

AMENDED IN SENATE MARCH 18, 2010

SENATE BILL

No. 844

Introduced by Committee on Budget and Fiscal Review

January 11, 2010

~~An act relating to the Budget Act of 2010. An act to add Sections 9143.5, 9145, 10247.5, 13335.3, and 13335.5 to, and to add Chapter 1.5 (commencing with Section 16330) to Part 2 of Division 4 of Title 2 of, the Government Code, relating to state finance.~~

LEGISLATIVE COUNSEL'S DIGEST

SB 844, as amended, Committee on Budget and Fiscal Review.
~~Budget Act of 2010. State finance: budget process.~~

Under existing law, duties and responsibilities are imposed upon the Governor and the Director of Finance relating to the preparation and submission of the annual state budget to the Legislature, including, among other things, providing a complete plan of all proposed expenditures and estimated revenues for the ensuing fiscal year. Existing provisions of the California Constitution prohibit the Legislature from sending to the Governor for consideration, and prohibit the Governor from signing, a Budget Bill that would appropriate from the General Fund a total amount that, when combined with specific appropriations and transfers, exceeds the General Fund revenues for that fiscal year estimated as of the date of the Budget Bill's passage.

This bill would make statutory changes to implement and conform to constitutional changes proposed by SCA ____ and would become operative only if SCA ____ is approved by the voters.

SCA ____ would require the Legislature to establish a schedule of review of all state programs in which each state program would be reviewed once per every 10 years. This bill would establish the process

for review of the performance of all state programs at least once every 10 years.

SCA ____ would make void a statute, and would prohibit submission to the electors of a constitutional amendment or revision proposed by the Legislature, that would result in either a net increase in qualified state costs or a net decrease in state revenue in excess of \$25,000,000 annually, unless the statute or measure also contains provisions, as defined in statute, to offset the increase in costs or loss in revenue. This bill would require the Legislative Analyst to make specified determinations regarding a bill or measure that would result in an annual net increase in qualified state costs, as defined, or a net decrease in state revenue, in excess of \$25,000,000. The bill would provide that a statute or measure is in compliance with the provisions of SCA ____ if the Legislative Analyst determines that the increase in qualified state costs or decrease in state revenues that would be imposed by the bill enacting the statute or measure does not exceed the amount by which state revenues exceed state expenditure obligations, as specified.

SCA ____ would require the state budget submitted to the Legislature by the Governor each year to contain performance measurement standards for state agencies and programs. This bill would establish performance-based budgeting for every state agency in the executive branch for which an appropriation has been made. The state agency would be required to prepare a complete and detailed budget setting forth all proposed expenditures and estimated revenues for the ensuing fiscal year. The bill would require the Governor's Budget to be based on this method beginning with the 2014–15 fiscal year.

SCA ____ would permit nonrecurring revenue to be expended only to pay for one-time expenditures. This bill would require that nonrecurring revenue, as defined, be used only for one-time expenditures, as defined, in the Budget Bill for the ensuing year, and would specify the process for estimating, evaluating, and determining the existence of nonrecurring revenue.

~~This bill would express the intent of the Legislature to enact statutory changes relating to the Budget Act of 2010.~~

Vote: majority. Appropriation: no. Fiscal committee: ~~no~~ yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 9143.5 is added to the Government Code,
2 to read:

3 9143.5. (a) *Within one year of the operative date of the act*
4 *that added this section, the Legislature shall establish a process,*
5 *including the use of a new or existing joint committee, for reviewing*
6 *the performance of all state programs at least once every 10 years.*
7 *The process shall include a schedule with deadlines for the review*
8 *of programs. It shall provide for the review of programs the*
9 *expenditures for which total one-third or more of all expenditures*
10 *by July 1, 2015, and for the review of programs the expenditures*
11 *for which total two-thirds of all expenditures by January 1, 2018.*
12 *For purposes of this section, “expenditures” includes statutory*
13 *exemptions, deductions, credits, or exclusions from taxes or fees*
14 *that would otherwise apply.*

