

The bill would require the budget of a state agency, as defined, submitted to the department to utilize performance-based budgeting; for all programs, as defined *to include those performed not only by state*



agencies, but by local agencies, contractors, or others that have a material relationship with the state, or its authorities and activities. For those programs not administered by the state, but which confer a benefit that would not otherwise occur but for the action of state government, state departments would be required to develop a process for consulting with responsible local agencies, contractors or other responsible entities, and stakeholders to develop information related to performance standards and program performance. The bill would authorize ~~a joint committee~~ the Joint Sunset Review Committee, utilizing the recommendations of specified entities, to propose changes to those programs. ~~The~~

The bill also would establish a task force comprised of the Director of Finance, the Controller, and the chairpersons and vice chairpersons of the Senate Committee on Budget and Fiscal Review and Assembly Committee on Budget to ~~develop~~ review and comment on performance-based budgeting guidelines and procedures, ~~including a process for phasing in requirements of performance-based budgeting, and to be used by state agencies in developing performance-based budgets,~~ to review and comment on a training ~~and education~~ program for state agency personnel involved in the ~~budget performance-based budgeting~~ process developed by the Department of Finance, and to review and comment on a plan developed by the department for phasing in performance-based budgeting, which plan would be required to ensure that such budgeting would be in use by the 2012–13 fiscal years, giving priority to those programs that were a part of the 2011–12 realignment project.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     SECTION 1. It is the intent of the Legislature in enacting this  
2     measure during the 2011–12 Regular Session to provide a system  
3     of analysis that supports a results-oriented framework for the  
4     delivery of public services. That framework should prioritize  
5     understanding the results of programs and funding that are subject  
6     to a transfer of authority and responsibility from state government  
7     to county governments.

8     SECTION 1. ~~Section 9143.5 is added to the Government Code,~~  
9     to read:

1 ~~9143.5. (a) Within one year of the effective date of the act that~~  
2 ~~added this section, the Legislature shall establish a process,~~  
3 ~~including the creation of a new or use of an existing joint~~  
4 ~~committee, and shall include a schedule and a deadline for~~  
5 ~~reviewing the performance of all programs at least once every 10~~  
6 ~~years in a bill implementing the Budget Act. The process~~  
7 ~~established by the Legislature shall include the participation of the~~  
8 ~~budget committee of each house of the Legislature. The schedule~~

9 *SEC. 2. Section 9147.8 is added to the Government Code, to*  
10 *read:*

11 *9147.8. (a) Within one year of the effective date of the act*  
12 *that added this section, the Joint Sunset Review Committee shall*  
13 *adopt a process, schedule, and deadline for reviewing the*  
14 *performance of all programs at least once every 10 years. The*  
15 *schedule shall provide for reviewing programs with expenditures*  
16 *that total one-third or more of total expenditures by July 1, 2015,*  
17 *and that total two-thirds of total expenditures by January 1, 2018.*  
18 *For purposes of this section, “expenditures” include all funds as*  
19 *reflected in the Budget Bill submitted by the Governor, and*  
20 *statutory exemptions, deductions, credits, or exclusions from taxes*  
21 *or fees that would otherwise apply. For purposes of this act,*  
22 *“expenditures” also shall include the revenue and expenditures*  
23 *of state departments that are not reflected in the Budget Bill. The*  
24 *process established by the committee to review the performance*  
25 *of public programs shall reflect the principles of*  
26 *performance-based budgeting and shall include the participation*  
27 *of the Senate Committee on Budget and Fiscal Review and the*  
28 *Assembly Committee on Budget.*

29 (b) Six months prior to the deadline for review of each program,  
30 the joint committee shall refer the *information on an* initial program  
31 review to the appropriate policy committees of each house of the  
32 Legislature. For programs with common objectives, the reviews  
33 may be combined. Within 90 days prior to the deadline, the policy  
34 committees shall make recommendations regarding a program to  
35 the joint committee. The joint committee’s review may be based  
36 on the recommendations of the policy committees, as well as  
37 recommendations that may be made by the Milton Marks “Little  
38 Hoover” Commission on California State Government Organization  
39 and Economy, the Legislative Analyst, the Bureau of State Audits,  
40 or the public. As part of its recommendations to the joint

1 committee, the Bureau of State Audits shall identify those programs  
 2 that pose the greatest financial risks to the state. If following the  
 3 review of one or more programs the joint committee determines  
 4 that statutory changes are necessary, the joint committee may  
 5 propose legislation that includes, but is not limited to, one or more  
 6 of the following:

7 (1) Modifications to the program that will reduce costs.

