

CALIFORNIA BUDGET PROJECT

Dollars and Democracy:

A Guide to the State Budget Process

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THE CALIFORNIA BUDGET PROJECT
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California Budget Project

- The CBP was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at www.cbp.org.

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Key Facts About California's State Budget

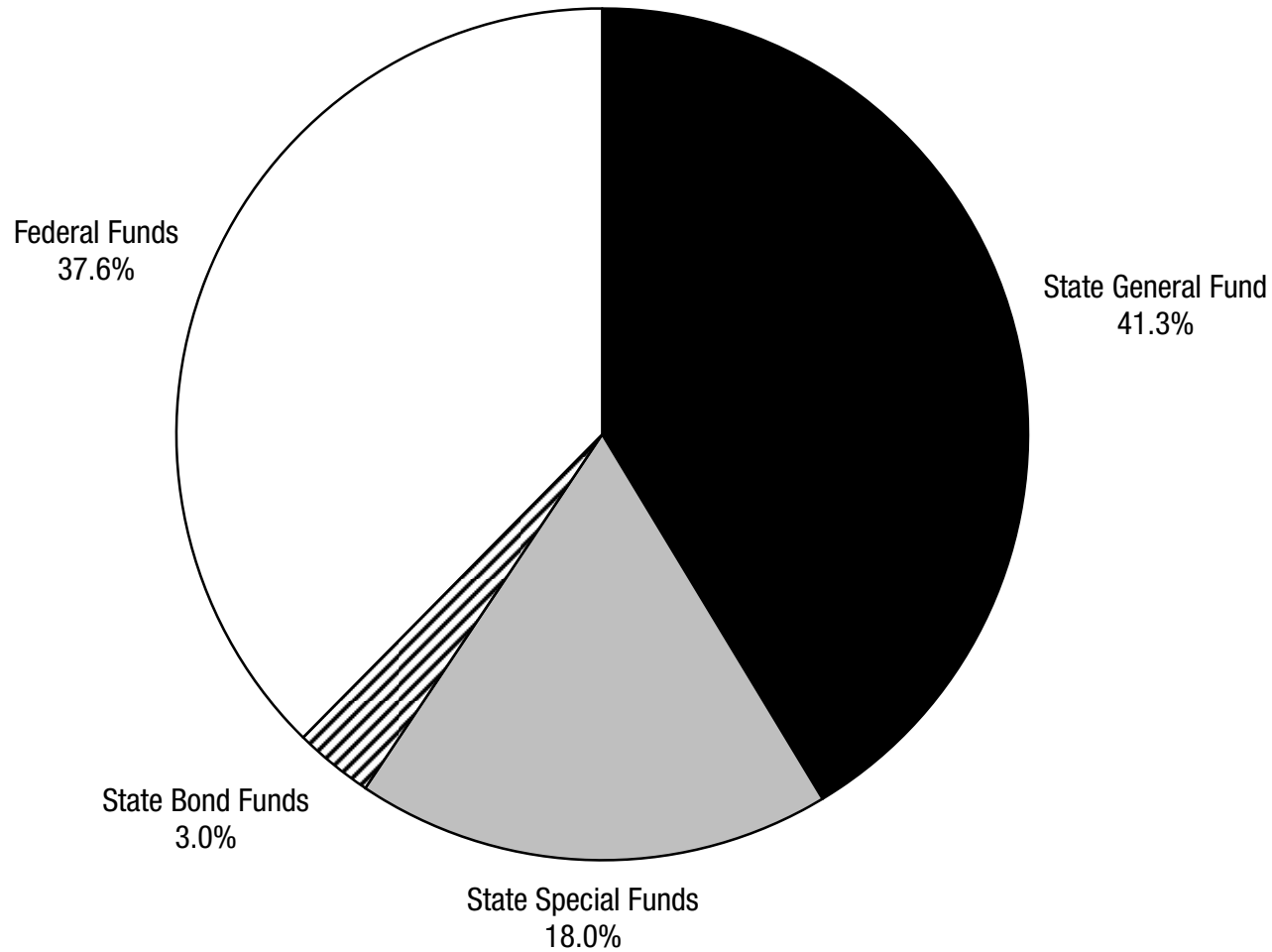
The State Budget Is More Than Dollars and Cents

- The state budget provides a framework and funding for public systems and services. Dollars provided through the budget can help policy ideas move from concept to reality.
- But the state budget reflects more than dollars and cents. At a fundamental level, the budget expresses our values and priorities as a state.
- State budget choices affect all Californians – from the quality of our schools and highways, to the cost of a college education, to working families’ access to affordable child care and health care.

