

CALIFORNIA'S BUDGET PROCESS

Preface: The budget process for California defies a simple concise definition. It is a process rather than a product. It is not the development of the Governor's Budget, the Legislature's enactment of a budget nor the executive branch's administration of the budget. Rather, it is the combination of all of these phases with all the ramifications and influences of political interactions, relationships with federal and local governments, public input, natural events, legal issues, the economy, initiatives and legislation, etc.

Although the size and complexity of California and the dynamics of the process make it difficult to establish and maintain an orderly process, these very reasons necessitate an orderly formalized process. The following sections summarize the major steps and procedures of California's budget process.

Budget Development. The State Constitution requires that the Governor submit a budget to the Legislature by January 10. It provides for a balanced budget in that, if the proposed expenditures for the budget year exceed estimated revenues, the Governor is required to recommend the sources for the additional funding.

The Director of Finance, as the chief financial advisor to the Governor, directs the effort for preparation of the Governor's Budget. Under the policy direction of the Governor, the Director of Finance issues instructions and guidelines for budget preparation to agencies and departments. This effort typically gets underway even before the Legislature has passed the budget for the current fiscal year.

Although California has utilized concepts such as Zero-Based Budgeting, Management by Objectives, and Total Quality Management, the basic approach is incremental budgeting. This approach essentially uses the current departmental level of funding as a base amount to be adjusted by change proposals. The Budget Change Proposal (BCP) has been the traditional decision document for proposing changes to existing budget levels. Departments submit their BCPs to the Department of Finance for review and analysis.

The general goal in the budget decision process is to resolve budget issues at the lowest level possible. For those departments that are under an Agency Secretary, departments must clear their proposals through Agency-level hearings. The Department of Finance generally attends these hearings. For non-Agency departments, proposals are presented directly to the Department of Finance. Issues that are not resolved between departments and Finance staff are discussed at hearings conducted by the Director of Finance. The most sensitive issues are ultimately presented to the Governor for a decision.

After all decisions are completed, the Department of Finance coordinates the printing of the following publications which comprise the Governor's Budget package. They are available from the Department of Finance Website, <http://www.dof.ca.gov>.

Governor's Budget Summary: Includes the Governor's goals and objectives for the forthcoming year, and the policy perspectives and highlights of changes in the Governor's Budget.

Governor's Budget: A detailed presentation for each department for the past, current, and budget years.

Salaries and Wages Supplement: A detailed presentation of authorized staffing and related salaries.

The Governor annually unveils the budget at a formal press conference. His or her State of the State address typically includes a general presentation of the Administration's budget policies and priorities.

Budget Enactment. By constitutional requirement, the Governor's Budget must be accompanied by a Budget Bill itemizing recommended expenditures which shall be introduced in each house of the Legislature. The Constitution also requires that the Legislature pass the bill by simple majority by June 15.

The Senate Budget and Fiscal Review Committee and the Assembly Budget Committee are the two committees that hear the Budget Bills. They assign the items in the bill to several subcommittees (by major subject areas such as Education or Health and Human Services) that conduct budget hearings. These hearings generally begin in late February soon after the Legislative Analyst issues the "Analysis of the Budget Bill." The Legislative Analyst is appointed by the Joint Legislative Budget Committee and is charged with providing a nonpartisan analysis and recommendations for changes to the Governor's budget plan.

In addition to the Legislative Analyst, the Department of Finance and departmental staff typically provide testimony at the subcommittee hearings. In recent years, there has been increasing input by partisan fiscal committee consultants of both the majority and minority parties. Additionally, lobbyists and the public may provide testimony at the hearings.

The Department of Finance proposes adjustments to the Governor's Budget through "Finance Letters" in the spring. By statute, the Department of Finance is required to give the Legislature all proposed adjustments, other than Capital Outlay and May Revision, to the Governor's Budget by April 1. Capital Outlay adjustments are due by May 1. The traditional May Revision adjustments are due by May 14, and consist of an update of General Fund revenues and changes in expenditures for school funding requirements pursuant to Proposition 98, caseload, enrollment, or population. The Legislature typically waits for the May Revision update before final budget decisions are made on major programs such as Education, Corrections, and Health and Human Services.

When a subcommittee completes its actions, it reports its recommendations to the full committee. Upon adoption of the budget by the full committee, a recommendation is made to the Floor (full house). Upon simple majority vote of the house, the Budget Bill is passed to the other house. A Budget Conference Committee is then appointed to work out differences between the Senate and Assembly versions of the bill. Upon completion of action by the Conference Committee and a simple majority vote, this conference version is then sent to the two houses for approval.

Sometimes the Conference Committee does not reach final resolution on the budget, typically due to non-resolution of a few major issues. These issues are then resolved by the "Leadership" or "Big 3" (the Governor, the Speaker of the Assembly, and President Pro Tempore of the Senate).

When the Budget Bill receives a simple majority vote of each house, it is passed on to the Governor. The Constitution allows the Governor to reduce or eliminate an item of appropriation.

The Constitution prohibits the Legislature from sending to the Governor, and the Governor from signing into law, a budget bill that would appropriate from the General Fund a total amount that, when combined with all appropriations from the General Fund for that fiscal year, and any amount transferred to the Budget Stabilization Account, exceeds General Fund revenues for that fiscal year. In addition, Government Code Section 13337.5 requires that projected expenditures shall not exceed projected revenues for the ensuing fiscal year.

The Department of Finance publishes three documents upon enactment of the Budget Act. The first two are also available from the Department of Finance Website.