8 (2) Modifications to the program that will improve outcomes.

9 (3) Reorganization of the program by consolidating it with  
 10 programs that have similar objectives.

11 (4) Termination of the program, *provided that if a program is*  
 12 *recommended for termination, an analysis shall include the*  
 13 *potential benefits if performance is improved, the relationship*  
 14 *between the program and desired public outcomes, and the impact*  
 15 *of eliminating that program. The analysis of impacts of elimination*  
 16 *shall include ramifications on related outcomes, the potential to*  
 17 *increase the burden and fiscal impact on other public programs,*  
 18 *and the potential impact on future budgets.*

19 (c) Proposed legislation shall be submitted to the Committee  
 20 on Rules of each house of the Legislature for referral to the  
 21 appropriate policy committee for public hearing and further action.

22 (d) The joint committee shall post on an Internet Web site its  
 23 recommendations and the results of the Legislature's action.

24 (e) "Performance-based budgeting" has the same meaning as  
 25 set forth in subdivision (d) of Section 13335.3.

26 (f) For the purposes of this section, "program" includes statutory  
 27 or constitutional provisions that authorize services, regulate  
 28 activities, *evaluate services and programs*, provide preferences in  
 29 the tax system, or otherwise confer a benefit that would not  
 30 otherwise occur were it not for the action of the state government,  
 31 including the procedures used to administer those programs, ~~and~~  
 32 *whether performed by state agencies, local agencies, contractors,*  
 33 *or others that have a material relationship with the state or its*  
 34 *authorities and activities, or that have a fiscal effect on the state.*

35 ~~SEC. 2.~~

36 SEC. 3. Section 13335.3 is added to the Government Code, to  
 37 read:

38 13335.3. (a) The purpose of performance-based budgeting is  
 39 to inform policy, fiscal, and oversight decisions by the Governor  
 40 and Members of the Legislature; to focus managers, supervisors,

1 and rank-and-file workers on achieving desired goals; and to  
2 communicate to the public the value of public programs, progress  
3 toward desired results, and the choices available to improve the  
4 expenditure of public funds.

5 (b) Every state agency for which an appropriation has been  
6 made shall submit to the department for approval a complete and  
7 detailed budget at the time and in the form prescribed by the  
8 department, setting forth all proposed expenditures and estimated  
9 revenues for the ensuing fiscal year.

10 (c) The budget submitted to the department and proposed by  
11 the Governor shall use performance-based budgeting methods that  
12 make it clear to policymakers and the public the value and results  
13 of existing operations and proposed changes.

14 (d) As used in this article, “performance-based budgeting”  
15 means *a system of budgeting that uses information on performance*  
16 *to inform resource allocation decisions, thereby* establishing clear  
17 accountability by achieving measurable performance results from  
18 ~~the expenditure of state resources.~~

19 (e) A performance-based budget shall identify and update all  
20 of the following:

21 (1) The mission and goals of the agency.

22 (2) The activities and programs focused on achieving those  
23 goals.

24 (3) Performance metrics that reflect desired outcomes for  
25 existing and proposed activities and a targeted performance level  
26 for the following year.

27 (4) Prior-year performance data and an explanation of deviation  
28 from previous-year targets.

29 (5) Proposed changes in statute, including the creation of  
30 incentives or elimination of disincentives that could improve  
31 outcomes or hold down costs.

32 (6) *A description of the impacts and consequences to the current*  
33 *recipients or beneficiaries of a program proposed for modification*  
34 *or elimination.*

35 (f) The Governor’s Internet Web site shall provide a summary  
36 of each state agency’s mission, goals, prior-year performance, and  
37 future-year objectives.