The State Budget = State Funds + Federal Funds

- The state budget is composed of three kinds of state funds – the General Fund, special funds, and bond funds – along with federal funds. In 2013-14, state funds are expected to comprise more than 60 percent of California’s \$233 billion budget.
- The **state General Fund** accounts for revenues that are not designated by law for a specific purpose. Most state support for education, health and human services, and the state prison system comes from the General Fund.
- Over 500 **state special funds** account for taxes, licenses, and fees that are designated by law for a specific purpose.
- **State bond funds** account for the receipt and disbursement of general obligation (GO) bond proceeds.

State Dollars Account for More Than 60 Percent of California's State Budget

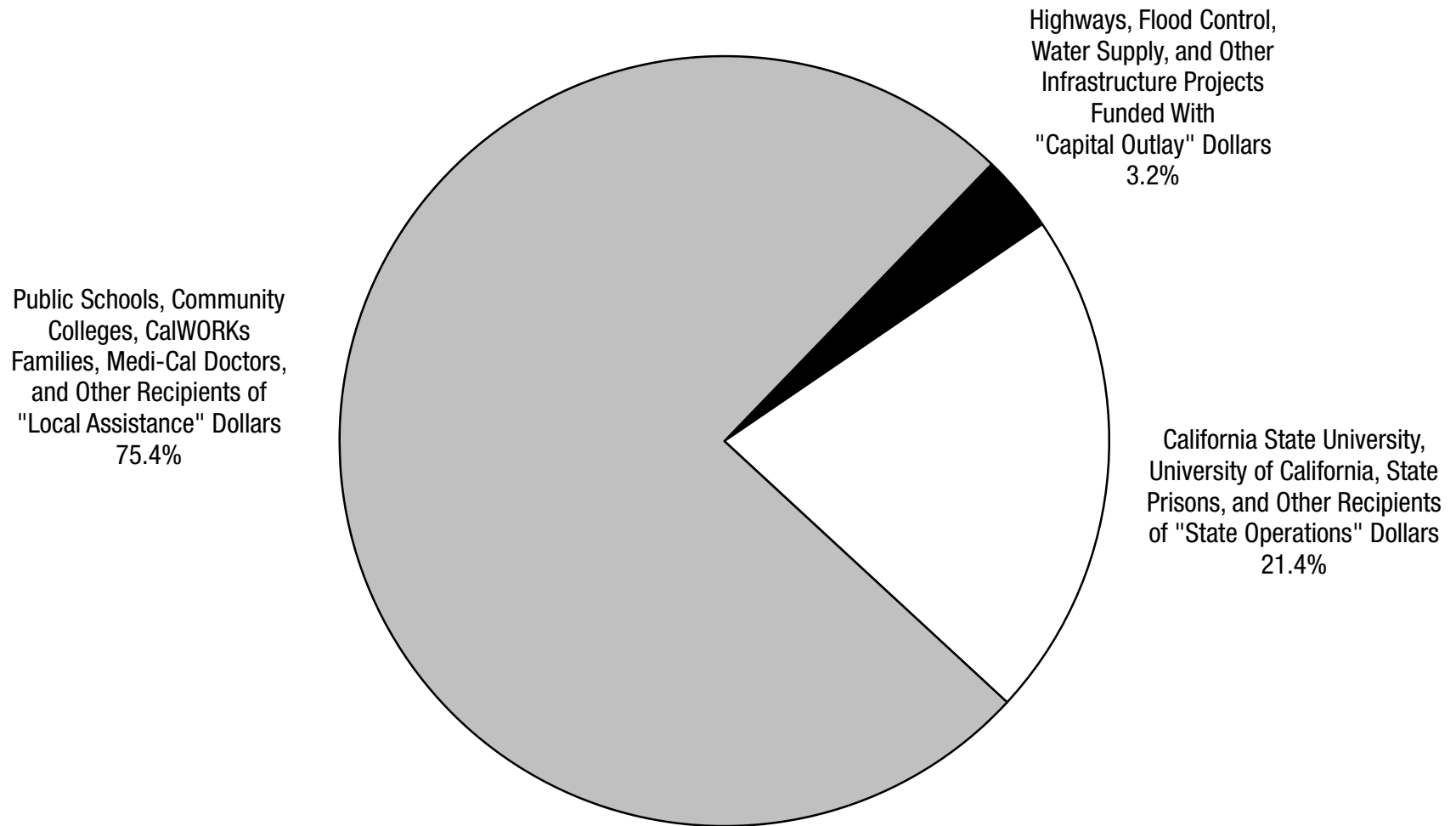


Enacted 2013-14 Expenditures = \$232.9 Billion

The State Budget Is a Local Budget

- Dollars spent through the state budget go to individuals, communities, and institutions across California. In 2013-14:
 - **Three-quarters** of total spending will flow as “**local assistance**” to public schools, community colleges, low-income families in the CalWORKs Program, doctors who provide health care through Medi-Cal, and others.
 - More than **one-fifth** of total spending will go to 23 CSU campuses, 10 UC campuses, 34 state prisons, and other recipients of “**state operations**” dollars.
 - The remaining **3 percent** of total spending will flow as “**capital outlay**” dollars, supporting infrastructure projects across California. (Local assistance and state operations dollars also fund infrastructure projects.)

The State Budget Directs Dollars to Local Communities Through Three Funding Categories Enacted 2013-14 Spending, Including Both State and Federal Dollars