15 (b) *Six months prior to the deadline for review of each program,*
16 *the joint committee shall refer the initial program review to the*
17 *appropriate policy committees of each house of the Legislature.*
18 *For programs with common objectives, the reviews may be*
19 *combined. Within 90 days of the deadline, the policy committees*
20 *shall make recommendations regarding the program to the joint*
21 *committee. The joint committee’s review may be based on the*
22 *recommendations of the policy committees, as well as*
23 *recommendations that may be made by the Milton Marks “Little*
24 *Hoover” Commission on California State Government*
25 *Organization and Economy, the Legislative Analyst, the Bureau*
26 *of State Audits, or the public. In preparing proposed legislation*
27 *for a program being reviewed, the joint committee shall propose*
28 *one or more of the following:*

29 (1) *Modifications to the program that will reduce costs.*

30 (2) *Modifications to the program that will improve outcomes.*

31 (3) *Termination of the program.*

32 (c) *Proposed legislation of the joint committee shall be submitted*
33 *to the committee on rules of each house for referral to the*
34 *appropriate policy committee for public hearing and further action.*

35 (d) *The joint committee shall post on its Internet Web site its*
36 *recommendations and the results of the Legislature’s action.*

37 SEC. 2. Section 9145 is added to the Government Code, to
38 read:

1 9145. (a) Before a bill, or a measure that proposes to amend
2 or revise the California Constitution, that has been referred to the
3 fiscal committee of either house is read for a third time in either
4 house of the Legislature, the Legislative Analyst shall determine
5 whether the bill or measure would result in a net increase in
6 qualified state costs or a net decrease in state revenue. The
7 Legislative Analyst shall submit the analysis of the bill or measure
8 to the fiscal committees of each house of the Legislature and shall
9 place the analysis on his or her Internet Web site if he or she
10 determines that the bill or measure would result in either a net
11 increase in qualified state costs or a net decrease in state revenue
12 in excess of twenty-five million dollars (\$25,000,000) annually,
13 as adjusted for inflation pursuant to the California Consumer
14 Price Index.

15 (b) (1) If a bill or measure, as determined by the Legislative
16 Analyst, would result in either a net increase in qualified state
17 costs or a net decrease in state revenue in excess of twenty-five
18 million dollars (\$25,000,000) annually, as adjusted for inflation
19 pursuant to the California Consumer Price Index, the Legislative
20 Analyst shall determine whether the bill or measure, if enacted,
21 would comply with the requirements of subdivision (e) of Section
22 8 of Article IV, or Section 3.5 of Article XVIII, as applicable, of
23 the California Constitution.

24 (2) A statute or measure shall be deemed to comply with the
25 requirements of subdivision (e) of Section 8 of Article IV, or Section
26 3.5 of Article XVIII, as applicable, of the California Constitution
27 if the Legislative Analyst determines that the net increase in
28 qualified state costs or net decrease in state revenues that would
29 be imposed by the bill enacting the statute or measure proposing
30 to amend or revise the California Constitution does not exceed the
31 amount by which state revenues exceed state expenditure
32 obligations for the prior fiscal year, the current fiscal year, or any
33 of the three succeeding fiscal years, whichever is least.

34 (c) If the Legislative Analyst makes a determination pursuant
35 to subdivision (b) that a bill, if enacted, or measure would not
36 comply with the requirements of subdivision (e) of Section 8 of
37 Article IV, or Section 3.5 of Article XVIII, as applicable, of the
38 California Constitution, and the Legislature, by two-thirds vote
39 of the membership of each house, makes a finding, based on its
40 financial analysis, that the bill or measure would result in a net

1 *increase in qualified state costs or a net decrease in state revenue*
2 *in an amount equal to, or less than, twenty-five million dollars*
3 *(\$25,000,000) annually, as adjusted for inflation pursuant to the*
4 *California Consumer Price Index, the bill, if enacted, or measure*
5 *shall be deemed to be in compliance with subdivision (e) of Section*
6 *8 of Article IV, or Section 3.5 of Article XVIII, as applicable, of*
7 *the California Constitution.*

