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Rev. 5/06

A Guide to Participation

# The California State Budget Process

Compliments of
Assemblymember
Anna M. Caballero

California State Assembly

# Anna M. Caballero

Assemblymember, 28th District

Dear Friend,

I trust that you will find this booklet useful in understanding the California State Budget process and hopefully this will encourage you to participate in the process.

The State Budget determines the amount of money that will be spent on education, law enforcement, social services, health care and numerous other state and local programs. The California State Budget also determines how much we, as taxpayers, will pay to fund these services.

By understanding the budget process, you will gain the tools necessary to communicate effectively your concerns to your representatives and influence the budget decisions that affect your everyday life.

If you have any questions or need additional information, please do not hesitate to contact my office at (916) 319-2028.

Sincerely,

**Anna M. Caballero**
Assemblymember, 28th District

# ACCESSING THE LEGISLATURE THROUGH THE INTERNET

## VISIT THE ASSEMBLY WEB PAGE: www.assembly.ca.gov/

One of the most efficient and convenient methods of contacting your legislator is by using the California State Assembly web page at **www.assembly.ca.gov/.** It is your on-line computer gateway to state government. At this site you will find a wealth of information about your State Legislature, its day-to-day activities, legislation and your representative. Additionally, you can:

- Communicate with your Assembly member by e-mail.
- Get information about past and present bills.
- Create a personal "Subscribe List" and automatically receive free e-mail bill updates.
- Create a personalized page that reflects issues and information sources that are important to you.
- Meet and discuss issues with other Californians in special forums that focus on important and timely subjects.

## KEEP UP-TO-DATE AUTOMATICALLY

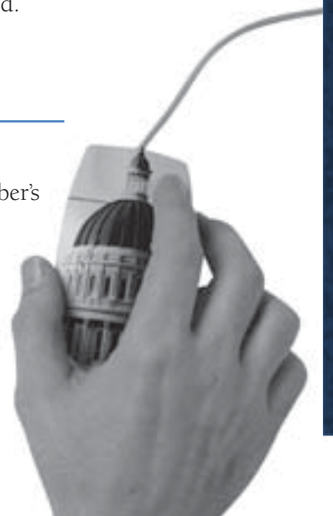
If you're interested in keeping track of specific legislation, here's an easy way to create a personal "Subscription List" and automatically receive free e-mail updates on bill changes:

- Click "Legislation" button.
- Type in bill author, number or subject; click "Search."
- Click "Subscribe" when bill information is displayed.
- Enter your e-mail address; click OK.

## LET YOUR VIEWS BE KNOWN

If you want to send an e-mail to your legislator:

- Locate your legislator's e-mail address in the "Member's Directory."
- Write a short letter in a clear and concise manner.
- Identify measures by bill number and indicate your opposition or support.
- Close with a request for more information.
- Always include your full name, home address and telephone number.



## STATE BUDGET PUBLICATIONS AVAILABLE TO THE PUBLIC

**MOST BUDGET PUBLICATIONS CAN BE FOUND ON THE INTERNET THROUGH THE ASSEMBLY HOMEPAGE:**
**www.assembly.ca.gov/**

**FOLLOW THE LINKS TO THE APPROPRIATE DEPARTMENT OR COMMITTEE THAT RELEASED THE PUBLICATION.**

**GOVERNOR'S BUDGET SUMMARY**
The Governor's Budget Summary contains an overview of the major provisions of the proposed budget and is usually less than 200 pages.

**SALARIES AND WAGES SUPPLEMENT**
This publication contains a detailed three-year expenditure plan for state government employee positions.

**THE BUDGET BILL**
The Budget Bill is a technical two-volume legislative bill that is arranged by item order, which is in the same order as the Governor's Budget and reflects the same proposals and requests.

**LEGISLATIVE ANALYST'S ANALYSIS OF THE BUDGET AND THE PERSPECTIVES AND ISSUES**
The Legislative Analyst's Analysis of the Budget is the most comprehensive review of the Budget Bill. It contains a department-by-department analysis to support the Legislative Analyst's findings and recommendations on the funding levels proposed in the Governor's Budget. The Perspectives and Issues is designed to assist the Legislature in setting its priorities and reflecting them in the Budget Bill and other legislation. It provides perspectives on the state's fiscal condition and the Governor's Budget, and identifies some of the major issues facing the Legislature.