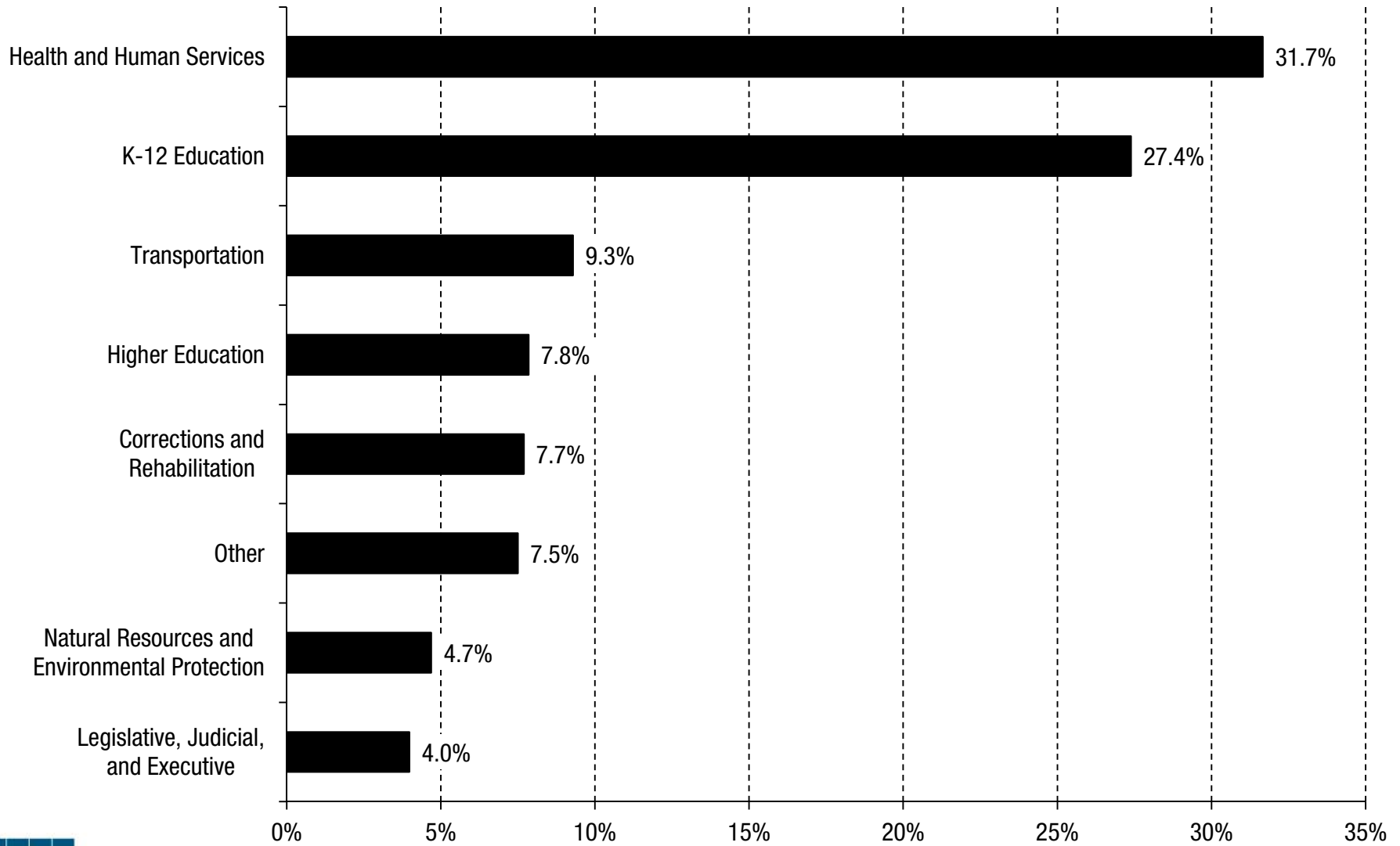


The State Budget Supports an Array of Public Services

- State spending supports a wide range of public systems and services. In 2013-14:
 - The majority of state dollars will support health and human services (31.7 percent) or K-12 education (27.4 percent).
 - Approximately 9 percent of state dollars will fund transportation, including highways and public transit.
 - Higher education and corrections will receive roughly equal shares of state dollars (nearly 8 percent each).
 - The balance of state spending will support other essential services (such as environmental protection) and institutions (such as the state's court system).

More Than Half of Total State Spending Supports Health and Human Services or K-12 Education

Enacted 2013-14 General Fund, Special Fund, and Bond Fund Spending = \$145.3 Billion



The State Budget Is a Bill of a Different Kind

- Bills change state law, such as by creating programs, modifying eligibility for services, or raising or lowering taxes. Most bills move through the Legislature’s policy committee process.
- The state budget is a bill. However, unlike other bills, the “budget bill”:
 - Provides authority to spend money across an array of public systems and services for a single year.
 - Moves through budget committees – rather than policy committees – on a distinct timeline.
 - Moves with other bills that are needed to implement the policies assumed in the budget.



The State Budget Process: Key Terms and Definitions

Speaking the Language

- **Governor's Proposed Budget:**
 - Shows spending for the prior and current fiscal years and the proposed spending for the upcoming fiscal year.
- **Governor's Budget Summary:**
 - Provides the Governor's economic and revenue outlook, highlights major policy initiatives, and summarizes state expenditures assumed in the proposed budget.