8 *(d) For purposes of this section, the determination by the*
9 *Legislative Analyst as to whether a bill or measure would result*
10 *in a net increase in qualified state costs or a net decrease in state*
11 *revenue may include consideration of the impact of program*
12 *changes attributable to cost savings or changes in revenues of*
13 *other state or local programs that are reasonably expected to*
14 *occur as a result of the implementation of the bill or measure. The*
15 *Legislative Analyst shall establish the time period for its analysis*
16 *under this section.*

17 *(e) For purposes of this section and Section 10247.5, and*
18 *subdivision (e) of Section 8 and paragraph (2) of subdivision (a)*
19 *of Section 12 of Article IV, and Section 3.5 of Article XVIII, of the*
20 *California Constitution, the following terms have the following*
21 *meanings:*

22 *(1) “Qualified state costs” means costs to the state, whether*
23 *paid from General Fund or special fund sources. “Qualified state*
24 *costs” does not include the following:*

25 *(A) Costs incurred for the payment of principal and interest on*
26 *a general obligation bond.*

27 *(B) The restoration of funding to an agency or program that*
28 *was reduced in a prior fiscal year or years in order to balance the*
29 *budget or address a forecasted deficit if any of the following apply:*

30 *(i) The bill or measure restores reductions in appropriations*
31 *made pursuant to a declaration of fiscal emergency under*
32 *subdivision (f) of Section 10 of Article IV of the California*
33 *Constitution.*

34 *(ii) The bill or measure restores reductions in appropriations*
35 *made prior to the operative date of the act adding this section if*
36 *the Legislature makes a finding that the reductions in the*
37 *program’s or agency’s funding were necessary in order to balance*
38 *the budget or to address a mid-year deficit and that expanding the*
39 *program or agency is limited to restoring the program’s or*
40 *agency’s funding to the level that existed prior to the reductions.*

(iii) The bill or measure restores reductions in appropriations made on or after the operative date of the act that added this section if the Legislature makes a finding that at the time the reductions were made, the reductions in the program's or agency's funding were necessary to balance the budget or to address a forecasted deficit, and that at the time the funding is restored, the expansion of the program or agency is limited to restoring the program or agency's funding to the level that existed prior to the reductions made pursuant to paragraph (4) of subdivision (f) of Section 10 of Article IV of the California Constitution:

(C) Increases in a program's or agency's funding contained in the Budget Bill or in a budget implementation bill which are limited to the fiscal year for which the bill was enacted.

(D) Growth in a program's or agency's funding attributable to increases in the cost of living or work load, including an increase contained in a memorandum of understanding approved by the Legislature.

(E) Growth in a program's or agency's funding required by federal law or a California law that is in effect on the operative date of the act that added this section.

(F) A bill or measure containing a requirement described in paragraph (5) of subdivision (b) of Section 6 of Article XIII B of the California Constitution.

(2) "A net increase in qualified state costs" means ongoing expenditures for a program or agency and does not include a one-time expenditure made by a program or agency.

(3) "Additional revenue" means revenue to the state that results from specific changes made by federal or state law and that the state agency responsible for collecting the revenue has quantified and determined to be a sustained increase.

SEC. 3. Section 10247.5 is added to the Government Code, to read:

10247.5. Before a bill or measure is read for a third time in either house of the Legislature, the digest of the Legislative Counsel on the bill or measure shall reflect the determination made by the Legislative Analyst pursuant to Section 9145 whenever the Legislative Analyst determines that the bill or measure would result in a net increase in qualified state costs or a net decrease in state revenue in excess of twenty-five million dollars

1 (\$25,000,000) annually, as adjusted for inflation pursuant to the
2 California Consumer Price Index.