California State Budget Summary / Veto Message Package:

This is a highlight narrative summary of the budget package, and includes charts and graphs.

Final Budget Summary: This document is an annotated version of the Budget Act that includes summary tables, technical corrections to the Budget Act, and the effect of vetoes on the items and sections of the Budget Act.

Final Change Book: This document provides the detail of changes between the January 10 budget and the enacted budget.

There are generally budget changes proposed by the Governor or the Legislature that necessitate changes to existing law in order to implement the budget changes. If this is the case, separate bills are introduced to implement the changes. These bills are called “**trailer bills**” and are heard concurrently with the Budget Bill. By law, all proposed statutory changes necessary to implement the Governor’s Budget are due to the Legislature by February 1.

Administration. The Budget Act is the primary source for appropriations. Continuous statutory appropriations and special legislation also provide expenditure authority.

Departments have the primary responsibility to operate within budgeted levels and to comply with any restrictions or limitations enacted by the Legislature. Further, the general expectation is that State agencies comply with the legislative intent.

Although the general expectation is to conform to the enacted budget, the Legislature has recognized a need to establish some flexibility to adjust budgets. For example, the statutes provide a continuous appropriation for allocations by the Director of Finance to meet expenditures resulting from natural disasters for any emergency proclaimed by the Governor. The Legislature has also provided provisions in the Budget Act to allow for budget adjustments. Most of this authority requires Director of Finance approval; many require a formal notice to the Legislature and a waiting period to provide the opportunity for legislative review and response before final approval. Budget Act provisions to allow adjustments include authorizations for:

- Changes to federal funding levels
- Funding for unanticipated costs
- Changes to reimbursements
- Intra-item transfers

The Department of Finance approves budget changes using Budget Revisions, Executive Orders and letters. These changes are transmitted to the State Controller's Office, which maintains the statewide appropriation control accounts.

The Governor has certain powers to adjust expenditures. Although these powers do not permit for adjustment of appropriations, the expenditure plan may be changed. For example, past Governors have issued Executive Orders to implement hiring and equipment purchase freezes and delayed capital expenditures. Under emergency conditions, the Governor is also authorized to direct State resources to meet emergency needs.

BUDGET PROCESS. Because of the dynamic nature of California’s budget process, there is no single document that provides a comprehensive description of the process. The dynamics require changing instructions, descriptions, forms and procedures, law changes, etc. The following documents provide information about the budget process:

Governor's Budget package
Legislative Analyst's "Analysis of the Budget Bill"
State Administrative Manual
Budget Act and Final Budget Summary
Final Change Book
Budget Letters and budget related Management Memos

On the web:

Department of Finance Website <http://www.dof.ca.gov>
Budget Letters Website http://www.dof.ca.gov/budgeting/budget_letters/

The annual budget process also is portrayed in a relatively simple flow chart, which is attached.

(updated March 2017)

THE ANNUAL BUDGET PROCESS

Departments review expenditure plans and annually prepare baseline budgets to maintain existing level of services; they may prepare Budget Change Proposals (BCPs) to change levels of service.

Department of Finance (Finance) analyzes the baseline budget and BCPs, focusing on the fiscal impact of the proposals and consistency with the policy priorities/direction of the Governor. Finance estimates revenues and prepares a balanced expenditure plan for the Governor's approval. The Governor's Budget is released to the Legislature by January 10th of each year.

Governor issues State of the State Address setting forth policy goals for the upcoming fiscal year. Two identical Budget Bills are submitted (one in the Assembly and one in the Senate) for independent consideration by each house.

Public input to Governor, legislative members and subcommittees.

Finance and departments testify before budget subcommittees on the proposed budget. DOF updates revenues and expenditures with Finance Letters and May Revision.

As non-partisan analysts, the **Legislative Analyst's Office (LAO)** prepares an "Analysis of the Budget Bill" and "Perspectives and Issues". Testifies before the budget subcommittees on the proposed budget.

Public input to Governor, legislative members and subcommittees.

Assembly Budget Committee - divided into several subcommittees to review (approve, revise, or disapprove) specific details of the budget. Majority vote required for passage.

Senate Budget and Fiscal Review - divided into several subcommittees to review (approve, revise, or disapprove) specific details of the budget. Majority vote required for passage.

Assembly Floor examines committee report on budget attempting to get a simple majority vote for passage. The Budget usually moves to conference committee.

Assembly Floor reviews conference report and attempts to reach a simple majority agreement. If no agreement is reached in conference or on floor, the BIG 3 gets involved.

Budget Conference Committee attempts to work out differences between Assembly & Senate versions of the Budget - also amending the budget to attempt to get a simple majority vote from each house.

Senate Floor examines committee report on budget attempting to get a simple majority vote for passage. The Budget usually moves to conference committee.

Senate Floor reviews conference report and attempts to reach a simple majority agreement. If no agreement is reached in conference or on floor, the BIG 3 gets involved.

Sometimes, the BIG 3 (the Governor, Speaker of the Assembly, Senate President pro Tempore) meet and compromise to get the simple majority vote in each house.

Final budget package with simple majority vote in each House submitted to the Governor for signature. Governor may reduce or eliminate any appropriation through the line-item veto. The budget package also includes trailer bills necessary to authorize and/or implement various program or revenue changes.

Individual departments and the **Department of Finance** administer, manage change, and exercise oversight of the Budget on an ongoing basis. **The Joint Legislative Budget Committee (JLBC)** provides some coordination between the two houses and oversees the LAO. The JLBC is involved in the ongoing administration of the Budget and reviews various requests for changes to the Budget, after enactment.