38 ~~SEC. 3.~~

39 *SEC. 4.* Section 13335.5 is added to the Government Code, to  
40 read:

1 13335.5. (a) Not later than the 2014–15 fiscal year, and each  
2 fiscal year thereafter, the budget submitted by the Governor to the  
3 Legislature, as required by Section 12 of Article IV of the  
4 California Constitution, shall be developed by utilizing  
5 performance-based budgeting methods.

6 (b) The amount of each appropriation made in the Budget Act  
7 for the 2014–15 fiscal year, and each fiscal year thereafter, for  
8 expenditure by any state agency shall be determined after  
9 considering performance-related data. The Budget Bill submitted  
10 by the Governor also shall include performance standards, which  
11 may be amended by the Legislature in the same manner as  
12 amendments to appropriations in the Budget Bill. These standards  
13 shall be applied to each state agency, and should allow the public  
14 and policymakers to understand the effectiveness and efficiency  
15 of each program. *For those programs that are not administered*  
16 *by the state, but which confer a benefit that would not otherwise*  
17 *occur were it not for the action of the state government,*  
18 *departments shall develop a process for consulting with the*  
19 *responsible local agencies, contractors or other responsible*  
20 *entities, and stakeholders to develop information related to*  
21 *performance standards and program performance.*

22 (c) The Legislative Analyst’s Office shall review the adequacy  
23 of performance metrics and progress toward targeted outcomes in  
24 preparing its review of the Governor’s Budget proposal.

25 (d) A task force consisting of the director, the Controller, and  
26 the chairpersons and vice chairpersons of the Senate Committee  
27 on Budget and Fiscal Review and the Assembly Committee on  
28 Budget shall do all of the following:

29 (1) Review and comment on guidelines and procedures drafted  
30 by the department to be used by state agencies in developing  
31 performance-based budgets pursuant to Sections 13320 and  
32 13335.3. The guidelines shall describe how state employees will  
33 be involved in establishing and implementing performance  
34 standards.

35 (2) Review and comment on a training program developed by  
36 the department for appropriate executive branch personnel to ensure  
37 the successful implementation of performance-based budgeting  
38 and management by state agencies.

39 (3) Review and comment on a plan prepared by the department  
40 for systematically phasing in the requirements of Sections 13320

1 and 13335.3. The plan should ensure that, by the 2012–13 fiscal  
2 year, performance-based budgeting methods are used in preparing,  
3 reviewing, and enacting one-third or more of the total General  
4 Fund expenditures as proposed in the Governor’s Budget for that  
5 fiscal year. *Priority shall be given to those programs that were*  
6 *part of the 2011–12 realignment project as enacted.*

7 (e) For purposes of this article, “state agency” means any  
8 agency, department, or other entity of the executive branch of the  
9 state that is required to submit a budget pursuant to Article 2  
10 (commencing with Section 13320).

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**SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW**  
*Mark Leno, Chair*

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<b>Bill No:</b>	<b>SB 15</b>
<b>Author:</b>	<b>DeSaulnier</b>
<b>As Amended:</b>	<b>April 25, 2011</b>
<b>Consultant:</b>	<b>Keely Martin Bosler</b>
<b>Fiscal:</b>	<b>Yes</b>
<b>Hearing Date:</b>	<b>May 12, 2011</b>

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**Subject:** State budget.

**Summary:** This bill would place additional reporting requirements on the Department of Finance related to the annual budget process.

**Background:**

**State Budget Process Overview.** Under the current State Constitution, the Legislature has the power to appropriate State funds and make midyear adjustments to those appropriations. The annual State budget act is the Legislature’s primary method of authorizing expenses for a particular fiscal year. Also, under the current State Constitution, the Governor is required to propose a balanced budget by January 10 for the next fiscal year (beginning July 1) and the Legislature is required to pass the annual budget act by June 15. Under current law, the Governor may also reduce or eliminate specific appropriation items using his or her “line-item veto” power and the Legislature may override a veto with a two-thirds vote in each house. However, once the budget has been approved by the Legislature and the Governor, current law provides the Governor with limited authority to reduce spending during the year without legislative approval.

**Proposed Law:**

This bill requires that the Director of Finance provide the Legislature updated projections of state revenues and state expenditures on or before October 15 of each year.

