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Dollars and Democracy: Understanding How the State Budget Process Relates to the Policy Bill Process

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California Budget & Policy Center

The Budget Center was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The Budget Center 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 Budget Center comes from foundation grants, subscriptions, and individual contributions. Please visit our website at calbudgetcenter.org.

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Scott Graves prepared this guide.



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The Policy Bill Process and the Budget Process: Key Pathways for Shaping State Policies

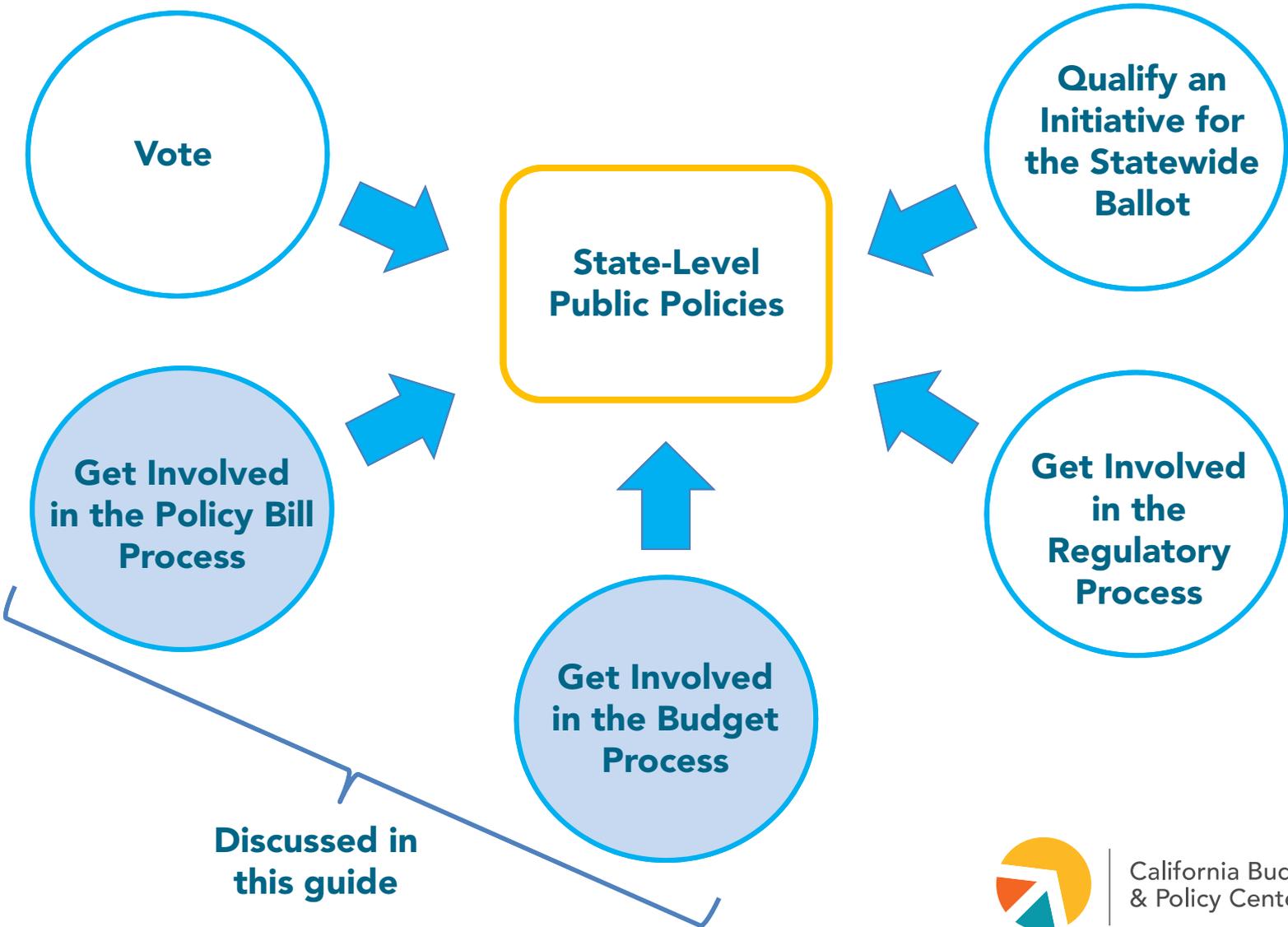


Key Pathways for Shaping Public Policies at the State Level

- The most common way for Californians to shape state policies is to **move a proposal through the Legislature** – the 80-member state Assembly and the 40-member state Senate – and win the governor’s support.
- A proposal can move through the Legislature by means of 1) the **policy bill** process; 2) the **budget** process; or 3) these **two processes combined**.
- Other pathways for shaping public policies include **voting**; lobbying the **regulatory (rule-making) process** that occurs within the executive branch; and **qualifying a statewide ballot initiative** to amend state law or the state Constitution. This guide does not discuss these other pathways.



Key Ways to Shape Public Policies at the State Level in California



Highlights of the Policy Bill Process and the Budget Process



Highlights of the Policy Bill Process

- Members of the Assembly and Senate introduce bills, which typically aim to change state law. Bills are reviewed by one or more legislative committees in each house.
 - **Policy committees**, such as the Assembly Human Services Committee and the Senate Education Committee, consider the policy implications of a bill.
 - **Appropriations (fiscal) committees** – one in each house – estimate a bill’s cost. Some bills “die” because they fail to advance out of a fiscal committee due to concerns about their costs.
- A bill **may be amended multiple times** during the process.



Highlights of the Policy Bill Process (cont.)

- A policy bill generally can be passed by a **simple majority vote** in each house. However, a **two-thirds vote** is required if the bill:
 - Contains an appropriation from the General Fund, except for appropriations that are for public schools.
 - Would create a new tax or increase an existing tax.
 - Contains an “urgency” clause that allows it to take effect immediately rather than on January 1 (the typical date).
- If approved by both houses of the Legislature, a policy bill then **goes to the governor**, who can 1) sign the bill into law, 2) allow the bill to become law without a signature, or 3) veto (reject) the bill.



