



# OUR STATE, OUR SOLUTIONS

## Statement of *California Forward's* Vision for California

We believe California is an inspirational place of freedom and opportunity, unparalleled imagination and innovation, natural beauty and quality of life. But this vision – the world famous California Dream – is imperiled by an outdated government. If we can improve government's performance, the Golden State can prosper – and the dream will stay alive for our children and their children.

We face grave circumstances. State government is \$200 billion in debt, school and social service budgets have been deeply cut, our infrastructure crumbles around us, and billions more in red ink are expected over the next five years. While we all rely on government services, we have lost trust in public systems. Partisan gridlock and warring interest groups thwart statewide solutions to regional and community challenges – to educate children and grow jobs, restore the environment and revitalize neighborhoods. Without major improvements, there is serious doubt that California's businesses – employers, big and small – will be globally competitive, further slowing economic recovery.

The time is now. The crisis is serious enough that Californians are ready to act. To make California work, we must govern ourselves in new ways that better serve the vast, diverse and complex nation-state that California has become. This restructuring – of authority and finances, expectations and accountability – must push decision-making closer to the people. We must bolster democracy in every elected position and improve the value of every public dollar. These changes should be guided by the following imperatives:

1. **Improve Government Performance.** Government must be as innovative, productive and creative as California. Innovations must accelerate decisions, yield efficiencies and boost results in such vital services as schools, transportation and public safety.
  - Achieving these goals will require passionately committing to our vision, documenting progress, accelerating improvements, and clarifying roles and responsibilities to eliminate the excuses and ambiguities that lead to mediocrity.
  - California must be a high value state – by better using technologies, controlling costs, and making sure that programs improve lives. Californians must be confident tax dollars are well spent in pursuit of the public interest.
  - Government must be transparent and accountable so Californians know where progress is being made and what must change to make additional improvements.

2. **Move Government Closer to the People.** Californians live in communities and work in regional economies. Local governments must be empowered and expected to create strategies and design programs that nurture resilient communities and support vibrant regional economies.
  - Counties, cities, schools and special districts need the authority and the incentives to work together – and with private partners – to deliver community-level services. They also must cooperate regionally to efficiently meet transportation, environmental and other goals.
  - The tax system needs to reflect the modern marketplace, and give greater control over revenues to the level of government that is responsible for delivering services, along with incentives to cooperate, innovate and succeed.
  - In exchange for financial autonomy and program authority, community governments must accept rigorous scrutiny and public accountability – for the quality and cost of services, for strategies and programs that work, and for meeting minimum standards.
  - Government must engage the citizenry and harness the energy and innovation of the people.
3. **Invest in the Future.** To be globally competitive and grow middle class jobs, California will need to make disciplined, effective and productive investments in education, infrastructure and other programs.
  - California’s regional economies require investments in people – to give Californians the skills and education to continue global leadership in technology and innovation. Every neighborhood school and community college must be capable of helping young Californians develop the skills that lead to self-sufficiency and success in the workplace.
  - Investments also must be made in transportation, water, energy and communications to support efficient growth in all of California’s regions. These investments must be smartly selected, designed and executed to create a clean and sustainable urban footprint and to preserve the environment.
4. **Promote a Viable, Inclusive and Responsive Democracy.** The technologies and the demands of the Information Age increase the need and the capacity for government to be more responsive and accountable for results. Californians must be more involved in expressing preferences and satisfaction and through citizen engagement the opportunity of all Californians will increase.
  - Candidates need to be encouraged to appeal to all constituents, rather than polarizing extremes. The system needs to be retooled to attract the most capable leaders into public service, to encourage voter participation and to reduce special interest dominance.
  - The tools of direct democracy, such as initiatives, must be revised to reduce abuse by narrow interests and minimize unintended consequences. Other tools should be considered for consulting with Californians on important local, regional and state issues.
  - In this era, economic opportunity and political involvement are mutually dependent. We can’t have a strong political democracy without a solid economic democracy; indeed, both rely on and support the other.

## ABOUT CALIFORNIA FORWARD

*California Forward* was launched in 2008 with the support of five of California's leading foundations: The California Endowment, The Evelyn and Walter Haas Jr. Fund, The William and Flora Hewlett Foundation, The James Irvine Foundation, and the David and Lucile Packard Foundation.

