

# ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Canciamilla Analyst: LuAnna Hass Bill Number: AB 499

Related Bills: See Legislative History Telephone: 845-7478 Introduced Date: February 14, 2003

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** State Budget/ Two-Year Spending Plan

## SUMMARY

This bill would require state agencies and courts to submit proposed budgets on a two fiscal-year basis.

Similarly, this bill would require the Governor to submit a proposed two-year budget plan to the Legislature. This analysis will not address the bill's changes to the Governor's budget submission to the Legislature, as it does not impact the department or state income tax revenue.

## PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to allow state agencies and the government to better utilize their budgets by planning in advance.

## EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2004, and specifies it would be operative for budgets submitted beginning with the 2005/2006 fiscal year.

## POSITION

Pending.

## ANALYSIS

### STATE LAW

State law requires the Department of Finance (DOF) to develop, issue, and implement consistent and adequate guidelines for state agencies to follow when submitting budgets. The guidelines must ensure that:

- the budgets are reflective of an agency's activities,
- the budgets are reflective of the costs that are associated with their execution, and
- the budgetary presentation is designed to display expenditures based on various goals or objectives when a program budget format is used.

Board Position:

\_\_\_\_\_ S                      \_\_\_\_\_ NA                      \_\_\_\_\_ NP  
\_\_\_\_\_ SA                      \_\_\_\_\_ O                      \_\_\_\_\_ NAR  
\_\_\_\_\_ N                      \_\_\_\_\_ OUA                      \_\_\_\_\_ X PENDING

Department Director  
Gerald H. Goldberg

Date  
03/13/03

DOF, in cooperation with the Legislature, must develop a format for state agencies to use when developing a program budget.

Every state agency and court that receives an appropriation is required to submit a complete and detailed budget to DOF. The budget must be in the form DOF prescribes and must include all proposed expenditures and estimated revenues.

Each year, every state agency reviews their expenditure plans and prepares a baseline budget to maintain existing service levels. In addition, they may prepare Budget Change Proposals (BCP's) to adjust service levels. DOF analyzes the baseline budget and BCP's, estimates revenues, and prepares a balanced expenditure plan for the Governor's approval. The Governor may require state agencies, officers, or employees to furnish whatever information is deemed necessary to prepare the budget. The Governor's Budget is submitted to the Legislature by January 10<sup>th</sup> of each year. The Governor and Legislature are required to enact a budget package by June 15<sup>th</sup> of each year. After enactment the state agencies administer, manage change, and exercise oversight of the Budget on an ongoing basis. In addition, the Joint Legislative Budget Committee is involved in the ongoing administration of the Budget and reviews various requests for changes to the Budget.

### THIS BILL

For each fiscal year that begins with an odd-numbered year, beginning with 2005/2006, in addition to the annual budget submitted by a state agency or court, this bill would require the submission of a budget plan that contains the proposed spending and revenue for the agency or court for the following fiscal year (2006/2007).

The annual budget submitted for the second fiscal year (2006/2007) would consist of any proposals of the state agency or court for modification of its original budget plan for that second fiscal year.

### IMPLEMENTATION CONSIDERATIONS

Implementation of this bill would require the department's budget staff to incorporate new procedures to accommodate a biennial budget process.

### TECHNICAL CONSIDERATIONS

This bill would apply to the budget submitted "for every fiscal year that begins in an odd-numbered year, commencing with the 2005/2006 fiscal year." The reference to "every fiscal year" combined with the reference to "odd-numbered years" could lead to misunderstandings about how often a two-year plan should be submitted. Department staff would recommend applying this provision to budgets submitted for "fiscal years that begin with an odd-numbered year," which would eliminate the phrase "every fiscal year."

In addition, subdivision (b) of Section 13320 requires a "budget plan" to be submitted for the second year of the two-year cycle. Subdivision (c) refers to the "budget" submitted for the second fiscal year of the two-year cycle. It is unclear if the department would be required to submit actual "budgets" for the two-year cycle or a "budget" for the first year and a "plan" for the second year. According to the author's staff, the intent of this bill is to require advance planning and that every fiscal year would still have an annual budget bill. The author may wish to clarify the term "budget plan" to eliminate any confusion.

## **LEGISLATIVE HISTORY**

SB 985 (McClintock, 2003/2004) would require budgets submitted by state agencies or courts to be based on a zero-based budget method beginning with the 2003/2004 fiscal year. This bill is with the Senate Rules Committee.

AB 318 (Haynes, 2003/2004) would require state agencies, boards, commissions, departments, and offices to provide a report regarding financial activities to specific legislative committees for the 1998/1999, 1999/2000, 2000/2001, 2001/2002, and 2002/2003 fiscal years and for all subsequent fiscal years. This bill is with the Assembly Rules Committee.

SB 1347 (Brulte, 2001/2002) would have required budgets submitted by state agencies or courts to be based on a zero-based budget method beginning with the 2003/2004 fiscal year. This bill was held in the Assembly Budget Committee.

SB 1292 (Haynes, 2001/2002) would have required a report identical to the report in AB 318, above, for all fiscal years beginning with 1997/1998. This bill was held in Senate Appropriations.

## **PROGRAM BACKGROUND**

In the fall of each year, the department begins the following years' fiscal budget process with a base budget that is either augmented or reduced based on changes in workloads, technology enhancements, or directives from the Legislature or Administration. In developing the budget, the department uses a decentralized budget management structure, which requires involvement of all organizations, programs, and projects within the Franchise Tax Board.

## **OTHER STATES' INFORMATION**

Since this bill only requires state agencies and courts to submit a proposed budget plan for an additional fiscal year, a review of other states' tax information would not be relevant.

## **FISCAL IMPACT**

This measure could result in minor costs to accommodate additional hours expended by the department's budget staff to prepare an additional budget.

## **ECONOMIC IMPACT**

This bill would not impact state income tax revenue.

## **LEGISLATIVE STAFF CONTACT**

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