This bill requires the Governor to submit a budget for both the budget year and the succeeding fiscal year. The budget shall contain itemized statements, provisional language, performance measurement standards for state agencies and programs, recommended state expenditures, and a projection of anticipated state revenues, including revenues anticipated to be one-time revenue.

This bill also requires that the budget contain a projection of state expenditures and revenues for the three fiscal years following the fiscal year succeeding the budget year and budget plans for those three fiscal years.

If the expenditures exceed estimated revenues in the budget year or succeeding fiscal year, this bill would require that the Governor recommend reductions in expenditures or the sources of additional revenues, or both. The bill further requires an analysis of the recommendations on the long-term impact that expenditure reductions or additional revenues have on the economy of California.

This bill also requires the Governor to submit to the Legislature, annually with the budget, any legislation needed to implement appropriations contained in the budget and a five-year capital infrastructure and strategic growth plan.

This bill requires that if the Governor's budget expands or creates a new program or expands the scope of an existing program, which results in an increase in state costs or reduces a state tax in the budget year or succeeding year, the proposal must be accompanied by a statement identifying state program reductions or additional revenue that are equal or greater than the net increase in the state costs of the new or expanded program or tax expenditure.

This bill also states that it is the intent of the Legislature to establish an oversight process one year after the enactment of this legislation for evaluating and improving the performance of all programs undertaken by the state or by local entities on behalf of the state, based on performance standards.

**Fiscal Effect:**

The direct fiscal effects of this bill are a few million and are dependent upon how this bill is implemented by the Administration. The Department of Finance currently does a five year projection when preparing the annual budget bill and makes an estimate of the multi-year impact of policies it proposes. However, this bill may require a more detailed analysis be done for the second budget year and also requires additional analyses that are not currently required, such as an analysis of the impact of budgetary expenditures and revenues on the economy.

There may be unknown savings attributable to this bill based on better more informed multi-year planning by the Administration and the Legislature. However, these effects will ultimately depend on future actions by the Administration and Legislature.

**Source:** California Forward; State Controller John Chiang

**Support:**

AARP

American Association of University Women

American Federation of State, County and Municipal Employees

Bay Area Council

Business Council of San Joaquin County

California Alliance of Child and Family Services

California Church IMPACT

California Partnership for the San Joaquin Valley

California Senior Advocates League

California State Student Association

Contra Costa Council

Fresno Business Council

Greenlining Institute

Half Moon Bay Coastside Chamber of Commerce

Huntington Beach Chamber of Commerce

Kern County Taxpayers Association

Los Angeles Area Chamber of Commerce

Marin Builders' Association

San Francisco Chamber of Commerce

San Gabriel Valley Economic Partnership

San Mateo County Economic Development Association (SAMCEDA)

Santa Clara and San Benito Counties Building and Construction Trades Council

Santa Cruz County Medical Society

Saving California Communities

State Building and Construction Trades Council of California

Silicon Valley Leadership Group



**Opposed:** None on file.

**Comments:**

1. **What Problem Does This Bill Seek to Solve?** This bill seeks to provide more information to the Legislature so that they will better understand the impacts of decisions they make on the fiscal health of the state in subsequent budget years. One-time solutions adopted by the Legislature can provide for temporary budgetary relief and have a role, but in recent years ongoing budgetary reductions have also been needed to bring expenditures in line with long-term revenue projections. This bill would seek to introduce more information into the process to inform decision makers of the impacts and tradeoffs of budgetary decisions.
2. **Information Exists Now, But Could be Better Used.** The Department of Finance currently prepares a five year projection commonly referred to as the multi-year projection. These projections are not included in budget submissions on the department's website, but are officially transmitted to the Legislature on the day the budget is released. It is unclear whether incorporating this information more officially in the Department of Finance's submissions would increase the likelihood that the Legislature uses this information to inform a final budget package. Ultimately, there are many factors entering into final decisions on the budget package and this information is just one of those inputs.
3. **Some Evaluations Difficult to Do.** This bill requires the Department of Finance to do an analysis of the long-term impacts that expenditure reductions or additional revenues have on the economy of California. The Department of Finance has explored general equilibrium modeling to measure the economic impacts of budgetary policies in the past. However, this modeling was found to be highly sensitive to the assumptions used in the model and was eventually discontinued by the department because it did not provide the type of information that was directly valuable to forecasting revenues and budget planning. While this sort of analysis may be interesting from an academic perspective, it would significantly increase the workload of the Department of Finance and likely not provide significant value to the budget making process.
4. **Suggested Amendments.** The Committee recommends adding a three-year phased-in implementation of this bill. This will provide the Department of Finance the flexibility to successfully implement this bill in a manner that does not interfere as much in the regular budget process, especially given the current fiscal climate.

