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Dollars and Democracy: A Guide to the State Budget 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.

Acknowledgments

Scott Graves prepared this guide.



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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 services and systems.**
- **But the state budget is about more than dollars and cents.**
 - At a fundamental level, the budget expresses our values and priorities as a state and reflects Californians' collective efforts to help strengthen our communities and ensure the continued vibrancy of our state.
- **State budget choices have an impact on all Californians.**
 - Budget choices affect the quality of our schools and highways, the cost of a college education, working families' access to affordable child care and health care, and a range of other issues.



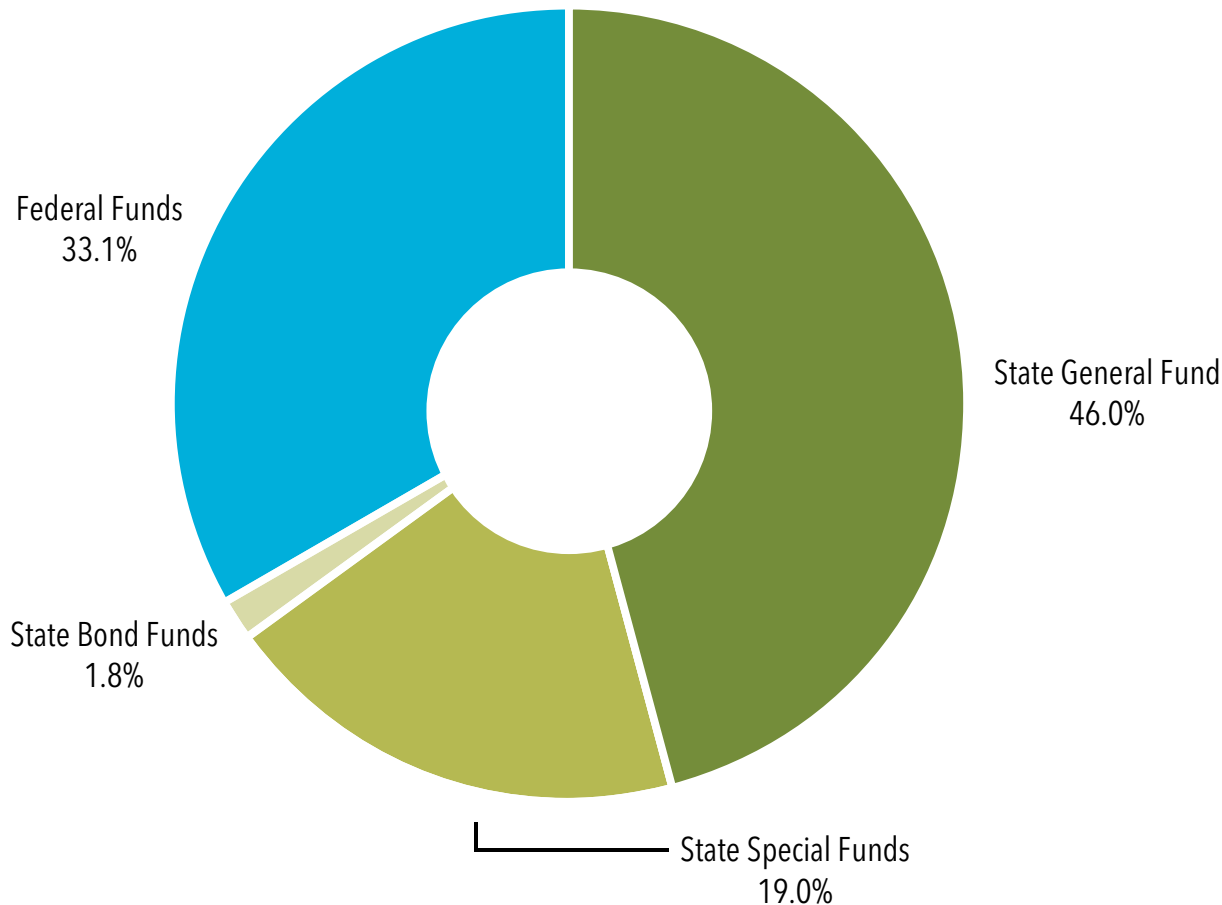
The State Budget = State Funds + Federal Funds

