



## Bill Analysis

Author: Fong

Sponsor:

Bill Number: AB 1964

Related Bills: See Legislative  
History

Introduced: January 29, 2024

### SUBJECT

State Agency Zero-Based Budget Method

### SUMMARY

Under the Government Code (GOV), this bill would require the Department of Finance (DOF) to determine which state agencies are required to submit a budget using the zero-based budget method to a legislative budget committee for review.

### RECOMMENDATION

No position.

### SUMMARY OF AMENDMENTS

Not applicable.

### REASON FOR THE BILL

The reason for this bill is to require state agencies to prepare budgets using the zero-based budgeting method.

### ANALYSIS

Under the GOV, this bill would require, on or before January 1, 2026, DOF to compile a list of all state agencies, including the Franchise Tax Board (FTB). This bill would require DOF to split the list into one-fifth sections, with each section containing a list of an equal number of state agencies and distribute the lists among the legislative budget subcommittees.

This bill defines the following terms:

“State agency” has the same meaning as in Section 11000 of the GOV, which includes every state office, officer, department, division, bureau, board, commission and excludes the California State University.

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“Zero-based budgeting method” means a systematic budget analysis in support of decision making in which a state agency is required do the following:

- Examine current objectives, operations, and costs.
- Consider alternative ways of carrying out their program or activity.
- Rank different programs or activities by order of importance to the organization.

This bill would require DOF to determine which state agencies in each section would develop their budgets using a zero-based budget method that fiscal year.

On January 1, 2027, DOF would be required to do the following:

- Publish the lists containing the names of the distributed state agencies.
- On this day, and annually thereafter, publish a list indicating which section of state agencies will develop its budget based on the zero-based budgeting method.

Beginning on January 1, 2027, each state agency designated by DOF would be required to develop its budget based on the zero-based budgeting method for review during the budget process, by:

- Representatives from each state agency would be required to work with DOF to submit a report on or before January 10 of each year in compliance with Section 9795 of the GOV, related to procedures for submitting reports to the Legislature, and notwithstanding Section 10231.5 of the GOV, related to repeal dates for reports required to be submitted to the Legislature. The report must include documentation, receipts, expenditures, and desired budget proposals, be submitted to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, and the Joint Legislative Budget Committee, and be published on the state agencies web site.
- Each state agency would be required to submit to the Legislature a new budget change proposal request or equivalent request that contains an alternative methodology that would allow the Legislature to appropriately assess and examine their budget expenditures.

Once a state agency has developed their budget based on a zero-based budgeting method, each section of state agencies would be required to develop its budget using the same method every 5 years.

#### *Effective/Operative Date*

This bill would be effective and operative January 1, 2025.

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*Federal/State Law*

*Federal Law*

No comparable provision in federal law

*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 that the:

- Budgets are reflective of an agency's activities,
- Budgets are reflective of the costs that are associated with their execution, and
- 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.

Every state agency reviews their expenditure plans and prepares an annual baseline budget to maintain existing service levels. They also prepare Budget Change Proposals (BCPs) to adjust service levels if needed. DOF analyzes these baseline budgets 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 supporting information if deemed necessary. The Governor's Budget is then submitted to the Legislature by January 10th of each year. The Governor and Legislature are then required to enact an annual budget package by June 15th. After enactment state agencies exercise oversight of the State Budget and manage budget changes. In addition, the Joint Legislative Budget Committee is also involved in the ongoing administration of the State Budget and reviews requests for budget changes.

*Implementation Considerations*

The FTB has identified the following implementation consideration and is available to work with the author's office to resolve this and other considerations that may be identified.

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This bill would require changes to the current budget method used by the FTB. This bill would require changes to current processes as well as training to staff. System changes may also be needed to adapt to the new budget method. Additional information would be needed from the DOF or other stakeholders to understand changes to our existing processes that would be needed to ensure timely program implementation.

*Technical Considerations*

None noted.

*Policy Considerations*

None noted.

**LEGISLATIVE HISTORY**

AB 1838 (Huff, 2007/2008), similar to this bill, would have required state agencies and courts for which appropriations are made to prepare their fiscal year budgets using a zero-based budgeting methodology. AB 1838 did not pass out of the Assembly by the constitutional deadline.

**PROGRAM BACKGROUND**

None noted.

**FISCAL IMPACT**

The FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

**ECONOMIC IMPACT**

*Revenue Estimate*

This bill as introduced on January 29, 2024, would not impact state income or franchise tax revenue.

**LEGAL IMPACT**

None noted.

**APPOINTMENTS**

None noted.

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**SUPPORT/OPPOSITION**

To be determined.

**ARGUMENTS**

To be determined.

**LEGISLATIVE CONTACT**

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