**MAY REVISE**
The May Revise includes the latest economic data to provide as accurate a fiscal picture as possible prior to enactment of the Budget.

**SUBCOMMITTEE AGENDAS**
These agendas briefly describe the issues to be discussed during each subcommittee hearing. They provide a picture of the concerns the subcommittee has with each department and are usually available the day before the hearing.

**SUBCOMMITTEE REPORTS**
At the conclusion of budget subcommittee hearings, a report is sent by each subcommittee to the chair of the full budget committee. These reports list the actions recommended by the subcommittees on all the items under their respective jurisdictions.

**CONFERENCE COMMITTEE AGENDA**
The conference committee agenda is a lengthy document that details the differences between the Budget Bills of each House. Due to cost controls, this document is not widely distributed but is available to the public for viewing or copying.

**BUDGET CONFERENCE COMMITTEE REPORT**
The conference committee report lists budget items that are in conflict between the two versions of the Budget passed by each legislative House and their final resolution by the Conference Committee.

**BUDGET ACT**
The Budget Act is the final Budget Bill, as enacted by the Legislature and signed into law by the Governor.

**FINAL BUDGET SUMMARY**
The Summary contains the final reconciliation of appropriations, including legislative actions and gubernatorial vetoes.



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# A CITIZEN'S GUIDE TO THE CALIFORNIA STATE BUDGET PROCESS

# INTRODUCTION

**ALTHOUGH CALIFORNIA HAS HAD A LEGISLATURE SINCE IT BECAME A STATE IN 1850, IT IS ONLY IN THE LAST 75 YEARS THAT IT HAS HAD A FORMAL BUDGET PROCESS.**

THE word "budget" comes from the French word meaning leather bag or small purse. However, a small bag doesn't hold much; one must be creative and efficient to get everything in. The California State Budget is no different. Regardless of California's economic conditions, the budget "purse" is never large enough; there are always demands for more programs and services than money available. Our elected state representatives are responsible for deciding which priorities should be included.

The Budget defines how much money will be available for education, law enforcement, fire protection and other public services. It also determines how much we pay in taxes and fees. The final decisions are a reflection of what we value and who we are as Californians.

With so much at stake, it's important to understand how the Budget process works and how you can influence it.

The majority of budget work occurs during Budget Committee hearings.



**FUNGIBLE** Special funds that may be transferred to the General Fund.

**GENERAL FUND** Predominant fund for financing state operations. The primary sources of revenue are personal income taxes, sales taxes, bank and corporation taxes.

**GOVERNOR** Chief executive of the State of California, elected every four years and limited to two terms.

**LEGISLATIVE ANALYST** The Legislature's nonpartisan fiscal analyst who analyzes the Governor's Budget and recommends changes.

**LEGISLATURE** Body of 120 members elected to pass laws and oversee their implementation.

**LINE-ITEM VETO** The authority of the Governor to reduce or eliminate items of appropriation while approving the rest of the bill. Also known as a "Blue Pencil" veto.

**QUORUM** Number of legislative members required to be present before business may be transacted on the floor of either house: 21 in the Senate and 41 in the Assembly.

**RESERVE** Amount set aside in a fund to provide for future unanticipated declines in revenues or increases in expenditures.

**REVENUE** Government income from all sources appropriated for the payment of public expenses. Generally derived from taxes, licenses and fees or investment earnings.

**SENATE** Legislative body of 40 members who are elected every four years and are limited to serving two terms.

**SESSION** Period during which the Legislature meets.

**SPECIAL FUNDS** Funds where moneys from user fees have been deposited or where revenues are set aside for a particular use.

**URGENCY** A matter affecting the immediate public peace, health or safety; any measure so defined goes into effect immediately upon receiving the Governor's signature.

**VETO** Action of the Governor in disapproving a measure. May be overridden with a two-thirds vote of both Houses.

**GOVERNOR'S BUDGET**
The Governor's Budget, which usually contains more than 1,300 pages, provides expenditure details by department for three fiscal years (past year actual, current year revised and proposed budget year).

# GLOSSARY OF BUDGET TERMS

**ALLOTMENT** Part of an appropriation to be spent for a particular purpose during a specified period of time.

**APPROPRIATION** Money set apart for a specific use either by the Budget Bill or by other legislation.

**APPROPRIATION LIMIT** Also known as the "Gann Limit." Limits level of growth of certain appropriations from tax proceeds to prior year's appropriation, as adjusted for changes in the cost of living and the population.

