

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Wolk, DeSaulnier, et al. Analyst: Janet Jennings Bill Number: SB 1020

Related Bills: See Legislative History Telephone: 845-3495 Introduced Date: February 11, 2010

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: State Budget/Performance-Based Budget

SUMMARY

This bill would require that the Governor’s budget be developed using performance-based budgeting methods, as specified.

PURPOSE OF THE BILL

According to the author’s office, the purpose of this bill is to provide accountability for state agency expenditures of state funds and provide objective measurements to evaluate their actions.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2011, and operative for the 2014/15 budget for one-third of total expenditures and for two-thirds of the expenditures for the January 2018 Governor’s budget.

POSITION

Pending.

ANALYSIS

FEDERAL LAW

To formulate the federal budget, Congress must have a starting point. This is known as the baseline and is 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. In the baseline, spending for all programs is adjusted so that existing levels of activity are maintained. With respect to certain types of 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.

Board Position:	Department Director	Date
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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 the following:

- 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.

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 (BCPs) to adjust service levels. The 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 of each year. The Governor and Legislature are required to enact a budget package by June 15 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.

See Appendix A for a general explanation of the different types of budgeting and their uses in California.

THIS BILL

This bill would require each state agency, for which an appropriation has been made, to submit to the DOF for approval a complete and detailed budget, at the time and in the form prescribed, utilizing performance-based budgeting methods that identify or update the following:

1. The mission and goals of the agency.
2. The activities and programs focused on achieving those goals.
3. Performance metrics that reflect desired outcomes for existing and proposed activities and a targeted performance level for the following year.
4. Prior year performance data and an explanation of deviation from previous-year targets.
5. Proposed changes in statute, including the creation of incentives or elimination of disincentives that could improve outcomes or hold down costs.

The Governors' Internet Web site would provide a summary of each state agency's mission, goals, prior-year performance, and future-year objectives.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

Implementing this bill would have a significant impact to the department. The Franchise Tax Board (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. 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.

In addition, implementation of performance-based budgeting by the department would be contingent on information that would be supplied to the department by the DOF. The department normally begins its budget process for the following fiscal year in the fall of the current year (fall 2010 for the 2011/2012 fiscal year budget). To prepare an effective performance based budget for the 2015/2016 fiscal year, the DOF would need to provide the guidelines, procedures, and training outlined in this bill by fall of 2014.

LEGISLATIVE HISTORY

AB 1382 (Niello, 2009/2010) would have required that the Governor's budget submitted to the Legislature beginning with the 2011/2012 fiscal year be developed using performance-based budgeting methods for each state agency. AB1382 had additional requirements for measuring the performance. This bill failed to pass the Assembly by the constitutional deadline.

SB 777 (Wolk, et al., 2009/2010) would have required that the Governor's budget submitted to the Legislature beginning with the 2014-/2015 fiscal year be developed using performance-based budgeting methods for each state agency. SB 777 was substantially similar to SB 1020 in requirements for measuring the performance. This bill failed to pass the Senate by the constitutional deadline.

AB 836 (Huff, 2005/2006) would have required budgets submitted by state agencies and courts to use a zero-based budget method. This bill was referred to the Assembly Committee on the Budget but was never heard.

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.

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, as defined in Appendix A. In developing the budget, the department uses a decentralized budget management structure, which requires involvement of all organizations, programs, and projects within FTB.

OTHER STATES' INFORMATION

According to a report published by the National Association of State Budget Officers¹, states use a combination of approaches to develop the budget, including incremental, program budgeting, zero-based or modified zero-based budgeting, and performance budgeting. The most frequently used budget approach is program budgeting with 43 states indicating that this is an approach they use. After program budgeting, incremental budgeting is the most frequent approach. Many of the approaches, such as performance budgeting, are done in conjunction with other approaches, such as program or incremental budgeting. 25 states² have incorporated performance-based budgeting into their budget practices.

FISCAL IMPACT

Formulating a performance-based budget would require significant changes to the existing internal and external reports. The department would be required to capture additional information and would require 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 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 performance-based budgeting would depend on the outcome of the proposed guidelines and procedures to be developed by the DOF. Implementation could divert resources from core revenue-generating functions.

ECONOMIC IMPACT

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

LEGISLATIVE STAFF CONTACT

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¹ Budget Processes in the States, 2008

² Alaska, Florida, Georgia, Hawaii, Indiana, Iowa, Louisiana, Maryland, Michigan, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Mexico, North Carolina, Oklahoma, Oregon, South Carolina, Texas, Vermont, Virginia, Washington, Wisconsin, Wyoming.

Appendix A

The following is a general description of the four basic types of budgeting and how California uses aspects of all the styles.

Line-Item Budgeting

The budget is prepared along departmental or programmatic lines and focuses on what is to be purchased with funds. Generally, the budget provides a separate line-item appropriation for each major category of expenditure, such as personnel services costs, operating costs, and in some cases, travel or equipment. This is the most widely accepted and best-understood technique, but does not necessarily reflect programs or services nor does it reflect performance. It is a reflection of costs to operate an agency and is as much an accounting document as it is a budget.

Uses in California: Governor's Budget (Budget Change Proposals (BCP's), Salaries and Wages Supplement, Summary by Object, Changes in Authorized Positions, Supplementary Schedules of OE&E), Budget Administration (position control, merit salary adjustment, Travel out-of-state, etc.), and Change Book (includes line-item data).

Program Budgeting

A program budget focuses on results of discrete programs and if the program achieved the expected results. An agency defines its functions or programs and applies goals, objectives, and strategies to measure performance. This process focuses on what an agency does and why, as opposed to how it does it. The emphasis is on program performance and ultimate outcomes, as opposed to inputs and processes.

Uses in California: Budget Bill, Governor's Budget (BCP's, Summary of Program Requirements, Program Objectives Statement, Program Detail), and Change Book (includes line-item data).

Zero-Based Budgeting (ZBB)

ZBB is a process designed to analyze an agency, program, or department to determine its worth and value to the government and its citizens. ZBB can take many forms, but in its purest form, this process assumes the agency does not exist and builds its programs, operations, and budget from zero to its optimum level. The agency is forced to rank their organizational purposes and programs with a focus on the priorities of and alternatives to the entity's operations.

Uses in California: Used selectively.

Performance Budgeting

A performance budget lists what each administrative unit is trying to accomplish, the planning, and the resources. It reports on how well it did with the prior year's resources. Similar to program budgeting, the emphasis is on getting the most service for the dollar. Unlike program budgeting, the emphasis is on outputs and outcomes as opposed to mission statements, goals, and objectives. It is a system that promotes accountability.

Uses in California: Governor's Budget and measures and outputs in BCP's