

**Franchise Tax Board**

**ANALYSIS OF ORIGINAL BILL**

Author: Huff Analyst: Deborah Barrett Bill Number: AB 1838  
 Related Bills: See Legislative History Telephone: 845-4301 Introduced Date: January 24, 2008  
 Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** State Budget/Zero-Based Budgeting

**SUMMARY**

This bill would require state agencies and courts for which appropriations are made to prepare their fiscal year budgets using a zero-based budgeting methodology, as defined.

**PURPOSE OF THE BILL**

According to the author's staff, the purpose of this bill is to end the "autopilot" funding of state government and mandate that funding levels are thoroughly examined each year to ensure that state resources are being spent in the most efficient way.

**EFFECTIVE/OPERATIVE DATE**

This bill would be effective and operative on January 1, 2009.

**POSITION**

Pending.

**ANALYSIS**

FEDERAL/STATE LAW

In formulating the federal budget, Congress starts with a baseline comprised of a set of projections showing the levels of spending and revenues that would occur for the upcoming fiscal year and beyond if existing programs and policies were continued unchanged. For this purpose, spending for all programs is adjusted so that existing levels of activity are maintained. With respect to certain federal programs, the baseline adjusts for, among other things, the effects of inflation and demographic changes that alter the expected number of beneficiaries. In considering proposed levels of spending and revenues, members of Congress usually describe the cost of their proposals as being above, below, or equal to the baseline. In the 1970s, President Jimmy Carter unsuccessfully introduced zero-based budgeting at the federal level after it was implemented in a modified form in Georgia during Carter's administration as governor.

Board Position:	Department Director	Date
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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 the following:

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

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.

Generally, every state agency reviews their expenditure plans and prepares an annual baseline budget to maintain existing service levels. In addition, they may prepare Budget Change Proposals (BCP) to adjust service levels. DOF analyzes the baseline budget and BCPs, 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

This bill would require state agencies and courts for which an appropriation has been made to use a zero-based budget methodology, as defined, when preparing their fiscal year budgets. This bill would define a zero-based budget to mean determining a budget by starting with a base of zero dollars and adding dollar amounts necessary to conduct specific activities and operations. A zero-based budget would detail the following:

- Each activity performed by the agency for which an appropriation is made or requested.
- The legal basis for performing the activity.
- An itemized justification for the amount requested to perform the activity.

## IMPLEMENTATION CONSIDERATIONS

This bill would require a change in the department's existing budget and revenue reporting methodology and would require retraining of existing budget staff. The potential departmental impact for the implementation of zero-based budgeting is currently unknown as it would ultimately depend on guidelines and procedures that presumably would be developed by DOF. It is assumed that no changes in the existing state accounting system (CALSTARS) would be made and that the budget reporting requirements in this bill would be automated. Considering the above assumptions and if this bill were amended to resolve the following implementation consideration, implementing this bill would not have a significant impact on the department.

This bill does not specify the first fiscal year for which zero-based budgets would be required. If enacted in 2008, this bill would be effective and operative on January 1, 2009. The law requires that budgets "for the ensuing fiscal year" be submitted at a time prescribed by the DOF. The department normally begins its budget process for the next fiscal year in the fall of the current year; for example, fall 2008 for the 2009/2010 fiscal year budget. Because this bill would be effective January 1, 2009, to ensure adequate time for DOF to develop new guidelines and procedures and for the department to implement the new guidelines and procedures, the author may wish to specify that zero-based budget submissions would begin with the 2010/2011 fiscal year.

## **LEGISLATIVE HISTORY**

AB 836 (Huff, 2005/2006) would have required state agencies and courts for which an appropriation is made to use a zero-based budget methodology in the preparation of their fiscal year budgets. This bill was held in the Assembly Budget Committee.

AB 318 (Haynes, 2003/2004) and SB 1292 (Haynes, 2001/2002) would have required state agencies, boards, commissions, departments, and offices to provide a report regarding financial activities to specific legislative committees for specified fiscal years. Each bill was held in a fiscal committee of its respective house of origin.

AB 499 (Canciamilla, 2003/2004) would have required, for each fiscal year beginning with 2005/2006, in addition to the annual budget submitted by a state agency or court, the submission of a budget plan that contains the proposed spending and revenue for the agency or court for the following fiscal year (2007/2008). This bill was held in the Assembly Budget Committee.

SB 985 (McClintock, 2003/2004) would have required 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. This bill was held in the Senate Appropriations Committee.

SB 1292 (Haynes, 2001/2002) would have required state agencies, boards, commissions, departments, and offices to provide a report regarding financial activities to specific legislative committees for the 2001/2002 fiscal year and four preceding fiscal years. This bill was held in the Senate Appropriations Committee.

SB 1347 (Brulte, 2001/2002) would have required budgets submitted by state agencies and 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.

## **PROGRAM BACKGROUND**

In the fall of each year, the department begins the following year's 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. The department generally uses a combination of line-item and program budgeting. 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.

## **FISCAL IMPACT**

Departmental information that would be required to formulate a zero-based budget may be available through existing internal reports. If implementation of this bill required the department to capture additional information or require a format not currently used by the department, a new program or all-inclusive system may need to be acquired.

The fiscal impact of this bill on the department is unknown at this time. Ultimately, the potential departmental impact for the implementation of zero-based budgeting would depend on the outcome of the proposed guidelines and procedures that presumably would be developed by DOF. When DOF develops guidelines and procedures, the department would submit a BCP for any additional resources that may be needed to ensure the department's compliance.

## **ECONOMIC IMPACT**

The provisions of this bill would not impact state income tax revenues.

## **LEGISLATIVE STAFF CONTACT**

Legislative Analyst  
Deborah Barrett  
(916) 845-4301

[deborah.barrett@ftb.ca.gov](mailto:deborah.barrett@ftb.ca.gov)

Revenue Manager  
Rebecca Schlussler  
(916) 845-5986

[rebecca.schlussler@ftb.ca.gov](mailto:rebecca.schlussler@ftb.ca.gov)

Legislative Director  
Brian Putler  
(916) 845-6333

[brian.putler@ftb.ca.gov](mailto:brian.putler@ftb.ca.gov)