- **Three kinds of state funds account for over two-thirds (66.8%) of California's \$321.1 billion budget for 2019-20, the fiscal year that began on July 1, 2019. Specifically:**
 - The state General Fund accounts for revenues that are *not* designated for a specific purpose. Most state support for education, health and human services, and state prisons comes from the General Fund.
 - Over 500 state special funds account for taxes, fees, and licenses that are designated for a specific purpose.
 - State bond funds account for the receipt and disbursement of general obligation (GO) bond proceeds.
- **Federal funds comprise the rest of the state's 2019-20 budget.**



State Funds Account for More Than Two-Thirds of California's State Budget

Total Enacted 2019-20 Expenditures = \$321.1 Billion



Note: Figures do not sum to 100 due to rounding.
Source: Department of Finance



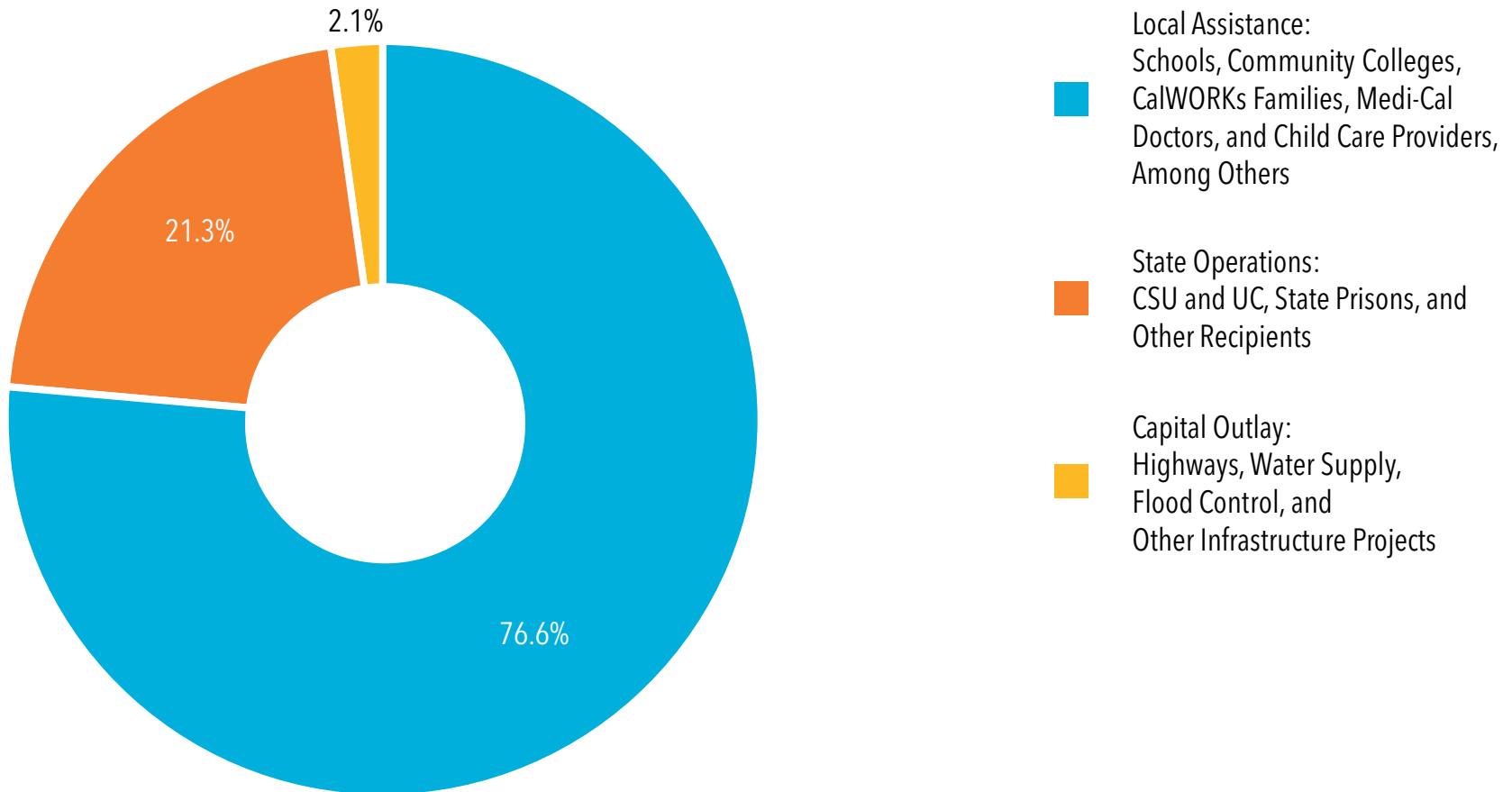
The State Budget Is a Local Budget

