



CALIFORNIA BUDGET PROJECT

Dollars and Democracy:

An Advocate's Guide to the State Budget Process

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Why Are Budgets Important?

- Budgets provide the framework and dollars for funding public programs and services.
- Budgets express our values and priorities as a society.
- State budget choices affect all Californians – from the quality of our schools and highways, to the cost of a college education, to children's access to health care, to the ability of seniors and people with disabilities to live safely and independently in their own homes.
- Great policy ideas often cannot be implemented without state funding.

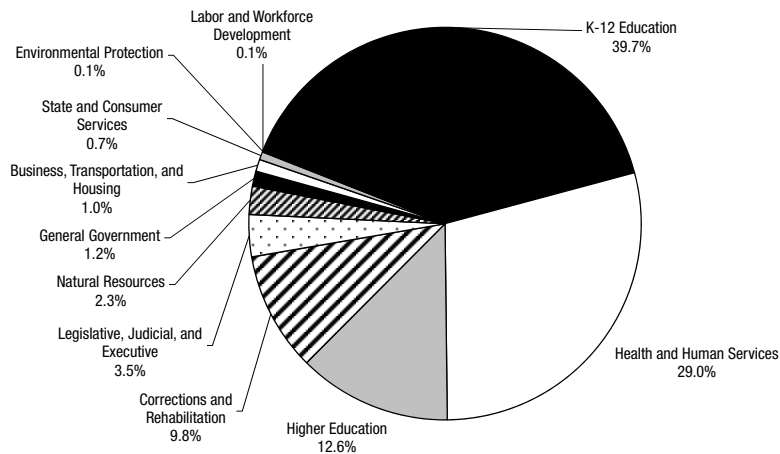


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The Information Challenge

- A Public Policy Institute of California survey conducted in early 2010 found that only:
 - 20 percent of likely voters correctly identified K-12 education as making up the largest share of the state budget.
 - 32 percent of likely voters correctly identified the personal income tax as the largest source of state revenues.
 - 8 percent of likely voters answered both questions correctly.
- However, this same poll found that 69 percent of likely voters think that major decisions about reforming the state's budget process should be made by Californians at the ballot box.

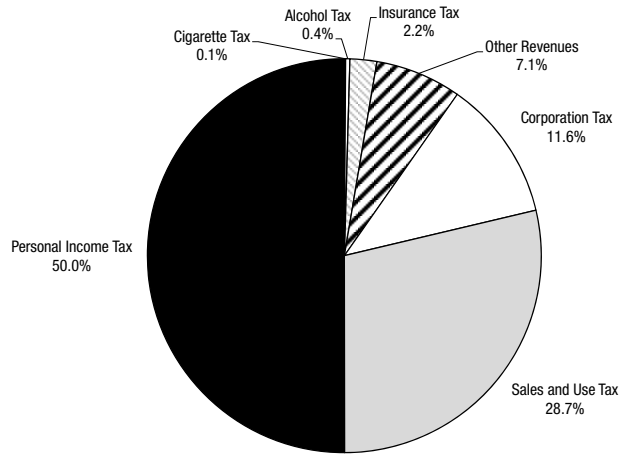
K-12 Education Accounts for the Largest Share of 2010-11 Spending
General Fund Spending by Agency



2010-11 Enacted General Fund Expenditures = \$86.6 Billion

Note: General Government expenditures exclude \$4.3 billion in unallocated reductions.
Source: Department of Finance

The Personal Income Tax Is Projected To Provide Half of 2010-11 General Fund Revenues



Projected 2010-11 General Fund Revenues = \$94.2 Billion

Note: Includes loans and transfers.
Source: Legislative Analyst's Office

The Advocate's Role

- Public policy decisions directly impact your community and the populations you serve.
- You and other advocates are the “experts” for your community.
- Responsive public policy requires the opinions, knowledge, and professional experience of diverse communities.

Bills Versus Budgets

- Budgets provide authority to spend money for a single year.
- Bills make statutory changes, create programs, establish or modify eligibility for programs, or raise or lower taxes. Statutory changes are permanent or remain in effect until a subsequent bill is passed.
- Both are important.
- The budget moves on its own timeline.

Speaking the Language

- **Governor's Budget and Budget Bill:** Present the Governor's recommendations and estimates for financial operations of the state for the upcoming fiscal year.
- **May Revision:** Modifies the policy proposals and revenue and expenditure projections in the Governor's proposed budget.
- **Trailer Bills:** Make statutory changes needed to implement the budget. No different than any other bill, but move as part of an overall package. Under Proposition 25 of 2010, trailer bills that contain an appropriation – but not a tax increase – can be passed by a majority vote and take effect immediately.

Speaking the Language (2)

- **General Fund:** Accounts for revenues that are not designated for a specific purpose. Most state support for K-12 education, health and human services, and higher education comes from the General Fund.
- **Special Funds:** Any fund created by statute that is dedicated to a specific use in accordance with that statute. Special funds are commonly defined as those that account for revenues from taxes, licenses, and fees where the use of such revenues is restricted by law for particular functions or activities of government.
- **Fiscal Year:** The state's 12-month accounting period, which runs from July 1 through the following June 30.

Speaking the Language (3)

- **Appropriation:** Authorization to spend money from a specific fund for a specific agency for specific purposes.
 - Appropriations generally require a two-thirds vote of each house of the Legislature.
 - Appropriations for public schools, appropriations included in the budget bill, and trailer bills that contain an appropriation – but not a tax increase – may be passed by a majority vote.
- **Veto:** The Governor's constitutional authority to reject a bill or reduce or eliminate one or more items of appropriation, while approving other portions of the bill. Veto power gives the Governor the last word – unless the Legislature overrides a veto by a two-thirds vote of each house.