- **May Revision:**
 - Updates the Governor's economic and revenue outlook and revises, supplements, or withdraws the policy initiatives included in the Governor's proposed budget.

Speaking the Language (continued)

- **Budget Bill:**

- Itemizes appropriations, which authorize agencies to spend money from a specific fund for a specific purpose.

- **Budget-Related Bills:**

- Make statutory changes related to the budget.
- Generally move as part of the overall budget package (“trailer bills”), but can move on a parallel track through the Legislature’s policy committee process.

- **Veto:**

- The Governor’s constitutional authority to reject a bill or reduce or eliminate items of appropriation.

Speaking the Language (continued)

- **Department of Finance (DOF):**
 - Prepares the Governor’s budget documents. The DOF director is the Governor’s chief fiscal adviser.
- **Assembly Budget Committee and Senate Budget and Fiscal Review Committee:**
 - Review the Governor’s proposals and help develop the Legislature’s version of the budget. Committee analyses are released beginning in January.
- **Legislative Analyst’s Office (LAO):**
 - Provides fiscal and policy advice to the Legislature. LAO budget analyses are released beginning in January.



The State Budget Process: The Constitutional Framework

Key Deadlines: January 10 and June 15

- **The Governor must propose a balanced budget for the upcoming fiscal year on or before January 10.**
 - Estimated revenues (as determined by the Governor) must meet or exceed the Governor's proposed spending.
- **The Legislature must pass a balanced budget by midnight on June 15.**
 - Estimated General Fund revenues (as determined by the Legislature) must meet or exceed General Fund spending.