- **Dollars spent through the state budget go to individuals, communities, and institutions across California. Under the enacted 2019-20 state budget:**
 - More than three-quarters of total spending flows as “local assistance” to K-12 public schools, community colleges, families enrolled in the CalWORKs welfare-to-work program, and others.
 - More than one-fifth of total spending goes to 23 CSU campuses, 10 UC campuses, 35 state prisons, and other recipients of “state operations” dollars.
 - Just over 2% of total spending flows as “capital outlay” dollars, supporting infrastructure projects across California. (Local assistance and state operations dollars also fund infrastructure.)



The State Budget Directs Dollars to Communities Across California Through Three Funding Categories

Total Enacted 2019-20 Expenditures = \$321.1 Billion



Note: Reflects federal funds as well as state General Fund, special fund, and bond fund dollars.
Source: Department of Finance



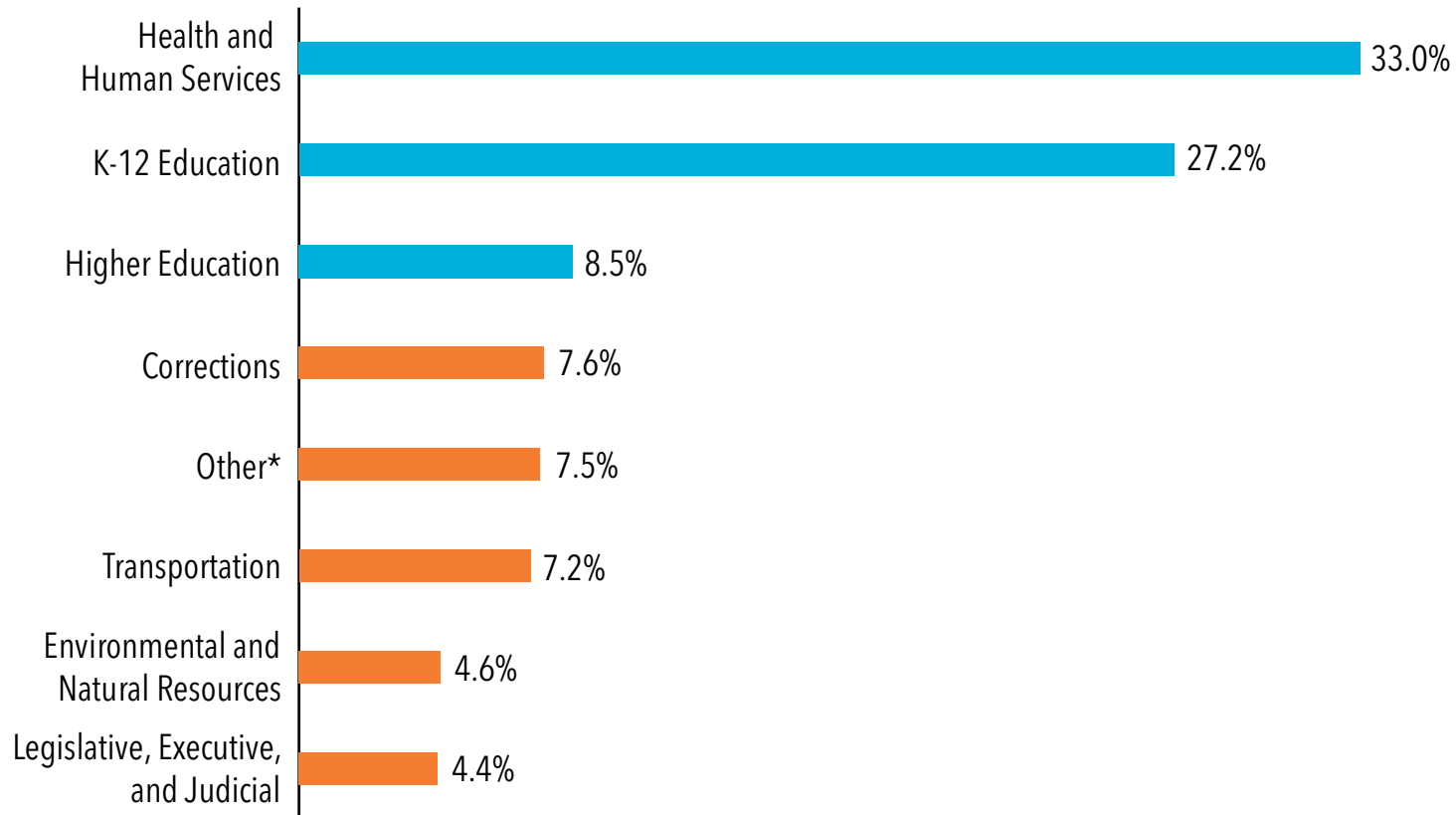
State Funds Primarily Support Health and Human Services or Education