AMENDED IN SENATE APRIL 25, 2011

**SENATE BILL**

**No. 15**

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**Introduced by Senators DeSaulnier and Wolk**  
*(Principal coauthor: Assembly Member Bonilla)*  
*(Coauthors: Assembly Members Buchanan and Gordon)*

December 6, 2010

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An act to amend Sections 13308 and 13337 of the Government Code, relating to the state budget.

LEGISLATIVE COUNSEL'S DIGEST

SB 15, as amended, DeSaulnier. State budget.

Existing law requires the Governor to submit to the Legislature, within the first 10 days of each calendar year, a budget for the ensuing fiscal year. Under existing law, the budget is required to contain a complete plan and itemized statements of all proposed expenditures and all estimated revenues of the state for the ensuing fiscal year, together with a comparison with the actual revenues and expenditures for the last completed fiscal year, the estimated revenues and expenditures for the existing fiscal year, and the budgeted revenues and expenditures for the next fiscal year. Existing law further requires the Director of Finance to provide to the Legislature, on or before May 14 of each year, an estimate of General Fund revenues for the current fiscal year and the ensuing fiscal year, any proposals to reduce expenditures to reflect updated revenue estimates, and specified proposed adjustments to the Governor's Budget.

This bill would instead require the budget submitted by the Governor to contain itemized statements, provisional language, performance measurement standards for state agencies and programs, recommended state expenditures, and a projection of anticipated state revenues,

including revenues anticipated to be one-time revenues. In addition, the bill would require the budget to contain an estimate of the total resources available for the state expenditures recommended for the budget year and the succeeding fiscal year, and would further require the budget to contain a projection of anticipated state expenditures and anticipated state revenues for the 3 fiscal years following the fiscal year succeeding the budget year, along with budget-related plans and proposals for those 3 fiscal years. In the event recommended expenditures exceed estimated revenues, the Governor would be required to recommend reductions in expenditures or the sources from which the additional revenues should be provided and to include an estimate of the long-term impact that the expenditure reductions or additional revenues will have on the state economy. The Governor would also be required to submit with the budget any legislation necessary to implement appropriations contained in the budget, together with a 5-year capital infrastructure and strategic growth plan. If the Governor's Budget proposes to create a new state program or agency, or to expand the scope of an existing state program or agency, resulting in a net increase in state costs during the budget year or the succeeding fiscal year, or proposes to reduce a state tax resulting in a net decrease in state revenue in the budget year or the succeeding fiscal year, the proposal would be required to be accompanied by a statement identifying state program reductions or sources of additional state revenue in an amount that is equal to or greater than the net increase in state costs or net decrease in state revenue. The bill would also require the Director of Finance to provide to the Legislature, on or before October 15 of each year, updated projections of state revenues and state expenditures for the current fiscal year and for the ensuing fiscal year.

The bill would also state the intent of the Legislature to establish an oversight process for evaluating and improving the performance of all state programs and to establish a schedule of review for all state programs, whether managed by a state or local agency.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 13308 of the Government Code is  
2 amended to read:

1 13308. (a) The Director of Finance shall provide to the  
2 Legislature, on or before February 1 of each year, all proposed  
3 statutory changes, as prepared by the Legislative Counsel, that are  
4 necessary to implement the Governor’s Budget, as described in  
5 subdivision (a) of Section 13337.

6 (b) The Director of Finance shall provide to the Legislature, on  
7 or before April 1 of each year, all proposed adjustments to the  
8 Governor’s Budget except as specified by subdivisions (c) and  
9 (d).