Budget Bill and Trailer Bills: Simple Majority Vote

- **The budget package may be passed by a majority vote.**
 - 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.
 - Proposition 25 trailer bills must be identified in the budget bill and may take effect immediately upon being signed by the Governor.
 - Prior to Proposition 25, a two-thirds vote of each house was required to pass the budget bill and any trailer bills that were intended to take effect immediately.

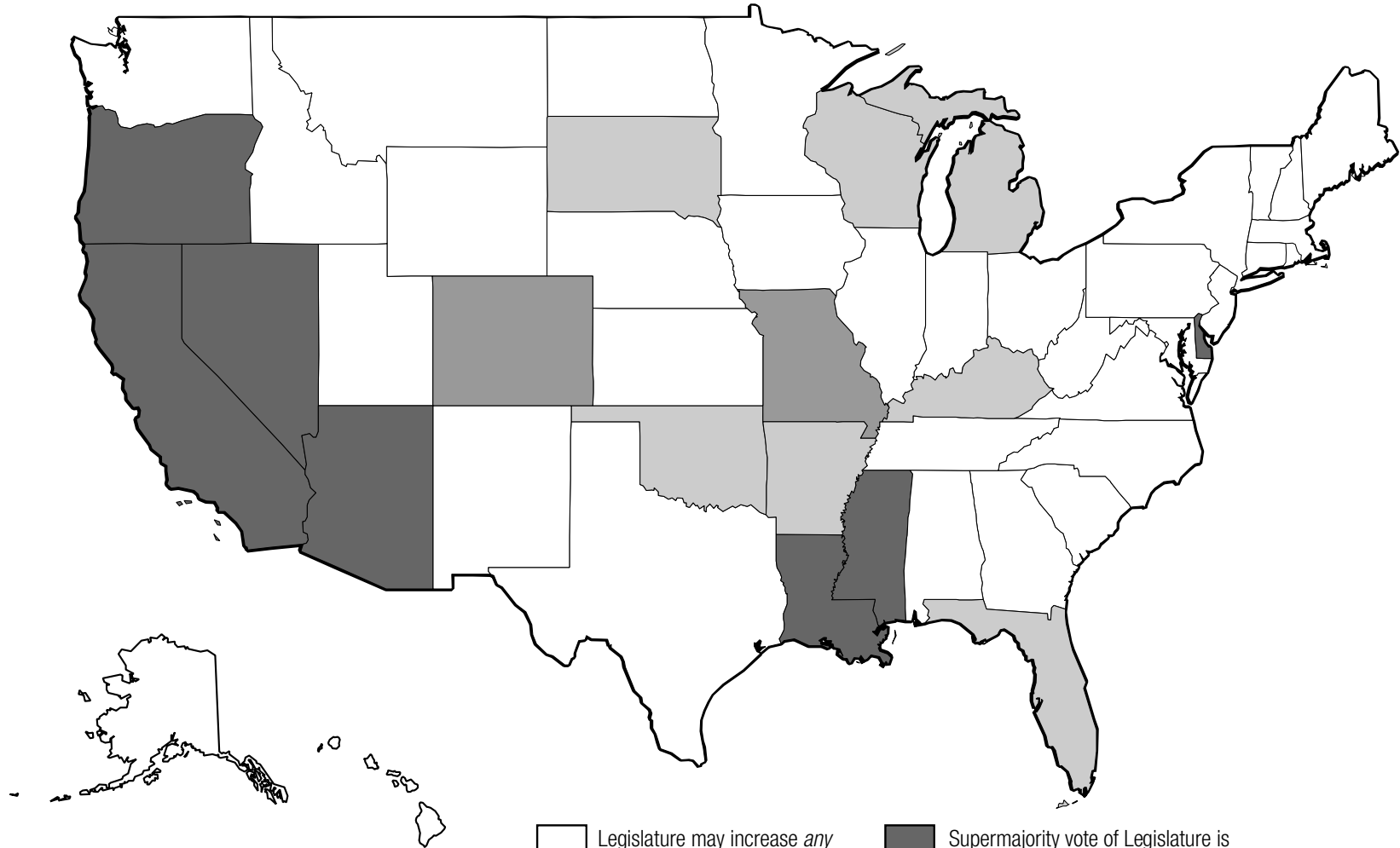
Penalties for a Late Budget





- **Lawmakers face penalties if they fail to pass the budget bill on or before June 15.**
 - Proposition 25 requires lawmakers to permanently forfeit both their pay and their reimbursement for travel and living expenses for each day after June 15 that the budget bill is not passed and sent to the Governor.
 - These penalties do not apply to budget trailer bills, which do not have to be passed on or before June 15.