- **Under the enacted 2019-20 state budget:**
 - More than two-thirds of General Fund and special fund dollars support three categories of spending: health and human services (33.0%), K-12 education (27.2%), and higher education (8.5%).
 - More than 7% of General Fund and special fund dollars support corrections, primarily the state prison system.
 - The balance of these dollars support other essential services (such as transportation and environmental protection) and institutions (such as the state's court system).



More Than Two-Thirds of State Dollars Support Health and Human Services or Education

Enacted 2019-20 General Fund and Special Fund Expenditures = \$208.9 Billion



* Includes Business, Consumer Services, and Housing; Labor and Workforce Development; Government Operations; and General Government.
Source: Department of Finance



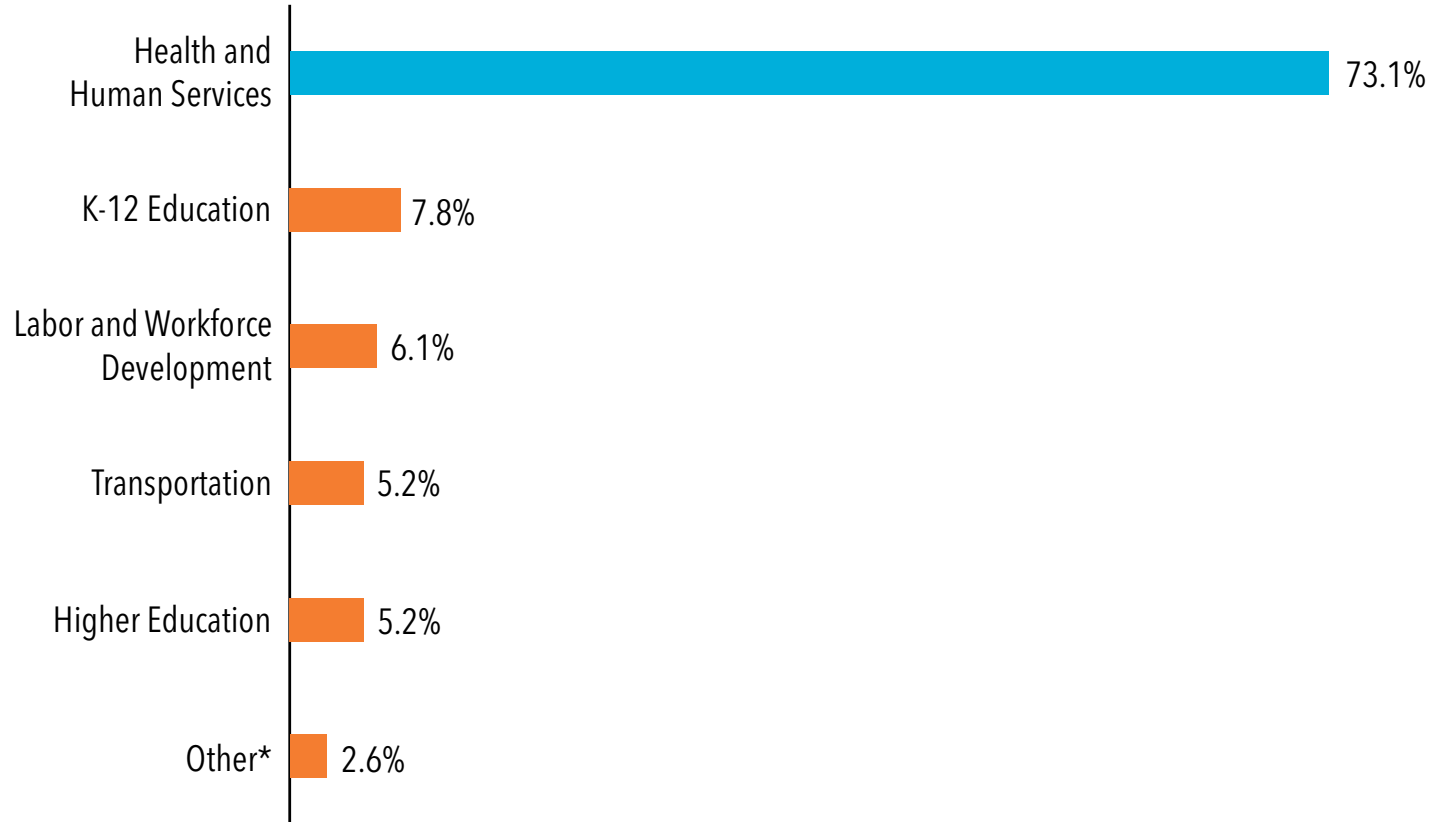
Federal Funds Primarily Support Health and Human Services