10 (c) The Director of Finance shall provide to the Legislature, on  
11 or before May 1 of each year, all proposed adjustments to the  
12 Governor’s Budget in appropriations for capital outlay.

13 (d) The Director of Finance shall provide to the Legislature, on  
14 or before May 14 of each year, all of the following:

15 (1) An estimate of General Fund revenues for the current fiscal  
16 year and for the ensuing fiscal year.

17 (2) Any proposals to reduce expenditures to reflect updated  
18 revenue estimates.

19 (3) All proposed adjustments to the Governor’s Budget that are  
20 necessary to reflect updated estimates of state funding required  
21 pursuant to Section 8 of Article XVI of the California Constitution,  
22 or to reflect caseload enrollment or population changes.

23 (e) The Director of Finance shall provide to the Legislature, on  
24 or before October 15 of each year, updated projections of state  
25 revenues and state expenditures for the current fiscal year and for  
26 the ensuing fiscal year.

27 (f) The Director of Finance may authorize suspension for the  
28 current fiscal year of any provision of this section not sooner than  
29 30 days after notification in writing of the necessity therefor to the  
30 chairperson of the committee in each house that considers the State  
31 Budget and the Chairperson of the Joint Legislative Budget  
32 Committee.

33 SEC. 2. Section 13337 of the Government Code is amended  
34 to read:

35 13337. (a) Within the first 10 days of each calendar year, the  
36 Governor shall submit to the Legislature a budget for both the  
37 ensuing fiscal year, known as the budget year, and for the  
38 succeeding fiscal year. The budget shall contain itemized  
39 statements, provisional language, performance measurement  
40 standards for state agencies and programs, recommended state

1 expenditures, and a projection of anticipated state revenues,  
2 including revenues anticipated to be one-time revenue. The budget  
3 shall also contain an estimate of the total resources available for  
4 the state expenditures recommended for the budget year and the  
5 succeeding fiscal year. The budget shall also contain a projection  
6 of anticipated state expenditures and anticipated state revenues for  
7 the three fiscal years following the fiscal year succeeding the  
8 budget year, and budget-related plans and proposals for those three  
9 fiscal years. If, for the budget year and the succeeding fiscal year,  
10 *the* recommended expenditures exceed estimated revenues, the  
11 Governor shall recommend reductions in expenditures or the  
12 sources from which the additional revenues should be provided,  
13 or both. The recommendations shall include an estimate of the  
14 long-term impact that expenditure reductions or additional revenues  
15 will have on the economy of California. Together with the budget,  
16 the Governor shall submit to the Legislature any legislation  
17 necessary to implement appropriations contained in the budget,  
18 accompanied by a five-year capital infrastructure and strategic  
19 growth plan.

20 (b) The budget shall, in accordance with Chapter 2 (commencing  
21 with Section 41200) of Part 24 of Division 3 of Title 2 of the  
22 Education Code, include a section that specifies the percentages  
23 and amounts of General Fund revenues that must be set aside and  
24 applied for the support of school districts, as defined in Section  
25 41302.5 of the Education Code, and community college districts,  
26 as required by subdivision (b) of Section 8 of Article XVI of the  
27 California Constitution.

28 (c) If the Governor's Budget proposes to create a new state  
29 program or agency, or to expand the scope of an existing state  
30 program or agency, which would result in a net increase in state  
31 costs during the budget year or the succeeding fiscal year, or  
32 proposes to reduce a state tax, which would result in a net decrease  
33 in state revenue in the budget year or the succeeding fiscal year,  
34 the proposal shall be accompanied by a statement identifying state  
35 program reductions or sources of additional state revenue, or both,  
36 in an amount that is equal to or greater than the net increase in  
37 state costs or net decrease in state revenue.

38 (d) The Governor, or the Department of Finance acting on his  
39 or her behalf, shall make appropriate changes in the budget request  
40 to reflect any modification in the organization or functions of state

1 government proposed under Article 7.5 (commencing with Section  
2 12080) of Chapter 1 of Part 2 prior to the passage of the budget.