3 SEC. 4. Section 13335.3 is added to the Government Code, to
4 read:

5 13335.3. (a) The purpose of performance-based budgeting is
6 to inform policy, fiscal, and oversight decisions by the Governor
7 and Members of the Legislature; to focus managers, supervisors,
8 and rank and file workers on achieving desired goals; and to
9 communicate to the public the value of public programs, progress
10 toward desired results, and the choices available to improve the
11 expenditure of public funds.

12 (b) Every state agency for which an appropriation has been
13 made shall submit to the department a complete and detailed
14 budget at the time and in the form prescribed by the department,
15 setting forth all proposed expenditures and estimated revenues for
16 the ensuing fiscal year.

17 (c) The budget submitted to the department and proposed by
18 the Governor shall use performance-based budgeting methods
19 that make clear to policymakers and the public the value and
20 results of existing operations and any proposed changes.

21 (d) A performance-based budget shall identify and update all
22 of the following:

23 (1) The mission and goals of the agency.

24 (2) The activities and programs focused on achieving those
25 goals.

26 (3) Performance metrics that reflect desired outcomes for
27 existing and proposed activities and a targeted performance level
28 for the following year.

29 (4) Prior-year performance data and an explanation of any
30 deviation from previous-year targets.

31 (5) Proposed changes in statute, including the creation of
32 incentives or elimination of disincentives that could improve
33 outcomes or hold down costs.

34 (e) The Governor shall provide on his or her Internet Web site
35 a summary of each state agency's mission, goals, prior-year
36 performance, and future-year objectives.

37 SEC. 5. Section 13335.5 is added to the Government Code, to
38 read:

39 13335.5. (a) Not later than the 2014–15 fiscal year, and each
40 fiscal year thereafter, the budget submitted by the Governor to the

1 Legislature required by Section 12 of Article IV of the California
2 Constitution shall use performance-based budgeting methods.

3 (b) The amount of each appropriation made in the Budget Act
4 for the 2014–15 fiscal year, and each fiscal year thereafter, for
5 expenditure by any state agency shall be determined after
6 considering performance-related data. The Budget Act introduced
7 by the Governor also shall include performance standards, which
8 may be amended by the Legislature. These standards shall apply
9 to each state agency and allow the public and policymakers to
10 understand the effectiveness and efficiency of each program.

11 (c) The Legislative Analyst's Office shall review the adequacy
12 of performance metrics and progress toward targeted outcomes
13 in its review of the Governor's budget proposal.

14 (d) A task force consisting of the director, the Controller, and
15 the chairpersons and vice chairpersons of the Senate Committee
16 on Budget and Fiscal Review and the Assembly Committee on
17 Budget shall do all of the following:

18 (1) Review and comment on guidelines and procedures drafted
19 by the department for use by state agencies in developing
20 performance-based budgets pursuant to Sections 13320 and
21 13335.3. The guidelines shall describe how state employees will
22 be involved in establishing and implementing performance
23 standards.

24 (2) Review and comment on a training program developed by
25 the department for appropriate executive branch personnel to
26 ensure the successful implementation of performance-based
27 budgeting and management by state agencies.

28 (3) Review and comment on a plan prepared by the department
29 for systematically phasing in the requirements of Sections 13320
30 and 13335.3. The plan shall ensure that by the 2012–13 fiscal year
31 performance-based budgeting methods are used in preparing,
32 reviewing, and enacting one-third or more of the total General
33 Fund expenditures proposed in the Governor's Budget for that
34 fiscal year.

35 (e) For purposes of this article, "state agency" means any
36 agency, department, or other entity of the executive branch of the
37 state required to submit a budget pursuant to Article 2
38 (commencing with Section 13320).

39 SEC. 6. Chapter 1.5 (commencing with Section 16330) is added
40 to Part 2 of Division 4 of Title 2 of the Government Code, to read:

CHAPTER 1.5. NONRECURRING REVENUE

16330. For purposes of this chapter and Section 12 of Article IV of the California Constitution, the following definitions apply:

(a) “Nonrecurring revenue” means General Fund proceeds of taxes received in a fiscal year from any source that exceed both the amount that the state received from that source in the immediately preceding fiscal year and the amount the state expects to receive from that source in each subsequent fiscal year.