- **Under the enacted 2019-20 state budget:**
 - More than 7 in 10 federal dollars (73.1%) support health and human services.
 - Nearly 8% of federal dollars fund K-12 education.
 - More than 6% of federal dollars go to labor and workforce development, primarily to support unemployment insurance benefits for jobless workers.
 - The balance of these dollars support other essential services, such as higher education and transportation.



More Than 7 in 10 Federal Dollars Spent Through the State Budget Support Health and Human Services

Federal Funds Estimated to Be Spent Through the State Budget in 2019-20 = \$106.3 Billion



* Includes Environmental Protection; Legislative, Judicial, and Executive; Corrections and Rehabilitation; and other state budget categories that account for relatively small shares of federal funds.

Source: Department of Finance



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 legislation moves through the Legislature’s policy bill process, which includes review by policy and appropriations committees.
- **The state budget is a bill. But unlike other bills, the “budget bill”:**
 - Provides authority to spend money across an array of public services and systems for a single year.
 - Moves through budget committees on its own timeline.
 - Moves with other bills that are needed to implement the policies assumed in the budget.



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, revises, supplements, or withdraws the policy initiatives included in the Governor's proposed budget, and adjusts proposed state expenditures.



Speaking the Language (cont.)

- **Budget Bill:**
 - Itemizes appropriations, which authorize agencies to spend money from a specific fund for a specific purpose.
- **Budget-Related Bills (“Trailer Bills”):**
 - Generally make law changes related to the budget bill.
 - Generally move in tandem with the budget bill as part of a “budget package.”
 - Can move independently of the budget bill, including through the Legislature’s policy bill process.
- **Veto:**
 - The Governor’s authority to reject a bill or reduce or eliminate specific items of appropriation.



Speaking the Language (cont.)

- **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 Constitutional Framework



The State Constitution Establishes the Rules of the Budget Process

- **The Governor and legislators craft the state's annual spending plan according to rules outlined in the state Constitution.**
- **California voters periodically revise these rules by approving constitutional amendments that appear on the statewide ballot.**
 - Proposals to amend the state Constitution can be placed on the ballot through a citizens' initiative or by the Legislature.
 - A constitutional amendment takes effect if approved by a simple majority of voters.



Key Deadlines: January 10 and June 15

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



A Bill Must Be Published for At Least 72 Hours Before the Legislature Can Act on It

- **Proposition 54 of 2016 requires bills to be distributed to legislators and published on the Internet, *in their final form*, at least 72 hours before being passed by the Legislature.**
- **This rule applies to all bills, including the budget bill and other legislation included in the budget package.**
- **This mandatory review period can be waived for a bill if:**
 - The Governor declares an emergency in response to a disaster or extreme peril, *and*
 - Two-thirds of legislators in the house considering the bill vote to waive the review period.