Highlights of the Budget Process

- Proposals that move through the budget process typically are:
 - **Recommended by the governor.** By January 10, the governor must propose a balanced budget for the upcoming state fiscal year. The governor also releases a revised budget each spring (the “May Revision”).
 - **Advanced by legislators who sit on budget subcommittees.** Each house’s budget committee is divided into subcommittees that review the governor’s proposed spending plan. Subcommittees generally have three to seven members. These members, particularly the subcommittee chairs, play a key role in crafting each house’s version of the state budget prior to negotiating a final budget package with the governor.



Highlights of the Budget Process (cont.)

- The final budget package – as determined by the governor and legislative leaders – includes two kinds of bills.
 - **The budget bill** contains appropriations, which authorize state departments to spend money from specific funds for specific purposes in the upcoming state fiscal year, which begins each July 1.
 - **“Trailer bills”** generally make budget-related changes to state law. For example, if policymakers want to create a new program, the budget bill would provide the funding and a trailer bill would spell out the new program’s rules.
- Bills in the budget package **generally can be passed by a simple majority vote** in each house. The governor may **veto** any bill or **cut/eliminate** any expenditure.



Key Events and Deadlines in the Policy Bill Process and the Budget Process



Key Events and Deadlines: January to April

	Policy Bill Process	Budget Process
January	<ul style="list-style-type: none"> ➤ Second half of the month:* Deadline for bill requests to be submitted to the Office of Legislative Counsel, which drafts legislative proposals 	<ul style="list-style-type: none"> ➤ By Jan. 10: Governor releases proposed budget** ➤ Full budget committee in each house typically conducts a high-level review of the governor's proposals
February	<ul style="list-style-type: none"> ➤ Around mid-month: Deadline for bills to be introduced 	<ul style="list-style-type: none"> ➤ Budget subcommittees may begin reviewing governor's proposals
March	<ul style="list-style-type: none"> ➤ Policy committees review bills 	<ul style="list-style-type: none"> ➤ Budget subcommittees review governor's proposals
April	<ul style="list-style-type: none"> ➤ Second half of the month: Deadline for policy committees to report to fiscal committees the <i>fiscal bills</i> (bills with a state cost) introduced in their house 	<ul style="list-style-type: none"> ➤ Budget subcommittees review governor's proposals

* Most of the deadlines associated with the policy bill process are jointly established by the state Assembly and Senate. These deadlines tend to vary from year to year; therefore, precise dates cannot be provided in most cases.