**ASSEMBLY** Legislative body of 80 members who are elected every two years and are limited to serving three terms.

**AUGMENTATION** An increase in an allotment.

**BILL** A proposed law or a change in the law introduced by a member of the Legislature.

**BUDGET** Suggested allocation of state moneys presented annually by the Governor to the Legislature for consideration.

**BUDGET CHANGE PROPOSAL (BCP)** A proposal to change the level of service or funding for activities authored by the Legislature.

**BUDGET COMMITTEES** The Senate and the Assembly committee that review the Governor's budget proposal.

**CAPITAL OUTLAY** Expenditures that result in the acquisition of or addition to major fixed assets, such as buildings.

**CONFERENCE COMMITTEE** Group of six members made up of three representatives from each House who are appointed to consider State Budget matters upon which the two Houses disagree.

**CONTINUING APPROPRIATION** Amount available each year under a permanent constitutional or statutory expenditure authorization that is automatically renewed each year.

**COST-OF-LIVING ADJUSTMENTS (COLAS)** Increases provided in state-funded programs that include periodic adjustments predetermined in state law, as well as adjustments that may be established at optional levels by the Legislature.

**EXPENDITURE** The amount of an appropriation used for goods and services ordered and received.

**FILE** Daily printed program or agenda of business before a House and its committees.

**FINANCE, DEPARTMENT OF** State department under the control of the Governor that analyzes legislation and the State Budget.

**FISCAL YEAR (FY)** A 12-month accounting period that runs from July 1 through the following June 30.

**FLOOR** A colloquialism describing the interior of either House, sometimes distinguishing the membership from the presiding officer; matters before either House may be referred to as "on the floor."



# THE STATE BUDGET PROCESS

**DEVELOPMENT OF THE STATE BUDGET IS A YEAR-LONG PROCESS.**

## A STATE BUDGET IS DEVELOPED

Between June and August of each year, state agencies or departments develop budget proposals to augment their existing levels of service. Departments prepare Budget Change Proposals (BCPs), which are sent to the Department of Finance (DOF) for review. The DOF analyzes these budget proposals, estimates future state revenues and prepares a balanced expenditure plan for the Governor's approval.

## THE GOVERNOR'S BUDGET IS INTRODUCED

The Governor evaluates the DOF budget proposal and, on or before January 10 of each year, releases to the public and the California State Legislature the "Governor's Budget" for the coming fiscal year. The Governor's Budget is then introduced as two identical budget bills, one Assembly bill and one Senate bill, for consideration by each House.

The Legislative Analyst, the financial review agency of the Legislature, prepares an extensive "Analysis of the Budget Bill," which includes program backgrounds, economic projections and recommended revisions. Soon after the Analysis is released, budget subcommittee hearings on the Budget Bill begin.

## THE BUDGET IS HEARD IN COMMITTEES

The Assembly Budget Bill is referred to the Assembly Budget Committee, and the Senate Budget Bill is referred to the Senate Budget and Fiscal Review Committee. The two committees divide their respective bills by subject matter and assign items to the appropriate budget subcommittees for public hearings.

**ASSEMBLY BUDGET SUBCOMMITTEES**

No. 1 ..... Health and Human Services
No. 2 ..... Education Finance
No. 3 ..... Natural Resources and Environmental Protection
No. 4 ..... State Administration
No. 5 ..... Information Technology and Transportation

**SENATE BUDGET AND FISCAL REVIEW SUBCOMMITTEES**

No. 1 ..... Education
No. 2 ..... Resources, Environmental Protection, Judiciary and Transportation
No. 3 ..... Health, Human Services, Labor and Veteran Affairs
No. 4 ..... Legislative, Executive, Public Safety and General Government
No. 5 ..... Energy, Executive, and Off-Budget Fiscal Issues

**THE BEST TIME FOR CONSTITUENTS TO BE HEARD ON ITEMS RELATING TO THE BUDGET IS BETWEEN MARCH AND MAY, WHEN BUDGET SUBCOMMITTEES ARE MEETING.**

## THE BEST OPPORTUNITY FOR PUBLIC INPUT

Most of the changes in the Budget Bill are made in the budget subcommittees of each House.

Representatives from state agencies, the Department of Finance and the Legislative Analyst's Office appear before the subcommittees and make funding recommendations.