*California Forward* works to develop the best solutions through robust public discussions and by building broad coalitions that will support well-reasoned policy changes. Through this public interest approach, *California Forward* is rallying the ambition, innovation and optimism of Californians to overcome the distrust and partisanship that have thwarted previous attempts to bolster democracy.

## FIRST STEPS

- 1. Redistricting.** *California Forward* supported citizen-based redistricting, which was approved by voters in 2008 as the Voters FIRST Act. *California Forward* is working closely with the Bureau of State Audits and numerous public interest civic organizations to ensure the successful implementation of the Voters FIRST Act with the goal of reducing partisan gridlock in the state Legislature and increasing accountability to voters.
- 2. Budget process reform.** *California Forward* developed a set of fundamental budget reform principles designed to balance the budget, create stability, improve results, and restore public trust by applying the best practices from successful states and local governments to California's budget process. At the request of the Senate pro Tem, *California Forward* is now providing technical assistance to the Legislature in their effort to enact the *California Forward* recommendations and place the constitutional provisions before voters on the November 2010 ballot.
- 3. Primary process reform.** In 2009, *California Forward* commissioned a nonpartisan analysis of the potential impact of primary process reforms in California, particularly nonpartisan blanket primaries with a top-two run-off. The analysis concluded that in addition to giving voters more choices of candidates at election time, the policy should boost primary election turnout, give candidates more opportunities to appeal to the growing independent electorate, and position candidates to be more responsive to constituents once elected. *California Forward* endorsed the top-two "open primary" (Prop 14) in the June 2010 election. The new law will go into effect in the 2012 election cycle, allowing all voters to vote for candidates irrespective of party in the primary, with a run-off between the top two vote-getters in the general election.

## NEXT STEPS

Beginning in 2010, *California Forward* will convene a broad-based and nonpartisan dialogue among diverse Californians interested in identifying a shared vision for California's future and changes needed to promote healthy, safe and economically successful communities. This project will be an ongoing conversation involving an unprecedented number of Californians with the goal of generating practical, viable proposals that can transform how California is governed.



For more information, please visit [www.cafoward.org](http://www.cafoward.org)

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# Building a Budget the Public Will Trust

(Revised June 24, 2010)

## INTRODUCTION: //

The primary provisions of SCA 19 and ACA 4 and the accompanying statutory implementation bills (SB 1020, SB 1426 and AB 2591) would comprehensively redesign the process used by the Governor and the Legislature to develop, adopt, and manage the state’s spending plan.

These measures substantially mirror provisions contained in the initiative measures filed by the California Forward Action Fund with the Attorney General in late 2009 and some of those provisions have been modified since then. SCA 19 and ACA 4 and the accompanying bills reflect the principles and policy recommendations of *California Forward*.

## ///// THE GOAL: IMPROVE STATE BUDGET-MAKING AND FISCAL MANAGEMENT

The proposed changes in the state budget and fiscal process are engineered to yield long-term public benefits by ensuring that public funds are wisely spent. Based on best practices used by other states and successful businesses, they will improve the efficiency of state programs and reduce waste. This, in turn, will help restore public trust. The proposed measures are composed of the following elements:

- *Multi-year budget planning and executive authority.* The Governor would be required to submit a two-year spending plan along with a five-year fiscal forecast and provide more frequent updates on the state’s fiscal condition. Fiscal emergency provisions also would be revised, allowing the Governor to make spending reductions if no action is taken by the Legislature in a declared fiscal emergency.
- *Results and accountability: Budgeting for performance.* The measure would require the Governor to incorporate performance measures into his or her budget, while also revising the legislative process for developing the budget with an increased focus on results.
- *Performance review.* The Legislature would be required to oversee program expenditures and the revenue structure through a performance review process that includes a rigorous assessment of programs, as well as action by the Legislature on recommended changes.
- *One-time revenue.* The measure creates a process for identifying nonrecurring (one-time) revenue, and, after minimum K-14 education funding obligations have been met, requiring the one-time funds to help fund the reserve and then to be used for one-time purposes.

