

SUMMARY ANALYSIS OF AMENDED BILL

Author: Wolk, et al. Analyst: Deborah Barrett Bill Number: SB 777
 Related Bills: See Prior Analysis Telephone: 845-4301 Amended Date: May 26, 2009
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: State Budget/Performance Based Budget

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.
- AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced February 27, 2009.
- FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO _____.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 27, 2009, STILL APPLIES.
- OTHER – See comments below.

SUMMARY

This bill would require that the Governor’s budget submitted to the Legislature beginning with the 2014-15 fiscal year be developed using performance-based budgeting methods for each state agency.

SUMMARY OF AMENDMENTS

The May 26, 2009, amendments would do the following:

- Require the Legislative Analyst to report to the Joint Legislative Budget Committee and Department of Finance (DOF) on the measurements of each state agency’s performance-based budgeting,
- Clarify the purpose of performance-based budgeting,
- Remove references to "budgetary units" and replace it with "programs,"
- Revise the membership of the task force created by the bill’s provisions,
- Require the task force to develop a phase in process for the budget reporting requirements of the bill, and
- Revise the implementation date from 2011-2012 to 2014-2015 for the Governor’s Budget to be based on performance-based budgeting.

Board Position:	Asst. Legislative Director	Date
<input type="checkbox"/> S		
<input type="checkbox"/> SA		
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<input checked="" type="checkbox"/> PENDING	Patrice Gau-Johnson	6/17/09

The May 26, 2009, amendments resolved the “Technical Consideration,” but did not resolve all of the “Implementation Considerations” identified in the department’s analysis of the bill as introduced February 27, 2009. The unresolved “Implementation Considerations” and “Fiscal Impact” discussions are repeated for convenience. The “This Bill” discussion has been revised. The remainder of the department’s analysis of the bill as introduced February 27, 2009, still applies.

POSITION

Pending.

THIS BILL

This bill would require the annual budget set forth by each state agency to the DOF to utilize performance-based budgeting methods that identify or update all of the following:

- The mission of the agency or judicial branch.
- The goals established to accomplish the mission.
- The activities developed to achieve state goals.
- The performance goal and an outcome-oriented performance measure for each program for which an appropriation is made or requested.
- An identification of other federal, state, or local programs that relate to the program for which an appropriation is made or requested.
- A 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 both direct and indirect expenses incurred for each state activity.
- A justification of why the performance impact of each activity is not duplicative of activities conducted by other federal, state, or local government agencies.
- Legislatively approved output and performance standards to measure progress toward program objectives.
- Each performance measure must identify the associated activity contributing to it.
- Prior year performance data on approved performance measures and an explanation of deviations from expected performance.
- Proposed performance incentives and disincentives.

A performance-based budgeting method promotes accountability by achieving measurable performance results from the expenditure of state resources. The purpose of the performance-based budgeting method is to provide information to policymakers to assist them in making decisions relating to appropriations by the Legislature and the management of programs by the executive branch.

This bill would also require that no later than the 2014-2015 fiscal year, and each year following, the budget that the Governor submits to the Legislature be developed by utilizing performance-based budgeting methods. The amount of each appropriation made in the 2014-2015 Budget Act for expenditures by any state agency would be determined by each program utilizing performance-based budgeting methods. The Budget Act also would be required to include performance standards, which would be proposed by the Governor, and may be amended by the Legislature that would be applied to each state agency including a method for evaluating whether those standards are met to ascertain the effectiveness or efficiency of the state agency.

The bill would require that an annual report prepared by the Legislative Analyst's Office, documenting the measurements of each state agency under its respective performance-based budgeting standards, be submitted to the Joint Legislative Budget Committee and DOF for use in making proposed adjustments to the budget for the succeeding fiscal year.

The bill would require a task force consisting of the Director of Finance, the Controller, the Chairperson of the Joint Legislative Budget Committee, and a member of the joint committee who represents the minority party, chosen by the chairperson of the joint committee, to do all of the following:

- Develop guidelines and procedures to be used by state agencies in developing performance-based budgets for the implementation of the budget reporting requirements pursuant to this bill's provisions.
- Develop a training and education program for appropriate budget personnel to facilitate the development of performance-based budgeting methods by state agencies.
- Establish a process for phasing in the requirements of the budget reporting requirement pursuant to this bill's provisions.

This bill would provide that beginning with the 2012–2013 fiscal year and in each fiscal year thereafter, the task force shall select departments that have demonstrated the capacity to produce a budget based on performance measures. By the 2012–2013 fiscal year, the task force shall have selected at least a sufficient number of state agencies and their respective component departments for performance-based budgeting implementation to account for approximately one-third of total General Fund expenditures as proposed in the Governor's Budget for that fiscal year.

The bill would define "state agency" to mean any agency, department, or other entity of the state, including a court that is required to submit a budget.

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. 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.

The bill uses language on page 2, line 14, "The activities developed to achieve state goals." It is unclear whether the author means the goals of the State of California or whether the author intends the agency or department goals. Clarification would assist in the implementation of this bill's provisions.

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 task force discussed in this bill.

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