Tax Increases: Supermajority Vote

- **All tax increases require a two-thirds vote.**
 - Under the state Constitution, “any change in state statute which results in **any** taxpayer paying a higher tax” requires a two-thirds vote of each house of the Legislature.
 - This standard was imposed by Proposition 26 of 2010, which expanded the definition of a tax increase and thus the scope of the existing two-thirds vote requirement.
 - Prior to Proposition 26, only bills changing state taxes “for the purpose of increasing revenues” required a two-thirds vote (a standard established by Proposition 13 of 1978). Bills that increased some taxes but reduced others by an equal or larger amount could be passed by a majority vote.

California Is One of Just Seven States to Require a Supermajority Vote of the Legislature for Any State Tax Increase



-  Legislature may increase *any* state tax by majority vote.
-  Legislature may increase *some* state taxes by majority vote.
-  Supermajority vote of Legislature is required to increase any state tax.
-  Legislature must place all (Colorado) or most (Missouri) proposed tax increases on a statewide ballot for voter approval.

Source: Center on Budget and Policy Priorities, Colorado Fiscal Institute, and Missouri Budget Project

Tax Increases: Supermajority Vote (continued)

- **Proposition 26 of 2010 broadened the definition of a tax to include some charges previously considered “fees.”**
 - Prior to Proposition 26, the Legislature could create or increase fees by majority vote. These included regulatory fees intended to address health, environmental, or other problems caused by various products, such as alcohol, oil, or hazardous materials.
 - Proposition 26 reclassified regulatory and certain other fees as taxes. As a result, a two-thirds vote of each house of the Legislature is now required for many charges that previously were considered fees and could be passed by majority vote.

Additional Supermajority Vote Requirements

- **The state Constitution requires a two-thirds vote of each house of the Legislature in order to:**
 - Appropriate money from the General Fund, *except for* appropriations that are for public schools or that are included in the budget bill or in Proposition 25 trailer bills.
 - Pass bills that take effect immediately (urgency statutes), *except for* the budget bill and Proposition 25 trailer bills.
 - Place constitutional amendments or general obligation (GO) bond measures before the voters.
 - Override the Governor's veto of a bill or an appropriation.

Proposition 98: A Funding Guarantee for K-14 Education

- **Proposition 98 of 1988 guarantees a minimum level of funding for K-12 schools and community colleges.**
 - The amount of the guarantee is calculated each year using one of three tests that apply under varying fiscal and economic conditions. Funding for the guarantee comes from the state General Fund and local property tax revenues.
 - The Legislature can suspend the guarantee for a single year by a two-thirds vote of each house and provide less funding. Following a suspension, the state must increase Proposition 98 funding over time to the level that it would have reached absent the suspension.
 - While the Legislature can provide more than the Proposition 98 guarantee, it often serves as a maximum funding level.

State Mandates: Pay for Them or Suspend Them

- **The state is required to pay for or suspend mandates that it imposes on local governments.**
 - Proposition 4 of 1979 requires the state to reimburse local governments for costs related to a new program or a higher level of service that is mandated by the state.
 - Proposition 1A of 2004 expanded the definition of a mandate to include the transfer of financial responsibility from the state to local governments.
 - Proposition 1A also requires the state to suspend a mandate in any year in which local governments' costs are not fully reimbursed.

State Appropriations Limit (SAL): A Cap on Spending

- **Appropriations are subject to a limit established by Proposition 4 of 1979, as modified by later initiatives.**
 - The SAL limits the amount of state tax proceeds that can be appropriated each year. This limit is adjusted annually for changes in population and in the cost of living.
 - Some appropriations from tax proceeds do not count toward the limit, including debt service and spending that is needed to comply with court or federal mandates.
 - Revenues that exceed the SAL over a two-year period (“excess” revenues) are divided equally between Proposition 98 spending and taxpayer rebates. The state is projected to be \$18 billion below the SAL in 2013-14.