- *Pay-go for new programs and tax reductions.* A pay-as-you-go requirement would be established for major new programs, whether they are created through the legislative or initiative process, requiring policy choices to be financed through off-setting reductions, additional revenue or demonstrated efficiencies.
- *Majority vote budget.* As part of these comprehensive fiscal reforms, the measure would lower the vote requirement for adopting the state budget. The vote requirement for budget implementation bills would not change. The measure also would not change the two-thirds vote requirement for raising taxes. In the event that a specific tax is repealed and replaced with a fee, the new fee would still be subject to a two-thirds vote, since the effect would be to simply replace the tax.



# IMPROVING STATE BUDGET-MAKING

## MULTI-YEAR BUDGET AND EXECUTIVE AUTHORITY

### ///// THE ISSUE

For the past 40 years state government budgeting has been an annual event with little effort to understand the long term needs of the state. The Governor's spending plan containing the proposed budget focuses on the incremental growth of programs. The question most often asked is: "How much more does my program get than it got last year?" The more important question to answer is: "How will our spending plan invest in California's future and how can we use our budget expenditures to improve program performance?"

### ///// THE SOLUTION

- Establish a budgeting horizon that includes both the near and longer term needs of California. Focus on program performance in order to measure the value citizens receive for the investment of their tax dollars.
- Revise fiscal emergency provisions to allow the Governor to make spending reductions if no action is taken by the Legislature in a declared fiscal emergency.

### ///// HOW IT WORKS

Starting with the 2011-12 fiscal year, the Governor would be required to submit a budget for the upcoming budget year and the succeeding budget year. The budget proposal would include:

- A two-year spending plan with annual appropriations. Each January the Governor would propose program spending for the upcoming fiscal year (budget year) and the following year (succeeding year). The Legislature would adopt a budget for the budget year with the knowledge of the effect of its actions on the succeeding year.
- A five-year forecast (three years beyond the budget and succeeding years) of all available revenues and anticipated expenditures, including program performance information. This would allow progress toward program goals and their fiscal implications to be realistically evaluated over a longer period of time than simply one year.
- A five-year strategic growth and infrastructure finance plan. Integrating the state's growth with expenditure and infrastructure forecasts would provide policymakers with the tools to consider the longer-term needs of the state.
- An estimate of nonrecurring (one-time) revenue.
- A method for financing major new programs, as well as reductions in taxes, that can include program efficiency, expenditure reductions or increases in revenue.
- Legislation needed to implement budgets that is transparent and enacted at the same time as the budget.
- Updated fiscal situation not less than four times during the fiscal year.

### ..... LESSONS LEARNED FROM OTHER STATES

Various states have formal long-range revenue and expenditure forecasting systems. Several states use multiyear budgeting formats with long-term estimates of revenue and expenditures. *(For more details on the activities of other states, see "Lessons Learned" section.)*

# IMPROVING STATE BUDGET-MAKING

## RESULTS AND ACCOUNTABILITY: BUDGETING FOR PERFORMANCE

### ///// THE ISSUE

The current budget process focuses on the level of spending rather than fiscal choices that will help achieve public goals. This “expenditure” focus has frustrated efforts by policymakers to set priorities and make informed decisions about where to spend more and where to spend less. The expenditure focus has contributed to the public’s concern that money is not being well spent and the lack of awareness about the impact of public programs on community well-being.

### ///// THE SOLUTION

Require performance measures to be integrated into the Governor’s budget and revise the legislative process for developing the budget to include a focus on program results.

### ///// HOW IT WORKS

- The Governor’s budget would be required to use performance-based budgeting methods to inform fiscal decisions. A new budget development process would be phased in over a 2- to 4-year period.
- The information would include: (1) The mission and goals of the agency. (2) The activities and programs focused on achieving those goals. (3) Performance metrics that reflect desired outcomes and a targeted performance level for the following year. (4) Prior-year performance data and an explanation of deviation from previous-year targets. (5) Proposed changes in statute that could improve outcomes or hold down costs.
- The Governor’s website would provide a summary of each department’s mission, goals, prior-year performance and future year objectives.
- The Legislative Analyst’s Office would review performance metrics and progress toward targeted outcomes in its review of the Governor’s budget proposal.
- A task force consisting of the Controller, the Director of Finance, and the chairs and vice chairs of the budget committees would review an implementation plan prepared by the Director of Finance that includes: (1) Guidelines and procedures for state agencies to use including the involvement of state employees, and (2) A training and education program for personnel.