3 (e) The Governor’s Budget shall be prepared in accordance with  
4 guidelines and instructions adopted by the Department of Finance.

5 (f) In order to provide meaningful comparisons, the Governor’s  
6 Budget shall be prepared in such a manner that the information  
7 presented provides for such comparisons between the fiscal years.

8 (g) The Department of Finance shall submit to the committee  
9 in each house that considers appropriations and to the Joint  
10 Legislative Budget Committee copies of budget material submitted  
11 to it by agencies pursuant to the provisions of Article 2  
12 (commencing with Section 13320).

13 (h) The Governor’s Budget shall also include a coding structure  
14 which indicates for each budget entity the categorization of  
15 expenditures and revenues.

16 (i) Prior to the submission of the Governor’s Budget to the  
17 Legislature, the Department of Finance may conduct public  
18 hearings regarding any portion of any budget.

19 (j) The Governor, or the Department of Finance acting on his  
20 or her behalf, shall, at the same time the Governor’s Budget is  
21 submitted to the Legislature, submit to the Legislature copies of  
22 the material for the purposes of subdivision (k).

23 (k) The Department of Finance shall develop a fiscal information  
24 system which will provide timely and uniform fiscal data needed  
25 to formulate and monitor the budget, including, but not limited to,  
26 on-line inquiry capacity and the ability to simulate budget  
27 expenditures and forecast revenues. This system may include,  
28 among other things, data on encumbrances and expenditures by  
29 line item, governmental unit, and fund source. The system shall  
30 also include expenditures and encumbrances by program, as  
31 required. This system shall also include a coding structure which  
32 indicates the categorization of expenditures and revenues. This  
33 system and the data shall be available to both the legislative and  
34 executive branches. The system may contain separate programs  
35 accessible by only one branch, designed to provide for distinct  
36 application of the data, but the basic system data shall be available  
37 on an equal basis to both the legislative and executive branches of  
38 government.

39 SEC. 3. It is the intent of the Legislature to establish an  
40 oversight process for evaluating and improving the performance

1 of all programs undertaken by the state, or by local entities on  
2 behalf of the state, based on performance standards established  
3 pursuant to statute. In furtherance of that oversight process, it is  
4 the intent of the Legislature to establish, within one year of the  
5 effective date of this act, a schedule of review for all state  
6 programs, whether managed by a state or local agency. The review  
7 schedule shall be designed so that the relationship between similar  
8 state programs may be examined.

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**SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW**  
*Mark Leno, Chair*

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<b>Bill No:</b>	<b>SB 822</b>
<b>Author:</b>	<b>Evans</b>
<b>As Amended:</b>	<b>March 24, 2011</b>
<b>Consultant:</b>	<b>Brian Annis</b>
<b>Fiscal:</b>	<b>Yes</b>
<b>Hearing Date:</b>	<b>May 12, 2011</b>

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**Subject:** Infrastructure Plan.

**Summary:** This bill requires that the Governor annually submit to the Treasurer a copy of the five-year infrastructure plan.

**Background:** As part of the annual state budget proposal, the Governor must submit a five-year infrastructure plan to the Legislature. This annual, five-year plan must identify:

- Infrastructure projects requested by state agencies.
- Transportation projects identified in the State Transportation Improvement Program.
- K-12 school infrastructure needs.
- Higher education facility needs.

The plan must estimate the costs of those infrastructure projects. The plan must also identify the criteria and priorities for funding infrastructure, funding sources, the effect on the state government's debt position, and recommend specific projects for funding and capital outlay appropriations (AB 1473, Hertzberg, 1999). The criteria for selecting state agencies' infrastructure projects must be consistent with the state planning priorities adopted in 2002. The State Department of Finance issued the California Five-Year Infrastructure Plan in 2002, 2003, 2006, 2007, and 2008. The Department intends to issue a new five-year plan in January 2012.

**Proposed Law:** This bill requires that the annual five-year infrastructure plan, which statute requires to be submitted to the Legislature, also be submitted to the Treasurer. The five-year infrastructure report is publicly available and posted on the Department of Finance website at the following link: [http://www.dof.ca.gov/capital\\_outlay/reports/](http://www.dof.ca.gov/capital_outlay/reports/). Since the report is already publicly available, this would merely provide a formal delivery to the Treasurer.