Budget Stabilization Account (BSA): A Rainy Day Fund

- **State General Fund revenues must be deposited into a rainy day fund – unless the Governor suspends the transfer.**
 - The BSA was established by Proposition 58 of 2004. 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 or reduce the transfer for the upcoming fiscal year by executive order. The transfer has been suspended every fiscal year since 2008-09.
 - The BSA currently has a balance of \$0, and the Governor's forecast does not include any deposits through 2016-17.

Fiscal Emergencies: Addressing Midyear Budget Gaps

- **The Governor may declare a fiscal emergency and call the Legislature into special session to address it.**
 - Proposition 58 of 2004 allows the Governor to declare a fiscal emergency if the state faces a “substantial” budget gap during a fiscal year. The Governor must then call the Legislature into special session and propose legislation to address the problem.
 - The Legislature must send the Governor one or more bills to address the fiscal emergency. If lawmakers fail to do so within 45 days, then they may not recess or act on any other bills until they do. Lawmakers do not have to pass the Governor’s proposal; they may approve an alternative that addresses the emergency.



The State Budget Process: What Happens When?

The Budget Timeline

- **Summer to Fall:** State departments develop baseline budgets to maintain existing service levels and may prepare “budget change proposals” that increase or reduce service levels in the upcoming fiscal year.
- **By January 10:** Governor releases proposed budget.
- **February to Early May:** Budget committees review the Governor’s proposed budget.
- **Mid-May to June:** Governor releases May Revision on or before May 14. Each house of the Legislature then finalizes its version of the budget, after which a legislative conference committee may meet to resolve differences.

The Budget Timeline (continued)

- **June:** Legislative leaders and the Governor meet to address outstanding issues.
- **June 15:** The constitutional deadline for lawmakers to pass the budget bill. (This deadline does not apply to trailer bills.)
- **July 1:** The new fiscal year begins. The Governor may sign the budget bill and related trailer bills into law by this date.
- **July and Beyond:** After the budget package has been signed, the Legislature may pass – by majority vote – amendments to the budget bill that either increase or decrease state spending. Lawmakers also may pass additional budget-related bills, thus increasing the size and scope of the original budget package.



The State Budget Process: What Do the Governor and the Legislature Do?

The Budget Process: What Does the Governor Do?

■ The Governor:

- Approves or rejects budget change proposals prepared by state departments.
- Proposes a spending plan and policy initiatives for the year, introducing the budget bill in the Legislature.
- Signs or vetoes the final budget bill and trailer bills.
- Can veto all or part of individual appropriations (line items).
- Cannot increase individual appropriations above the level approved by the Legislature.
- May proclaim a fiscal emergency and propose legislation to address the emergency in a special legislative session.

The Budget Process: What Does the Legislature Do?

■ The Legislature:

- Reviews the Governor’s proposed budget.
- Maintains, increases, or reduces proposed appropriations.
- Can add new programs and spending to the budget.
- Can restrict the use of funds allocated in the budget using “budget control language.”
- Can require state departments to conduct studies or prepare reports through “supplemental report language.”
- Passes the budget bill and trailer bills that contain an appropriation by a majority vote of each house.
- Can override the Governor’s veto of a bill or an appropriation by a two-thirds vote of each house.

Key Websites

- **California Budget Project:** Budget and policy analyses, a blog, and email updates (www.cbp.org).
- **Department of Finance:** The Governor's budget proposals and related documents (www.dof.ca.gov).
- **Legislative Analyst's Office:** Budget and policy analyses, budget recommendations, and historical budget data (www.lao.ca.gov).
- **Legislative Counsel:** Bills and bill analyses, the state codes, the state Constitution, and a free bill-tracking service (leginfo.legislature.ca.gov).
- **State Assembly and Senate:** Committee agendas and other publications, floor session and committee schedules, the annual legislative calendar, and live audio streaming of legislative proceedings (assembly.ca.gov and senate.ca.gov).
- **The California Channel:** Live and archived webcasts of legislative hearings and floor sessions (www.calchannel.com).