### ..... **LESSONS LEARNED FROM OTHER STATES**

As one example, the state of Washington has integrated its use of performance measures into budgeting decisions. Prior to the review by the governor’s Office of Fiscal Management (OFM), departments and agencies develop strategic plans to guide resource requests. Referred to as the “Priorities of Government (POG) Process,” this procedure allows departments and OFM to link the governor’s budget proposals around specific goals. For each program, the state establishes goals along with targeted outcomes and measures to assess performance. *(For more details on the activities of other states, see “Lessons Learned” section.)*

# IMPROVING STATE BUDGET-MAKING

## PROGRAM PERFORMANCE REVIEW

### ///// THE ISSUE

Once the practice of performance-based budgeting is instituted, the Legislature will need to improve its capacity to provide program oversight in a consistent manner.

### ///// THE SOLUTION

Require the Legislature, through a joint committee, to oversee expenditures through a performance review process that requires rigorous assessment of a program's accomplishments and progress toward statutory goals. Following the assessment, the joint committee would have standing to introduce legislation to improve the program or, if it is not accomplishing its goal, to recommend termination. This analysis will consider whether the program is no longer needed and if it will produce greater value by consolidating it with existing programs.

### ///// HOW IT WORKS

- A joint house committee of the Legislature would implement an oversight program that includes monitoring, evaluating and measuring the performance of state programs and programs undertaken on behalf of the state.
- Within one year following enactment, the committee would develop a schedule of program review.
- Program review would include budgetary program expenditures as well as so-called tax expenditures.
- All programs would be reviewed at least once every 10 years.

### ..... LESSONS LEARNED FROM OTHER STATES

Performance management approaches are used in nearly all states. Seventeen state legislatures use some performance budgeting techniques and have some form of formal oversight review. **(For more details on the activities of other states, see "Lessons Learned" section.)**



# IMPROVING STATE BUDGET-MAKING

## DEVELOPING AND ADOPTING THE BUDGET

### ///// THE ISSUE

Effective management of the state's fiscal condition requires timely decisions on policy legislation that is needed to implement the spending plan.

### ///// THE SOLUTION

The budget bill and bills that implement the budget would be sent to the Governor at the same time and would take effect upon the Governor's signature. The budget would require a majority vote and the budget implementation bills would require the vote that would otherwise be dictated by the bill's content. A bill that has an urgency clause or raises taxes, for example, would still require a two-thirds vote. Bills without an urgency clause that do not raise taxes would require a majority vote. While the budget bill would not be subject to referendum, any budget implementation bills that did not have an urgency clause or levy a tax would continue to be subject to referendum.

### ///// HOW IT WORKS

- By May 1, a joint committee of the Legislature would begin final work on the legislative version of the budget and budget implementation bills. This would give the two houses about 50 days to reconcile their differences as well as differences with the Governor.
- The Legislature would be required to pass the budget and budget implementation bills by June 25. If the deadline is not met, the Legislature would forfeit salary and per diem until the bill is passed.
- Legislation enacting the budget and budget implementation bills takes effect immediately. This provision would improve fiscal management by having the budget and related program legislation take effect at the same time.
- The vote requirement for the adoption of the state budget and bills that amend the budget act would be a simple majority of the membership of each house. The vote requirement for tax increases would remain a two-thirds majority vote.
- Any fee that is enacted for the purpose of raising revenue to replace tax funding for a specific program or service would require a two-thirds vote. This provision avoids the situation where a specific tax is reduced and a fee is adopted in its place in order to increase revenue and avoid the two-thirds vote required to raise a tax.

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### LESSONS LEARNED FROM OTHER STATES

The origin of legislative voting and process requirements of other states arise out of their own traditions and provide few lessons on the proper course of action. It is worth noting that eight states have some form of supermajority vote requirement. *(For more details on the activities of other states, see "Lessons Learned" section.)*

# IMPROVING STATE BUDGET-MAKING

## PAY-AS-YOU-GO

### ///// THE ISSUE

Over time, legislatures and governors have made program commitments that, taken together, use resources that have been claimed by existing program priorities. This is true for programmatic expenditures as well as preferential treatment in the tax system.

### ///// THE SOLUTION

The proposal requires that major new programs have a means of financing the new obligation. The proposal also requires that tax measures that decrease revenue include a provision that will decrease expenditures or increase other taxes to offset the reduction in revenue. This provision applies to legislative as well as initiative measures.