(b) (1) “One-time expenditure” means any of the following:

(A) A transfer by statute to the Budget Stabilization Fund.

(B) An appropriation for one-time infrastructure or other capital outlay purposes.

(C) An appropriation to retire, redeem, or defease outstanding general obligation or other bonded indebtedness of the state.

(D) The return to taxpayers within the current or immediately following fiscal year by a one-time revision of tax rates, or by rebates.

(E) An appropriation for unfunded liabilities for vested nonpension benefits for state annuitants.

(F) Appropriations necessary to meet the outstanding balance of the maintenance factor owed by the state for one or more prior fiscal years pursuant to subdivision (d) of Section 8 of Article XVI of the California Constitution.

(2) “One-time expenditure” does not include either of the following:

(A) An appropriation necessary to meet the state’s obligation under Section 8 of Article XVI of the California Constitution, including any maintenance factor allocation for the current fiscal year required pursuant to subdivisions (d) and (e) of that section.

(B) An appropriation necessary to balance the state budget for the fiscal year in which the nonrecurring revenue is received, the absence of which would produce a deficit for that fiscal year.

16331. Based on an analysis of the General Fund proceeds of taxes received through April 30 of each year, the Franchise Tax Board and State Board of Equalization shall identify each source of General Fund proceeds of taxes that is higher than the tax proceeds received from that source in the preceding fiscal year. The Franchise Tax Board and the State Board of Equalization

1 shall provide this information to the Legislature, the Governor,
2 the Controller, and the public by May 15 of each year.

3 16332. By May 31 of each year, the Legislative Analyst and
4 the Director of Finance shall jointly do all of the following:

5 (a) Estimate the amount of nonrecurring revenue deposited in
6 the General Fund as of that date for the current fiscal year and
7 provide this estimate to the Legislature, the Governor, the
8 Controller, and the public. In determining this estimate, the
9 Legislative Analyst and the Director of Finance shall consider, at
10 a minimum, the Governor's estimate of nonrecurring revenue for
11 the current fiscal year; historical growth in General Fund proceeds
12 of taxes, including data provided by the Franchise Tax Board and
13 the State Board of Equalization pursuant to Section 16331;
14 economic conditions and projections; stock market trends,
15 including data regarding capital gains and the exercise of stock
16 options; and an evaluation of the revenue forecast for the prior
17 fiscal year and the extent to which that forecast was accurate.

18 (b) Determine whether the amount of nonrecurring revenue
19 received during the prior fiscal year was less than the amount of
20 nonrecurring revenue for that fiscal year that was appropriated
21 pursuant to subdivision (a) of Section 16333, and provide a
22 certification of that determination to the Legislature, the Governor,
23 the Controller, and the public.

24 16333. (a) By June 25 of each year, based on the estimate
25 provided pursuant to subdivision (a) of Section 16332, the
26 Legislature shall estimate the amount of nonrecurring revenue
27 received for the current fiscal year. Except as provided in
28 subdivision (b), nonrecurring revenue shall be used for one-time
29 expenditures only and shall be appropriated in the Budget Bill for
30 the ensuing fiscal year.

31 (b) If the amount appropriated pursuant to subdivision (a) in a
32 prior fiscal year exceeded the amount of nonrecurring revenue
33 received during that fiscal year, the excess amount may be
34 deducted from the amount of nonrecurring revenue available for
35 appropriation in ensuing fiscal years pursuant to subdivision (a).

36 SEC. 7. This act shall become operative only if SCA ____ is
37 approved by the voters, and it shall become operative upon the
38 operative date of that measure.

1 ~~SECTION 1.—It is the intent of the Legislature to enact statutory~~
2 ~~changes relating to the Budget Act of 2010.~~

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