Budget Bill and Most Budget-Related Bills: Simple Majority Vote

- **The budget package generally may be passed by a simple majority vote of each house of the Legislature.**
 - Prop. 25 of 2010 allows lawmakers to pass – by a simple majority vote – the *budget bill* as well as certain *budget-related bills that take effect immediately* after the Governor signs them. Typically, the budget package consists entirely or primarily of such majority-vote bills.
 - To qualify as a budget-related bill under Prop. 25, a bill must (1) be listed in the budget bill and (2) contain an appropriation of any amount.
 - The budget package may include bills that require a two-thirds vote, such as bills to raise taxes or to place constitutional amendments or general obligation (GO) bonds before the voters.



Penalties for a Late Budget

- **Lawmakers face penalties if they fail to pass the budget bill on or before June 15.**
 - Prop. 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-related bills, which do not have to be passed on or before June 15.



Tax Increases: Supermajority Vote

- **Any tax increase requires a two-thirds vote of each house of the Legislature.**
 - 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.
 - This standard was imposed by Prop. 26 of 2010. This measure expanded the definition of a *tax increase* and thus the scope of the two-thirds vote requirement, which was originally imposed by Prop. 13 of 1978.
 - Prior to Prop. 26, only bills changing state taxes “for the purpose of increasing revenues” required a two-thirds vote. Bills that *increased* some taxes but *reduced* others by an equal or larger amount could be passed by a simple majority vote of each house.



Tax Increases: Supermajority Vote (cont.)

- **Prop. 26 of 2010 also expanded the definition of a tax to include some charges previously considered “fees.”**
 - Prior to Prop. 26, lawmakers could create or increase fees by a simple majority vote. These majority-vote fees included regulatory fees intended to address health, environmental, or other problems caused by various products, such as alcohol, oil, or hazardous materials.
 - Prop. 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 a simple 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 Prop. 25 budget-related bills.
 - Pass bills that take effect immediately (urgency statutes), except for the budget bill and Prop. 25 budget-related bills.
 - Place constitutional amendments or general obligation (GO) bond measures before the voters.
 - Override the Governor's veto of a bill or an item of appropriation.



Proposition 98: A Funding Guarantee for K-12 Schools and Community Colleges

- **Prop. 98 of 1988 guarantees a minimum level of funding for K-14 education.**
 - The amount of the guarantee is calculated each year using one of three tests that apply under varying fiscal and economic conditions. Funding 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 Prop. 98 funding over time to the level that it would have reached absent the suspension.
 - While the Legislature can provide more funding than Prop. 98 requires, the guarantee generally serves as a *maximum* funding level.



Proposition 2: Debt Repayment, Saving for a Rainy Day

- **Prop. 2 of 2014 requires the state to pay down debt and applies new rules to the Budget Stabilization Account (BSA), the state's constitutional rainy day fund.**
 - The state is required to set aside 1.5% of General Fund revenues each year, plus additional dollars in years when tax revenues from capital gains are particularly strong.
 - Until 2029-30, half of the revenues go into the BSA and the other half must be used to pay down state budgetary debt, which includes unfunded pension liabilities. Starting in 2030-31, the entire annual transfer goes into the BSA.
 - State policymakers may suspend or reduce the BSA deposit and withdraw funds from the reserve, but only under limited circumstances that qualify as a “budget emergency.”



Proposition 2: A Budget Reserve for K-12 Schools and Community Colleges

- **Prop. 2 of 2014 also created a state budget reserve for K-14 education called the Public School System Stabilization Account (PSSSA).**
 - Deposits come from state capital gains tax revenues in years when those revenues are particularly strong.
 - However, various conditions must be met before these dollars could be transferred to the PSSSA. For example, transfers could occur only in so-called “Test 1” years under Prop. 98, which have been rare.
 - Because of these conditions, the state is unlikely to set aside revenues in the PSSSA.



Proposition 55: New Funding for Medi-Cal From a Tax on the Wealthiest Californians

- **Prop. 55 of 2016 extends, through 2030, personal income tax rate increases on very high-income Californians and establishes a formula to boost funding for Medi-Cal, which provides health care services to low-income residents.**
 - Starting in 2018-19, General Fund revenues – including those raised by Prop. 55 – must first be used to fund (1) the annual Prop. 98 guarantee for K-12 schools and community colleges and (2) the cost of other services that were authorized as of January 1, 2016, as adjusted for population changes, federal mandates, and other factors.
 - If any Prop. 55 revenues remain after meeting these required expenditures, Medi-Cal would receive 50% of this excess, up to a maximum of \$2 billion in any fiscal year.