** The deadlines associated with the budget process are established in state law or the state Constitution.



Key Events and Deadlines: May

	Policy Bill Process	Budget Process
May	<ul style="list-style-type: none"> ➤ First half of the month: Deadline for policy committees to report to the floor the <i>nonfiscal bills</i> introduced in their house ➤ Second half of the month: <ol style="list-style-type: none"> 1) Deadline for fiscal committees to report to the floor the <i>fiscal bills</i> introduced in their house 2) All bills introduced in each house must be passed off the floor of that house in order to move to the other house for consideration during the same calendar year (this deadline sometimes falls in early June)*** 	<ul style="list-style-type: none"> ➤ By May 14: Governor releases revised budget (“May Revision”) ➤ Budget committee in each house adopts its version of the budget ➤ Assembly and Senate may convene a conference committee to resolve any differences between their spending plans

*** Bills that do not advance out of the “house of origin” during the first year of each two-year legislative session must be approved by that house on or before January 31 of the following year in order to move to the other house for consideration.



Key Events and Deadlines: June

	Policy Bill Process	Budget Process
June	<ul style="list-style-type: none">➤ Policy committees review bills sent over from the other house	<ul style="list-style-type: none">➤ Legislative leaders and the governor address outstanding issues and finalize the budget package, which consists of the budget bill and related “trailer bills”➤ By June 15: Legislature must pass the budget bill (this deadline does not apply to trailer bills)➤ Governor decides whether to use “line-item veto” authority to reduce and/or eliminate appropriations approved by the Legislature➤ Governor then signs the budget bill and trailer bills



Key Events and Deadlines: July

	Policy Bill Process	Budget Process
July	<ul style="list-style-type: none"> ➤ First half of the month: Deadline for policy committees to report to fiscal committees the <i>fiscal bills</i> approved by the other house; this deadline is typically moved to an earlier date, such as in <i>late June</i>, in election years**** ➤ Around mid-month: Deadline for policy committees to report to the floor the <i>nonfiscal bills</i> passed by the other house; this deadline is typically moved to an earlier date, such as in <i>early July</i>, in election years 	<ul style="list-style-type: none"> ➤ July 1: New state fiscal year begins ➤ State departments develop baseline budgets and “budget change proposals” for the <i>next</i> state fiscal year as part of a process within the governor’s administration that is led by the Department of Finance

**** In election (even-numbered) years, the Legislature adjourns for the year sooner than in non-election (odd-numbered) years. Therefore, during *election* years, some legislative deadlines are set earlier so that the Legislature can complete its business for that calendar year in less time.



Key Events and Deadlines: August to December

	Policy Bill Process	Budget Process
August to September	<ul style="list-style-type: none"> ➤ Late August or early September: Deadline for fiscal committees to report to the floor the <i>fiscal bills</i> passed by the other house; this deadline is typically moved to an earlier date, such as around <i>mid-August</i>, in election years ➤ Mid-September: Deadline to pass most bills; this deadline falls on August 31 in election years ➤ Governor acts on bills approved by both houses of the Legislature 	<ul style="list-style-type: none"> ➤ Legislature, with the governor's approval, may adjust the expenditures in the recently adopted budget bill ➤ Legislature also may send the governor additional trailer bills, thus increasing the size and scope of the original budget package ➤ Governor's administration continues to develop the proposed budget for the next state fiscal year
October to December	<ul style="list-style-type: none"> ➤ Legislature typically does not meet during this period, although committees may hold hearings 	<ul style="list-style-type: none"> ➤ Development of the governor's budget proposal continues (due by January 10)