### ///// HOW IT WORKS

Any legislative measure that creates or expands a new program or reduces revenue and results in a net annual cost or net revenue reduction of more than \$25 million would be required to provide a source of funding, which can include program efficiencies, expenditure reductions or revenue increases to satisfy the new obligation.

- The requirement applies to all “programs” that have the effect of reducing revenue, whether direct expenditures made in the budget act or by statute or a change in the tax code. The requirement does not apply to the financing of general obligation bonds.
- The fiscal committee that considers the legislation would determine whether the requirement applies. If so, the measure would be referred to the Legislative Analyst for a full assessment of the fiscal impact.
- The Legislature, by a two-thirds vote, may find that the fiscal impact is less than \$25 million.
- If the state’s fiscal condition is in a “structural surplus” condition (revenues consistently exceed expenditure obligations), those resources would be available for programmatic expenditures or tax reductions.
- The requirement would not apply to:
  - Restoration of reductions made to balance the budget.
  - Program work load increases.
  - Program growth required by federal law, current constitutional obligation or an existing statutory program requirement.

### ..... LESSONS LEARNED FROM OTHER STATES

The Pay-Go principle is that proposed changes in legislative policy that increase costs must identify a source of funding – either new revenue or reductions elsewhere. Some form of Pay-Go has operated in Congress since 1990. The intention behind Congressional Pay-Go rules is to impose fiscal discipline upon the Congress. Although state legislatures, unlike Congress, operate within balanced-budget requirements that limit their ability to create deficits in operating budgets, some states have established Pay-Go requirements for specified purposes. **(For more details on the activities of other states, see “Lessons Learned” section.)**

*Updated April 9, 2010 to reflect SCA 19 & SB 844, as amended.*

# IMPROVING STATE BUDGET-MAKING

## MANAGING ONE-TIME SPIKES IN REVENUE

### ////// THE ISSUE

A portion of the revenue that supports state spending is considered one-time – it will not keep coming into the state treasury year after year. Revenue that is one-time money often is expended in budgets that will increase spending in the future but the one-time revenue may not be there to support future spending.

### ////// THE SOLUTION

When the Department of Finance revises the current year revenues in May, any revenue in excess of the revenue that financed current year budget, sometimes referred to as the “April Surprise,” would be transferred to the reserve. If the reserve is full (5% of the general fund or \$8 billion whichever is greater), the remaining amounts could be used for one-time purposes. This prevents the revenue that was unanticipated (the current year budget did not anticipate it) from being spent in ways that increase the spending over the long-term.

### ////// HOW IT WORKS

- Each year, the Department of Finance would identify the difference between the revenue that supports the adopted budget and the amount of revenue accumulated into the state treasury as of the May Budget Revision.
- If the amount of revenue is larger than the current budget had assumed, the “excess” revenue would first be pledged to meet the constitutional K-14 funding guarantee and the remaining revenue would be transferred to the budget reserve.
- If the reserve is not at the maximum amount, the “excess” revenues would be added to the reserve until the maximum is needed. The constitution sets the total amount of the reserve at 5% of the state budget or \$8 billion, whichever is greater.
- If the reserve is full, the excess revenue may be used for the following one-time purposes: (1) any additional obligation created by the K-14 funding guarantee; (2) retirement of outstanding budgetary indebtedness, including borrowing from local governments and transportation agencies; (3) unfunded obligations for reimbursements for state mandated local programs; or (4) repayment of bonded indebtedness authorized for financing the budget deficits of the early in the decade.
- Once the budgetary borrowing obligations noted above have been met, the following appropriations of “excess” revenue would be authorized: (1) refunds to taxpayers within the current or immediately following fiscal year by a one-time revision of tax rates or fee schedules; (2) one-time infrastructure or other capital outlay purposes; (3) retirement of outstanding general obligation indebtedness.

### LESSONS LEARNED FROM OTHER STATES

California’s experience is unusual among the states, but not unique, and a number of states have developed tactics to divert spikes of revenue from the general revenue stream as a way of preventing spending increases that may prove unsustainable when revenue growth slows. In some states revenue growth above a previously-specified measure is diverted to the state rainy-day fund. **(For more details on the activities of other states, see “Lessons Learned” section.)**

*Updated April 9, 2010 to reflect SCA 19 & SB 844, as amended.*