**Support:** None on file.

**Opposed:** None on file.

**Comments:** This bill, by itself, does not change any statutory responsibility of the Treasurer related to state infrastructure. By adding the Treasurer as a report recipient, this bill would imply that both the Legislature and the Treasurer are parties who would review and comment on the Governor's infrastructure plan.

According to the author's office, it is appropriate that the infrastructure report also be delivered to the Treasurer since that office manages the sale of voter-approved general obligation (GO) bonds and public lease-revenue bonds to fund a variety of infrastructure projects throughout the state. The author's office notes that the Treasurer's office is currently sponsoring SB 907 (Evans), a companion bill that would create the Master Plan for Infrastructure Financing and Development Commission to provide the state with independent and comprehensive information to assist



policymakers in analyzing and prioritizing California's infrastructure needs. The Commission would include the Treasurer and be charged also with assessing the viability of various financing mechanisms to meet the state's infrastructure development needs into the long-term future.

**Introduced by Senator Evans**

February 18, 2011

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An act to amend Section 13102 of the Government Code, relating to infrastructure plan.

LEGISLATIVE COUNSEL'S DIGEST

SB 822, as amended, Evans. Infrastructure plan.

Existing law requires the Governor, in conjunction with the Governor's Budget, to submit annually to the Legislature a proposed 5-year infrastructure plan containing specified information concerning infrastructure needed by state agencies, public schools, and public postsecondary educational institutions and a proposal for funding the needed infrastructure.

This bill would ~~make technical, nonsubstantive changes to this provision~~ *require the Governor to also submit the infrastructure plan to the Treasurer.*

Vote: majority. Appropriation: no. Fiscal committee: ~~no~~ *yes*.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 13102 of the Government Code is  
2 amended to read:  
3 13102. In conjunction with the Governor's Budget submitted  
4 pursuant to Section 13337, the Governor shall submit annually a  
5 proposed five-year infrastructure plan to the Legislature *and the*  
6 *Treasurer*. This plan shall cover a five-fiscal-year period beginning

1 with the fiscal year that is the same as that covered by the  
2 Governor's Budget with which it is being submitted.

3 The infrastructure plan shall contain the following information  
4 for the five years that it covers:

5 (a) (1) Identification of new, rehabilitated, modernized,  
6 improved, or renovated infrastructure requested by state agencies.

7 (2) Aggregate funding for transportation as identified in the  
8 four-year State Transportation Improvement Program Fund  
9 Estimate prepared pursuant to Sections 14524 and 14525.

10 (3) Infrastructure needs for kindergarten through grade 12 public  
11 schools necessary to accommodate increased enrollment, class  
12 size reduction, and school modernization.

13 (4) The instructional and instructional support facilities needs  
14 for the University of California, the California State University,  
15 and the California Community Colleges.

16 (b) The estimated cost of providing the infrastructure identified  
17 in subdivision (a).

18 (c) A proposal for funding the infrastructure identified in  
19 subdivision (a), that includes all of the following:

20 (1) Criteria and priorities used to identify and select the  
21 infrastructure it proposes to fund, including criteria used to identify  
22 and select infrastructure that by January 1, 2005, shall be consistent  
23 with the state planning priorities specified pursuant to Section  
24 65041.1 for infrastructure requested by state agencies pursuant to  
25 paragraph (1) of subdivision (a).

26 (2) Sources of funding, including, but not limited to, General  
27 Fund, state special funds, federal funds, general obligation bonds,  
28 lease revenue bonds, and installment purchases.

29 (3) An evaluation of the impact of the new state debt on the  
30 state's existing overall debt position if the plan proposes the  
31 issuance of new state debt.

32 (4) (A) Recommended specific projects for funding or the  
33 recommended type and amount of infrastructure to be funded in  
34 order to meet programmatic objectives that shall be identified in  
35 the proposal.

36 (B) Any capital outlay or local assistance appropriations  
37 intended to fund infrastructure included in the Governor's Budget

- 1 shall derive from, and be encompassed by, the funding proposal
- 2 contained in the plan.

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