Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Committee on Budget and Fiscal Review	Analyst:	Janet Jennings	Bill Number:	SB 844
Related Bills:	See Legislative History	Telephone:	845-3495	Amended Date:	March 18, 2010
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: State Budget/Nonrecurring Revenue/FTB & BOE identify Each Source Of General Fund Proceeds Of Taxes Higher Than Tax Proceeds Received In Preceding Fiscal Year & Report To Legislature, Governor, Controller & Public By May 15 Each Year

SUMMARY

This bill would require that the Governor's annual budget be developed using performance-based budgeting methods, as specified, and require the Franchise Tax Board (FTB) and the Board of Equalization (BOE) to identify each source of General Fund proceeds from taxes received through April 30 of each year that are higher than the preceding fiscal year and report this information to specified recipients.

SUMMARY OF AMENDMENTS

The March 18, 2010, amendments removed language that expressed legislative intent to enact statutory changes related to the Budget Act of 2010, and replaced it with language that would do the following:

- Require the Legislature to establish a process for reviewing the performance of all state programs at least once every 10 years,
- Establish additional responsibilities for the Legislative Analyst Office (LAO) and the Director of Finance (DOF),
- Require performance-based budgeting, and
- Require the FTB and the BOE to identify each source of General Fund proceeds from taxes received through April 30 of each year that are higher than the preceding fiscal year and report this information to the Legislature, the Governor, the Controller, and the public by May 15 of each year.

Only the provisions impacting the FTB relating to performance-based budgeting and General Fund analysis are discussed below. This is the department's first analysis of the bill.

PURPOSE OF THE BILL

It appears the purpose of this bill is to provide accountability for state agency expenditures of state funds to provide objective measurements to evaluate their actions and to insure one-time revenue is used for one-time expenditures.

Board Position:			Department Director	Date
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EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2011, and operative only if a proposed Senate Constitutional Act is approved. The next general election in which a constitutional amendment could be included would be November 2, 2010, and the bill's provisions would be effective immediately upon approval of a majority of those who vote on the ballot measure.

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.

STATE LAW

State law requires the 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.

The 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 the DOF. The budget must be in the form the 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 the FTB 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 FTB.
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 will provide a summary of each state agency's mission, goals, prior-year performance, and future-year objectives.

This bill would also require the FTB to analyze the General Fund proceeds from taxes received through April 30 of each year to identify each source of General Fund proceeds from taxes that is higher than the tax proceeds received from that source in the preceding fiscal year, and report this information to the Legislature, the Governor, the Controller, and the public by May 15 of each year.

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 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 2012/2013 fiscal year, the DOF would need to provide the guidelines, procedures, and training outlined in this bill by fall of 2010.

To clarify intent, the bill should be amended to specify how the General Fund report is to be made available to the public.

TECHNICAL CONSIDERATIONS

The bill requires the FTB's General Fund analysis to be conducted on taxes received through April 30 of each year, yet compare the analysis to the preceding fiscal year which begins July 1 and ends June 30. To have an accurate comparison, the language should require a review from April 30 of the current year to April 30 of the preceding year. Therefore, it is suggested that:

On page 9, line 38, after "proceeding", strike out "fiscal year" and insert "twelve months.

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. This bill failed to pass the Assembly by the constitutional deadline. AB1382 had additional requirements for measuring the performance.

AB 2591 (Feuer, Perez 2009/2010) is substantially similar to SB 844. This bill was re-referred to the Committee on Budget and Fiscal Review on March 18, 2010.

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 the measuring the performance. This bill failed to pass the Senate by the constitutional deadline.

SB 1020 (Wolk, et al, 2009/2010) would require the Governor's budget submitted to the Legislature beginning with the 2014/2015 fiscal year to be developed using performance-based budgeting methods for each state agency. The performance-based budgeting methods are substantially similar to SB 844. This bill was referred to the Senate Committee on Budget and Fiscal Review on February 25, 2010.

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.

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

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

LEGISLATIVE STAFF CONTACT

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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