Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: McClintock   Analyst: LuAnna Hass   Bill Number: SB 985

Related Bills: See Prior Analysis   Telephone: 845-7478   Amended Date: January 5, 2004

Attorney: Patrick Kusiak   Sponsor: ______

SUBJECT: State Budget/Zero-Based and Performance-Based Budgeting

____	DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ______.
____	AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
X	AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 21, 2003.
____	FURTHER AMENDMENTS NECESSARY.
____	DEPARTMENT POSITION CHANGED TO ______.
X	REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 21, 2003, STILL APPLIES.
____	OTHER - See comments below.

SUMMARY

This bill would require budgets submitted by state agencies and courts to be developed using zero-based and performance-based budget methods beginning with the 2004/2005 fiscal year.

SUMMARY OF AMENDMENTS

The January 5, 2004, amendments would add performance-based budgeting (PBB) as a type of budgeting method that state agencies and courts should utilize when completing and submitting budgets. In addition, the amendments would:

- Define "performance-based budget method" as a way to achieve measurable results from state resources. A performance-based budget would include:
  - Performance goals and an outcome-oriented performance measure for each activity that an appropriation is made or requested,
  - Cost-per-unit of services for the performance results achieved from each activity as calculated using activity-based costing or an equivalent managerial cost accounting approach that reflects direct and indirect expenses incurred for each activity, and
  - Justification of why the performance impact of each activity is not duplicative of activities conducted by other federal, state, or local government agencies.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	2/4/04
____ N	____ OUA	X PENDING		

- Require the Controller to prepare and publish an annual report that verifies the cost-per-unit of services provided by at least 25% of state activities by expenditure. In addition, the report would provide competitive benchmarks to the cost-per-unit of services provided by similar activities of other federal, state, and local government agencies and nongovernmental actors. The Controller shall complete this analysis on 100% of state activities, by expenditure, within a four-year period.

The January 5, 2004, amendments resolved part of the technical concern regarding a cross-reference as discussed in the department's analysis of the bill as introduced February 21, 2003. As a result of the amendments, the department has expanded an existing implementation concern and updated the fiscal impact. For convenience, the remaining concerns and fiscal and economic impacts are provided below. The remainder of the department's analysis of the bill as introduced February 21, 2003, still applies.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2005, for budgets submitted for the 2004/2005 fiscal year and subsequent fiscal years.

POSITION

Pending.

<u>IMPLEMENTATION CONSIDERATIONS</u>

Implementing this bill would have a significant impact to the department. FTB currently uses the California State Accounting and Reporting System (CALSTARS) for external state level reporting. In addition, the department currently uses Activity Based Costing (ABC) as an internal management tool. In short, ABC is a method of deriving the costs of products and services by calculating the cost of each component activity in the processes that produce and deliver these products and services. However, neither CALSTARS nor ABC currently has the capacity to establish and maintain a performance-based budget that includes the development and evaluation of performance measures and standards. As a result, this bill would require changes in the department's existing budget and revenue reporting methodology and would require retraining of existing budget staff.

This bill would require the department to submit a budget for the 2004/2005 fiscal year that utilizes zero-based budgeting (ZBB) and PBB. Since this bill would be effective January 1, 2005, which would be six-months into the 2004/2005 fiscal year, the department would be unable to implement this bill as written. Department staff recommends the author consider amending this bill to begin with a later fiscal year. In addition, implementation of ZBB and PBB requirements would rely on information that would be supplied to the department by the task force established by this bill. The department normally begins its budget process for the following fiscal year in the fall of the current year (fall 2004 for the 2005/2006 fiscal year budget). Since this bill would be effective January 1, 2005, to ensure the department receives the guidelines, procedures, and training outlined in this bill to prepare an effective zero-based budget, the author may wish to require ZBB and PBB submissions for the 2006/2007 fiscal year.

TECHNICAL CONSIDERATION

Section 13335.5 that would be added to the Government Code by this bill does not define "zero-based and performance-based budget methods." The author may want to add a cross-reference to the definitions in Section 13320. This change would clarify that the definition of "zero-based and performance based budgeting methods" would be used for both sections of this bill.

FISCAL IMPACT

Departmental information that would be required to formulate a budget based on ZBB may be available through existing internal reports. However, formulating a budget based on PBB would require changes to the existing internal and external reports. Implementing PBB would require the department to capture additional information and requires a format not currently used by the department. Therefore, the existing systems would need modification or a new program or all-inclusive system may need to be acquired. In addition, resources would be needed for training of staff.

The impact of this bill on the department is unknown at this time, but could be costly for the department to implement due to possible systems and reporting changes. Ultimately, the potential departmental impact for the implementation of ZBB and PBB would depend on the outcome of the proposed guidelines and procedures to be developed by the task force discussed in this bill.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

ARGUMENTS/POLICY CONCERNS

It appears ZBB could be a time-consuming process for the department and the budget analysts since it requires breaking the functions of the department down to their essential elements and then prioritizing them. This process must consider state statutes, federal requirements, court orders and decisions, and constitutional references.

Since ZBB requires each individual agency to break down their functions to essential elements and then prioritize them, it has the potential for generating diseconomies within state agencies. For example, agency functions that are mandated could have a higher priority than non-mandated functions or personnel, such as administrative programs (budgeting, information technology, etc.), causing conflict within an agency. Likewise, state agencies could be prioritized using specific criteria, such as revenue generating agencies versus non-revenue generating agencies, which could cause conflict among agencies.

LEGISLATIVE STAFF CONTACT

LuAnna Hass
Franchise Tax Board
845-7478
LuAnna.Hass@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
Brian.Putler@ftb.ca.gov