Interested citizens and groups also have an opportunity to offer input supporting the continuation, expansion or deletion of a budget item.

The most important time for constituents to be heard on items relating to the budget is between March and May, when subcommittees are meeting.

In order to influence an item in the budget, it is important to contact:
1) Your State Assembly member and State Senator;
2) Members of the budget committees and the appropriate subcommittees; and
3) The Governor

Elected officials can be contacted by calling their district or capitol offices, writing a letter, scheduling an appointment or sending an e-mail.

## THE MAY REVISE

In mid-May, the Governor releases an update to his or her original budget based upon changes in the state's revenues, and expenditures. Known as the "May Revise," it includes the latest economic updates to ensure that the most current information is considered before the Budget is enacted. These figures are then used to draft amendments to bills being heard in the budget subcommittees. The Legislature typically waits for the May Revise update before final budget decisions are made on major programs, such as education, corrections and health and human services.

## THE AMENDED BUDGET BILLS ARE SENT TO EACH HOUSE

Upon completion of the hearings, the budget subcommittees approve, revise or disapprove specific details of the Budget. The subcommittees then submit a report to their respective budget committees.

The full budget committee of each House adopts its subcommittees' reports and sends revised Budget Bills to the Assembly and Senate floors for amendments and votes.



## BUDGET-RELATED PROPOSITIONS 1879 - 1998

**1879 CONSTITUTIONAL CONVENTION** Initiated a two-thirds vote requirement for passage of local school bonds.

**1911 CONSTITUTIONAL AMENDMENT** Created the state initiative process.

**1922 COMMONWEALTH CLUB INITIATIVE** Created the framework and timelines for consideration and enactment of the State Budget.

**1933 RILEY-STEWART AMENDMENT** Established a two-thirds vote requirement for passage of the State Budget.

**1978 PROPOSITION 13** Capped property-tax rates and limited hikes in assessed values. Gave control of local property tax revenues to the state and required a two-thirds vote of the Legislature to increase taxes.

**1979 PROPOSITION 4** (Gann Spending Limit) Limited state and local expenditures, adjusted for inflation and population.

**1982 PROPOSITION 7** Implemented full indexing of income tax brackets to account for increases in the Consumer Price Index.

**1984 PROPOSITION 37** Created the State Lottery, earmarking the revenues for education.

**1986 PROPOSITION 62** Required a two-step voting process for local governments to raise new general taxes; required all special taxes to be approved by two-thirds of voters.

**1988 PROPOSITION 98** Required that 40% of General Fund revenues go to public schools and community colleges.

**1988 PROPOSITION 99** Raised cigarette taxes by 25¢ a pack and by an equivalent amount on other tobacco products; allocated proceeds to health services, anti-tobacco education and research on tobacco-related illnesses.

**1990 PROPOSITION 111** Increased the gasoline tax and revised the method for calculating the Gann Spending Limit. Modified Proposition 98, determining how much new revenues should go to schools.

**1993 PROPOSITION 172** Imposed a half-cent sales tax to pay for public safety services.

**1998 PROPOSITION 10** Raised taxes on cigarettes by 50 cents a pack and on other tobacco products by the equivalent of $1 a pack; allocated proceeds to early childhood development programs administered by a new state commission.

**2002 PROPOSITION 42** Required that gasoline sales taxes be used annually for state and local transportation projects.

**2002 PROPOSITION 49** Increased state grant funds available for before/after school programs, resulting in a permanent increase in the annual level of state appropriations for K-12 education.

**2004 PROPOSITION 58** Required the state to enact a balanced budet where expenditures do not exceed available revenues.

## 100 YEARS OF BUDGET-RELATED PROPOSITIONS

**NEARLY 90% OF THE STATE BUDGET IS LOCKED INTO PLACE AND IS OUTSIDE THE CONTROL OF EITHER THE GOVERNOR OR THE LEGISLATURE.**

