

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Wyland Analyst: Deborah Barrett Bill Number: SCA 7
Related Bills: See Legislative History Telephone: 845-4301 Introduced Date: April 9, 2007
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: State Budget/Two Year Budget

SUMMARY

This bill would provide for a constitutional amendment requiring a two-year state budget commencing on July 1, 2010, and allow the Legislature to meet in an auxiliary session if an extraordinary session is called by the Governor.

This bill also makes numerous non-substantive technical changes to the California Constitution that do not impact the department and are not discussed in this analysis.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to establish a two-year budget cycle that will synchronize with performance audits to be conducted by the Bureau of State Audits, as would be prescribed under SB 521 (207/2008).

EFFECTIVE/OPERATIVE DATE

As a constitutional amendment, when the measure is submitted to and approved by the voters at a statewide election, it would be effective the day after the election and, by its terms, operative commencing with the fiscal period beginning July 1, 2010.

POSITION

Pending.

ANALYSIS

STATE LAW

Under current state law, the Governor is required to submit a budget for the ensuing fiscal year to the Legislature within the first ten days of each calendar year. The budget is required to include an itemized statement for recommended state expenditures and estimated state revenues.

Board Position:

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Department Director

Date

Selvi Stanislaus

5/15/07

Current state law requires the department to impose a Collection Cost Recovery Fee if a taxpayer fails to pay any amount of tax, penalty, and additions to tax, interest, or other liability imposed and delinquent after a notice for payment has been mailed to the taxpayer. Current state law requires the department to impose a Filing Enforcement Cost Recovery (FECR) fee if the taxpayer fails to file a tax return within 25 days after the department mails a Demand for Tax Return. The amount of the Collection fee and the FECR fee is based on the actual cost of the collection and filing enforcement programs. The fees authorized under state law are set in the annual Budget Act.

THIS BILL

This constitutional amendment would establish a two-year budget cycle for state government. This amendment would require the Governor to submit to the Legislature within the first ten days of 2009 a budget for the two-year fiscal period beginning July 1 of the following even numbered year. The amendment would allow the Governor to submit revisions to the budget in the even numbered years.

Beginning with the budget bill for the fiscal period starting July 1, 2012, the amendment would provide that if the Legislature does not pass a budget bill and send it to the Governor by July 1 of any even numbered year, the following would occur:

- The Legislature would be prohibited from considering any other bills until the budget bill is passed,
- Members of the Legislature would not receive salary, travel, or living expenses for the period prior to when the budget bill is passed and sent to the Governor, and
- Appropriations designated in the prior fiscal year budget would be deemed appropriated for the same purposes from the same funding sources until the budget is passed.

This amendment would limit appropriations in the budget to not exceed an estimate of revenues for the fiscal period as of the date the budget bill is passed. It would also limit appropriations to local entities and state agencies to the amount appropriated for the prior two-year fiscal period, adjusted for changes in population and cost of living.

This amendment would allow the Governor to issue a proclamation declaring a fiscal emergency and convene the Legislature in special session to legislate only on subjects related to that fiscal emergency. If the Governor convenes the special session, the Legislature may convene an auxiliary session, as prescribed, that would coexist with the special session and would allow the Legislature to legislate on any subject in such auxiliary session.

This amendment would provide that for fiscal periods where revenues are in excess of the amount appropriated, 50% of the excess revenue would be returned by a revision of tax rates or fee schedules in the subsequent fiscal year.

This amendment provides for adjustments to appropriations for local entities, schools, and colleges to maintain prescribed levels of funding.

The amendment would provide a reimbursement mechanism for entities that experience changes in responsibilities for delivering services that would prevent any entity from being over or under compensated. In addition, the amendment has provisions for changes in appropriations based on declared emergency situations as defined.

The amendment contains definitions for terms used within the amendment.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not impact the department's programs or operations.

LEGISLATIVE HISTORY

SCA 30 (Maldonado 2005/2006) would have provided for a constitutional amendment for a two-year state budget. This bill was never heard in committee.

AB 1606 (Maldonado 2005/2006) proposed to implement a two-year state budget process upon enactment of a constitutional amendment approved by voters in a general election. This bill was never heard in committee.

ACA 6 (Leach, 1999/2000) was a constitutional amendment requiring the Governor to submit, in each odd-numbered calendar year, a budget for the two-year period commencing July 1, and that the Budget Bill passed by the Legislature also encompass that two-year period. This bill was referred to various committees but was never heard.

ACA 8 (Davis, 1999/2000) was a constitutional amendment requiring the Governor to submit, in each odd-numbered calendar year, a budget for the two-year period commencing July 1, and that the Budget Bill passed by the Legislature also encompass that two-year period. This bill also included provisions for midterm budget rebalancing measures. This bill was referred to various committees but was never heard.

OTHER STATES' INFORMATION

The states reviewed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. Only *Minnesota* has a biennium budget cycle.

FISCAL IMPACT

The department anticipates that any fiscal cost or savings derived from the provisions of this bill would be dependent on what interim budget reporting requirements are developed by the Department of Finance (DOF). It is anticipated that any savings would be offset by the number of budgetary revisions that may be required if a two-year budget cycle were to be implemented. Until DOF requirements are established, potential savings or costs are unknown.

ECONOMIC IMPACT

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

LEGISLATIVE STAFF CONTACT

Deborah Barrett
Franchise Tax Board
(916) 845-4301
deborah.barrett@ftb.ca.gov

Brian Putler
Franchise Tax Board
(916) 845-6333
brian.putler@ftb.ca.gov