The Cost of a Proposal Helps to Determine Its Path Through the Legislature



Proposals to Change Public Policies Often Require the State to Incur New Expenses

- In order to move from concept to reality, proposals to change public policies **often require the state to incur additional expenses**. These include proposals that would:
 - Establish a new program or service.
 - Expand eligibility for an existing program or service.
 - Increase state-funded assistance, such as for college financial aid or welfare-to-work grants.
 - Boost payments to people who provide a state-funded service, such child care, health care, or in-home care.
 - Make any change that would require the state to hire more employees, including proposals that would increase the state's regulatory oversight.



New State Expenses May Be Funded From the General Fund or From Special Funds

- State funding to pay for a proposal may come from:
 - **The General Fund.** Most state funding for public services and systems comes from the General Fund, which receives state revenues that are *not* designated for a specific purpose. These dollars primarily support K-12 and higher education, health and human services, and the state correctional system.
 - **Special funds.** State revenues that are designated for a specific purpose are deposited into special funds. The state has hundreds of special funds, which support a broad array of public services.



Inexpensive Proposals Can Move Through the Budget Process *or* the Policy Bill Process

- In general, a relatively inexpensive proposal (see discussion on pages 26 and 27) can move:
 - **Through the budget process.** Funding is provided in the budget bill, and any related changes to state law are included in a trailer bill. The proposal takes effect and is fully funded at the *outset* of the new fiscal year (July 1).
 - **As a standalone policy bill outside of the budget process.** Policy bills that are signed into law by the governor usually do not contain funding to offset their costs to the state. (As noted earlier, these bills typically take effect on January 1.) See pages 23 to 25 for a discussion of these policy bills and how policymakers ultimately address their cost.



Costly Proposals Typically Move Through the Budget Process

- In general, a relatively costly proposal (see discussion on pages 26 and 27) **moves through the budget process.**
- However, a **costly proposal could benefit from *initially* or *simultaneously* moving through the policy bill process,** with the goal of shifting the proposal to the “budget track” so that it can be funded in the budget bill. Assuming an on-time budget, this would allow the proposal to take effect at the outset of the new fiscal year (July 1).
- For proposals that are **shifted from the policy bill process to the budget track:**
 - Some or all of the policy bill’s text – that is, the proposed changes to state law – may be added to a budget-related trailer bill.



Policy Bills That Would Increase State Costs Usually Do Not Contain Funding

- Standalone policy bills that would *increase* state costs **generally do not include funding** to pay for these costs.
 - In part, this is because adding an appropriation to a policy bill typically would increase the **vote threshold** to approve the bill in each house from a simple majority to **two-thirds**, making it more challenging to pass the bill.
- Fiscal bills that lack funding are “keyed” as follows in each bill’s summary (the “Legislative Counsel’s Digest”):
 - **“Fiscal committee: yes.”** This means the bill would have a state budget impact and must go to the fiscal committee.
 - **“Appropriation: no.”** This means the bill does not contain any funding to offset its cost.



The Cost of a Policy Bill May Be Funded Through a Future State Budget

- If a bill increases state expenses but does not contain an appropriation, **the bill's cost may be funded through a *future state budget***. Here's a common scenario:
 - In September – when many policy bills reach the governor's desk – the governor signs the bill, which takes effect on January 1.
 - The governor provides funding for the bill in his or her upcoming state budget proposal (due by January 10).
 - The Legislature approves the funding as part of the budget, effective July 1. Before this funding is available, the bill's implementation may be limited. For example, a state department might focus on drafting regulations to carry out the bill's provisions.



The Cost of a Policy Bill May Be Absorbed by a Department's Budget

- The cost of a bill may be absorbed by the state department that is charged with implementing it.
 - **In some cases, the cost is absorbed temporarily.**
A state department might absorb the cost of a bill during the period between January 1, when the bill takes effect, and July 1, when funding for the bill is provided (after the fact) through the state budget.
 - **In other cases, the cost is absorbed permanently.**
The governor might determine that a department has enough “room” in its budget to fully implement a bill’s provisions without any additional funding. This outcome may be particularly likely when the cost of implementing a bill is relatively small.