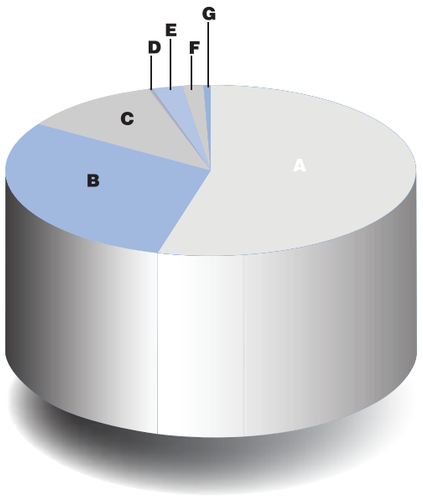
**MANY OF THESE CONSTRAINTS ARE THE RESULT OF VOTER-APPROVED BALLOT MEASURES, OFTEN REFERRED TO AS "BALLOT BOX BUDGETING."**

## EXAMPLE STATE BUDGET REVENUES AND EXPENDITURES

**THE CALIFORNIA STATE CONSTITUTION REQUIRES THE GOVERNOR TO PROPOSE A BALANCED BUDGET — EXPENDITURES MAY NOT EXCEED REVENUES.**

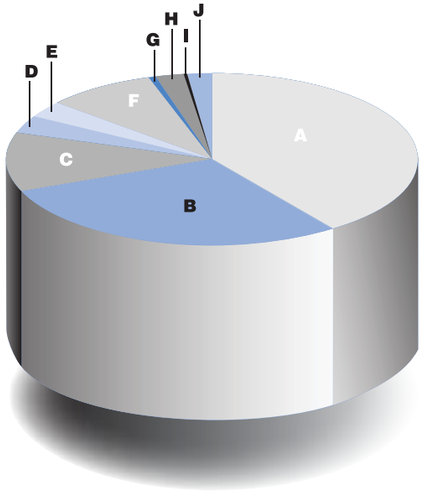
## General Fund Revenues

A. Personal Income Tax 50.5%
B. Sales Tax 32.6%
C. Corporation Taxes 9.8%
D. Tobacco Taxes 0.2%
E. Insurance Tax 2.8%
F. Estate Taxes 0.2%
G. Other 3.5%
H. Liquor Tax 0.4%




## General Fund Expenditures

A. K-12 Education 43.3%
B. Health and Human Services 32.4%
C. Courts 2.1%
D. Higher Education 11.9%
E. Business, Transportation and Housing 0.5%
F. Youth and Adult Correctional Agency 8.1%
G. State and Consumer Services 0.7%
H. Other 1.2%
I. Tax Relief 0.8%
J. Resources 1.3%
K. Environmental Protection 0.1%






### THE ASSEMBLY AND SENATE VOTE ON BUDGET BILLS

The Assembly and the Senate vote to pass their version of the Budget Bill and send it to the other House for concurrence. If either bill is not passed by the other House, it is sent to a Budget Conference Committee to iron out the differences between the two bills.

### THE BUDGET CONFERENCE COMMITTEE

Budget Conference Committee hearings begin in early June and last until the Budget is sent to each House for final passage.

The Conference Committee, made up of three members from each House, is formed to resolve the differences between the Assembly and Senate versions of the Budget Bill. These differences are often the most contentious portions of the Budget. Generally, the committee is not allowed to consider new proposals or review those issues on which the two Houses already agree.

Legislators may testify only on the first day of Conference Committee hearings. This is commonly known as "Members' Day," the last chance for legislators to influence what is included in the Budget. Following Members' Day, testimony is limited to representatives from the Legislative Analyst's Office and the Department of Finance.

The Conference Committee methodically works through the agenda, approving compromises when possible and skipping over areas where conflict remains. This process is repeated until the last few issues are settled — often during intense negotiations with the Governor.

The Budget Conference Committee passes and reports out to both Houses of the Legislature a conference committee report containing the Budget Bill.

If the Conference Committee cannot reach final agreement on the Budget, the "Big 5," consisting of the Governor, the President pro Tem of the Senate, the Speaker of the Assembly, and the minority leaders of both Houses, often meet to resolve the stalemate.

**PROPOSITION 98, PASSED BY CALIFORNIA VOTERS IN 1988, REQUIRES THAT AT LEAST 40% OF THE STATE BUDGET BE SPENT ON PUBLIC EDUCATION.**

**CALIFORNIA IS ONE OF THE FEW STATES IN THE NATION THAT REQUIRES THE BUDGET BILL TO BE PASSED BY A "SUPER MAJORITY" — TWO-THIRDS OF EACH HOUSE BEFORE IT CAN BE SENT TO THE GOVERNOR FOR APPROVAL.**

## THE FINAL PASSAGE OF THE BUDGET

Once the full Assembly and the full Senate receive the conference committee report, each caucus meets to be briefed on the contents of the final agreement, and a floor vote follows. At this time, the conference committee report containing the Budget Bill cannot be amended.