State Mandates: Pay for Them or Suspend Them

- **The state is required to pay for or suspend mandates that it imposes on local governments.**
 - Prop. 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.
 - Prop. 1A of 2004 expanded the definition of a mandate to include the transfer of financial responsibility from the state to local governments.
 - Prop. 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 Prop. 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 Prop. 98 spending and taxpayer rebates. The state last exceeded the SAL in 1999-00 (but did not do so in the prior year).



Fiscal Emergencies: Addressing Mid-Year Budget Gaps

- **The Governor may declare a fiscal emergency and call the Legislature into special session to address it.**
 - Prop. 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 approve the Governor’s proposal; they may pass an alternative that addresses the emergency.



What Do the Governor and the Legislature Do?



The Governor Has the Lead Role in Crafting the State Budget

- **The Governor:**
 - Approves, modifies, or rejects spending proposals prepared by state departments and agencies through an internal process coordinated by the DOF.
 - Proposes a spending plan for the state each January, which is introduced as the budget bill in the Legislature.
 - Updates and revises the proposed budget each May (the “May Revision”).
 - Signs or vetoes the bills included in the budget package, including both the budget bill and budget-related bills.
 - Can veto all or part of individual appropriations (line items), but cannot increase any appropriations above the level approved by the Legislature.



The Legislature Reviews and Revises the Governor's Proposals

- **The Legislature:**

- Approves, modifies, or rejects the Governor's proposals.
- Can add new spending or make other changes that substantially revise the Governor's proposals.
- Adopts "budget control language" to restrict the use of funds allocated through the budget.
- Needs a simple majority vote of each house to pass the budget bill and Prop. 25 budget-related bills.
- Needs a two-thirds vote to pass certain other bills that may be part of the budget package, such as bills that increase taxes or propose constitutional amendments.
- Needs a two-thirds vote to override the Governor's veto of a bill or an appropriation.



What Happens When?



The State Budget Timeline

- **The state budget process is cyclical.** Decisions are made throughout the year – in public settings and behind the scenes.
- **Summer to Fall:**
 - State departments and agencies develop baseline budgets to maintain existing service levels in the upcoming fiscal year and may prepare “budget change proposals” intended to alter service levels. The DOF reviews these documents.
 - Following a series of meetings within the Administration, the Governor makes final decisions and the DOF prepares the proposed budget for release in January.
 - Independent of the Governor, legislative leaders develop their budget priorities for the upcoming fiscal year.



The State Budget Timeline (cont.)

- **By January 10:**
 - The Governor releases the proposed budget for the upcoming fiscal year.
- **January to Mid-May:**
 - Budget committees and their subcommittees hold dozens of hearings to review the Governor's proposals and make initial decisions.
- **Mid-May to June:**
 - The Governor releases the May Revision by May 14.
 - Each house of the Legislature then finalizes its version of the budget. A legislative conference committee may meet to resolve differences.



The State Budget Timeline (cont.)

- **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 budget-related bills, which can be passed at any time.)
- **July 1:**
 - The new fiscal year begins.
 - The Governor may sign the budget bill and budget-related bills – as well as issue vetoes – by this date.