The Governor Plays a Key Role in Deciding if a Proposal Is Costly or Not

- Whether a proposal is viewed as having a significant impact on the state budget – and therefore would likely be considered through the budget process – **depends, for the most part, on each governor’s unique perspective.**
- **One rule of thumb that often appeared to apply under Governor Brown:** Any proposal that would have resulted in a state cost of hundreds of thousands of dollars or more **had to move through the budget process.**
- Because the dollar threshold that divides less expensive proposals from costly ones is simply a rule of thumb, this threshold varies from governor to governor and may not be applied consistently by any particular governor.



The Governor Plays a Key Role in Deciding if a Proposal Is Costly or Not (cont.)

- Regardless of how a governor chooses to define a “costly” policy idea, requiring **relatively expensive proposals** to move through the budget process means that many policy changes advanced by state lawmakers **must be considered in the context of the entire state budget**.
- This approach ensures that policy proposals with a significant fiscal impact will be examined in light of other state funding priorities, rather than in isolation. As a result, **some proposals may be revised** to reduce their costs, while **other proposals may be excluded** from the budget package negotiated by the governor and legislative leaders.



The Policy Bill Process and the Budget Process Each Have Unique Advantages



Key Advantages of the Policy Bill Process

- Regardless of a proposal's cost, moving it – at least initially – through the policy bill process:
 - Can raise the profile of – and help to build broader support for – the proposal.
 - Provides a “vehicle” – a bill – around which interested stakeholders and communities can organize.
 - Helps to identify – and provides an opportunity to address – potential problems with the proposal.
 - Allows the proposal to receive a cost estimate from the appropriations (fiscal) committee in at least one house, which could prove useful in advocacy efforts.



Key Advantages of the Budget Process

- As noted earlier, proposals with relatively large costs typically *must* move through the budget process, whereas less costly proposals *may* move through this process. By going through the budget process, a proposal:
 - Can be added to the Assembly and/or the Senate’s version of the budget by just a handful of legislators – those who sit on budget subcommittees.
 - Becomes part of a larger package that balances a broad range of priorities – including the governor’s – which could help it win the governor’s support.
 - Can be implemented relatively quickly since bills in the budget package typically take effect immediately after being signed into law.



The Critical Importance of Effective Advocacy



Smart and Persistent Advocacy Can Help to Lay the Groundwork for Policy Success

- Whether a proposed policy change moves through the policy bill process, the budget process, or both, there's no guarantee that the path forward will be easy.
- Regardless of the legislative route that a proposal takes, it still needs the support of lawmakers in both the Assembly and the Senate and, ultimately, the governor's sign-off.
- However, effective advocacy and education – spanning months or even years – can help to build support for a proposal and lay the groundwork for an eventual victory when the political, policy, and fiscal conditions are right.



Additional Resources



Additional Resources

- **California Budget & Policy Center:**
 - Analyses and commentary, presentations and events, technical assistance, a detailed guide to the state budget process, and a state budget process infographic (calbudgetcenter.org).
- **California State Capitol Museum:**
 - Step-by-step description of the life cycle of a bill (capitolmuseum.ca.gov/legislation/life-cycle-of-a-bill).
- **Department of Finance:**
 - The governor's budget proposals and related documents (dof.ca.gov).



Additional Resources (cont.)

- **Legislative Counsel's Office:**
 - Bills and bill analyses, free bill-tracking, the state codes, and the state Constitution (leginfo.legislature.ca.gov).
- **State Assembly and Senate:**
 - Committee agendas and other publications, committee and floor session schedules, the legislative calendar, legislative and budget process guides, and a glossary of legislative terms (assembly.ca.gov and senate.ca.gov).
- **The California Channel:**
 - Live and archived webcasts of legislative hearings and floor sessions (calchannel.com).





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