If the Budget Bill has provisions that require changes to existing law, separate bills that implement those changes — "Trailer Bills" — are introduced and voted on, generally at the same time as the Budget Bill.

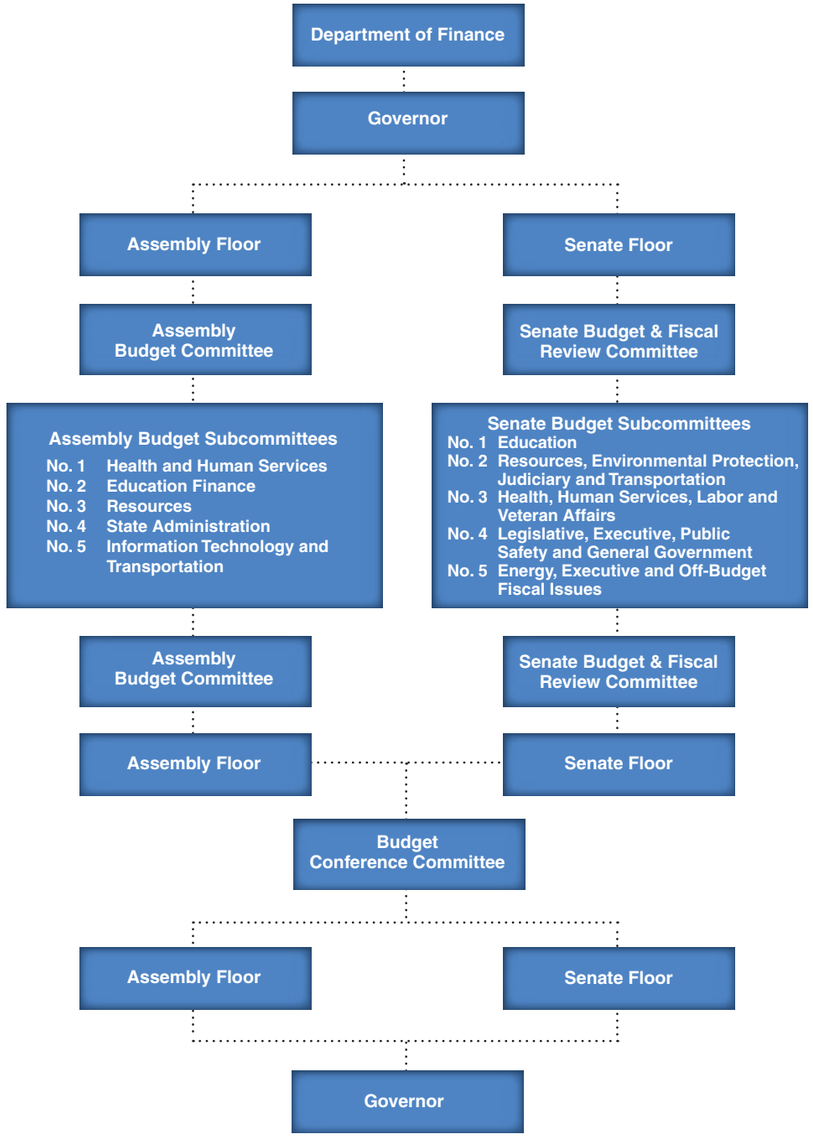
California is one of the few states in the nation that requires a "super majority" vote of both Houses to pass the State Budget. Therefore, the Budget Bill must be approved by a two-thirds vote of each House before it can be sent to the Governor for approval. The California State Constitution requires that the Governor receive the Budget Bill by June 15.

## THE BUDGET BILL GOES TO THE GOVERNOR

The Governor has 12 working days to sign or veto the Budget Bill after receiving it from the Legislature. By using the line-item veto, the Governor may reduce or eliminate — "blue pencil" — any appropriation before the Budget Bill is signed. The Legislature can override a line-item veto with a two-thirds vote of both Houses.

Following the Governor's signature, the Budget Bill goes into effect on July 1.

A new budget for the state is adopted every fiscal year. The fiscal year runs from July 1 through June 30.



# BUDGET BILL PROCESS AT-A-GLANCE