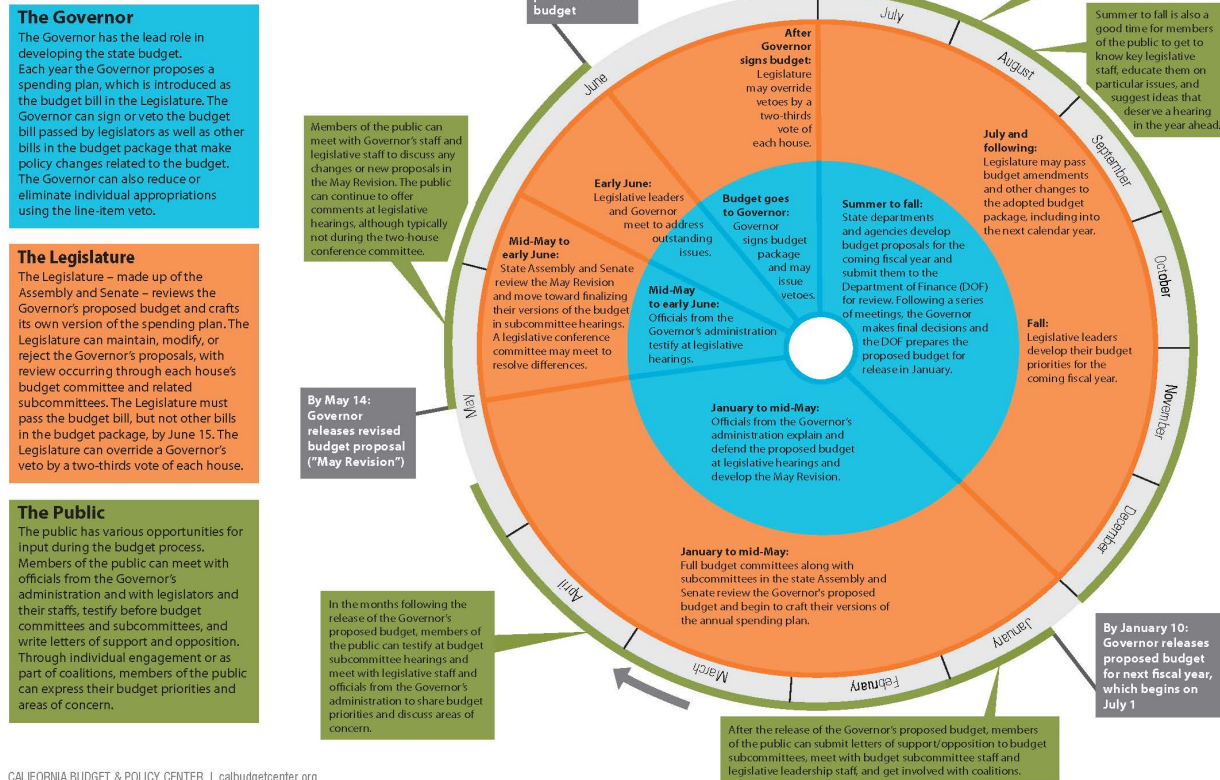
The State Budget Timeline (cont.)

- **July and Beyond:**
 - The Legislature may pass, by a simple majority vote, amendments that change the spending levels in the adopted budget bill.
 - Lawmakers also may pass additional budget-related bills, thus increasing the size and scope of the original budget package.
 - State departments and agencies develop baseline budgets and budget change proposals for the *following* fiscal year and submit them to the DOF, starting the state budget process anew.



Navigating the State Budget Process

Each year the Governor and Legislature work to craft the state's spending plan. While the January-to-June period gets the most attention, the process of developing the budget is an ongoing enterprise, giving Californians ample opportunity to stay engaged and involved year-round.



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This infographic shows the year-round budget cycle, illustrating key steps in the process as well as the respective roles of the Governor and the Legislature and various opportunities for public involvement. The infographic is available here:

calbudgetcenter.org/stateprocess



Key Takeaways



The Bottom Line

- **The state spending plan is about more than dollars and cents.**
 - Crafting the budget provides an opportunity for Californians to express our values and priorities as a state.
- **The state Constitution establishes the rules of the budget process.**
 - Among other things, these rules allow lawmakers to approve spending with a simple majority vote, but require a two-thirds vote to increase taxes. Voters periodically revise the budget process by approving constitutional amendments.



The Bottom Line (cont.)

- **The Governor has the lead role in the budget process.**
 - Proposing a state budget for the upcoming fiscal year gives the Governor the first word in each year's budget deliberations.
 - The May Revision gives the Governor another opportunity to set the budget and policy agenda for the state.
 - Veto power generally gives the Governor the last word.
- **The Legislature reviews and revises the Governor's proposals.**
 - Lawmakers can alter the Governor's proposals and advance their own initiatives as they craft their version of the budget prior to negotiating an agreement with the Governor.



The Bottom Line (cont.)

- **Budget decisions are made throughout the year, both in public settings and behind the scenes.**
 - The public has various opportunities for input during the budget process.
 - This includes writing letters of support or opposition, testifying at legislative hearings, and meeting with officials from the Governor's administration as well as with legislators and their staffs.
 - In short, Californians have ample opportunity to stay engaged and involved in the budget process year-round.



Additional Resources



State Budget Resources

- **California Budget & Policy Center:** Analyses and commentary, presentations and events, and technical assistance (calbudgetcenter.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).



State Budget Resources (cont.)

- **Legislative Counsel:** Bills and bill analyses, a free bill-tracking service, the state codes, and the state Constitution (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).





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