Speaking the Language (4)

- **Department of Finance (DOF):** The department responsible for preparing the Governor's budget. The Director of Finance functions as the Governor's chief fiscal adviser.
- **Legislative Analyst's Office (LAO):** A nonpartisan body that provides fiscal and policy advice to the Legislature.

The Constitutional Framework for the Budget

- The Governor must introduce a balanced budget within the first 10 days of each calendar year.
- The Legislature must pass the budget bill on or before June 15.
- Proposition 25 of 2010 amended the state Constitution to:
 - Allow the Legislature to pass the budget bill and trailer bills that contain an appropriation – but not a tax increase – by a majority vote of each house. Previously, a two-thirds vote of each house was required.
 - Require members of the Legislature to permanently forfeit their pay and reimbursement for travel and living expenses for each day after June 15 that a budget is not passed and sent to the Governor.

The Constitutional Framework for the Budget (2)

- Proposition 26 of 2010 amended the state Constitution to expand the definition of a tax and a tax increase, thereby requiring more revenue proposals to be approved by a two-thirds vote of the Legislature. Under Proposition 26, a two-thirds vote is now required to approve:
 - Certain fees that previously could be passed by a simple majority.
 - “Any change in state statute which results in any taxpayer paying a higher tax” – even if the change does not result in a net increase in revenue.
- In addition, a two-thirds vote of each house is required to approve:
 - Bills that appropriate money from the General Fund, except for the budget bill, trailer bills that contain an appropriation, and appropriations for public schools.
 - Bills that take effect immediately (urgency bills), except for the budget bill and trailer bills that contain an appropriation.

The Constitutional Framework for the Budget (3)

- State appropriations from most taxes are subject to a limit, with excess revenues allocated to the taxpayers and public education if revenues exceed the limit for two consecutive years.
- Proposition 98 of 1988 established education as the first priority for state spending and provided a minimum funding guarantee for school districts, community colleges, and certain child care programs (K-14) beginning in 1988-89.
- Under Proposition 1A of 2004, the state must reimburse local governments for mandated programs. The mandate must be suspended in years when funding is not provided.

The Constitutional Framework for the Budget (4)

- Proposition 58 of 2004:
 - Requires the Legislature to approve a budget in which General Fund expenditures do not exceed estimated General Fund revenues.
 - Allows the Governor to proclaim a fiscal emergency in certain circumstances and to propose legislation to address the emergency.
 - Establishes a Budget Stabilization Account (BSA) in the state's General Fund. Annual transfers must be made into the BSA until the balance reaches \$8 billion or 5 percent of General Fund revenues, whichever is greater. The Governor may suspend the transfer through an executive order.

The Budget Process

- **Summer to Fall:** State departments review expenditure plans and prepare baseline budgets.
- **On or Before January 10:** The Governor releases the proposed budget and identical budget bills are introduced in each house.
- **March to May:** Budget subcommittees review the Governor's proposed budget.
- **Mid-May:** The Governor releases the May Revision.
- **Late May:** Each house passes a budget bill.
- **Late May:** A two-house conference committee meets to resolve the differences between the Assembly and Senate budget bills.

The Budget Process (2)

- **June 15:** The constitutional deadline for the Legislature to pass the budget.
- **June to ???:** In many years, the “Big Five” meet to resolve major policy differences.
- **Late June to ???:** The Legislature approves the budget package by a majority vote of each house and submits the bills to the Governor for his or her signature.
- **July 1:** The new fiscal year begins.

The Budget Process: Who Does What?

- The Governor:
 - Reviews, approves, or rejects Budget Change Proposals from state agencies and departments.
 - Proposes a spending plan and policy initiatives for the year, introducing identical budget bills in both houses of the Legislature.
 - Signs or vetoes the final budget bill and trailer bills approved by the Legislature.
 - Can veto all or part of individual appropriations (line items) in the budget approved by the Legislature.
 - Cannot increase funding above the level included in the budget approved by the Legislature.

The Budget Process: Who Does What? (2)

- The Legislature:
 - Reviews the Governor’s proposed budget and increases, decreases, or maintains individual appropriations.
 - Can add new programs and spending to the proposed budget.
 - Can require state agencies to conduct studies or prepare reports through Supplemental Report Language.
 - Can restrict the use of funds allocated in the budget using Budget Control Language.
 - Passes the budget and trailer bills that contain an appropriation by a majority vote of each house.
 - Can override the Governor’s veto of an appropriation by a two-thirds vote of each house.

Key Budget Resources

- **The Governor’s Budget:** Released in early January. Contains estimated and proposed expenditures for the prior, current, and upcoming fiscal years.
- **The Governor’s Budget Summary:** Released in early January. Summarizes key policy proposals and presents the economic and fiscal context of the budget.
- **LAO Budget Analyses:** Released January through March. This series of reports reviews the Governor’s proposed budget and analyzes policy proposals.
- **The Red Book:** Budget overview prepared by the Senate Budget and Fiscal Review Committee.

Web Resources

- **California Budget Project:** Budget and policy issue analyses and email updates (www.cbp.org) and a blog (californiabudgetbites.org).
- **Department of Finance:** Access to the Governor's budget proposals and related documents (www.dof.ca.gov).
- **Legislative Analyst's Office:** Access to reports and issue analyses (www.lao.ca.gov).
- **State Senate:** Includes a free bill-tracking service and the ability to monitor Senate hearings and floor sessions (www.sen.ca.gov).
- **State Assembly:** Provides the same services as the State Senate's website (www.assembly.ca.gov).
- **Legislative Counsel:** Provides a free bill-tracking service and the ability to search California Codes (www.leginfo.ca.gov).
- **California State Homepage:** Gateway to agency information and data (www.ca.gov).