



# The Budget Process

**A CITIZEN'S GUIDE TO PARTICIPATION**

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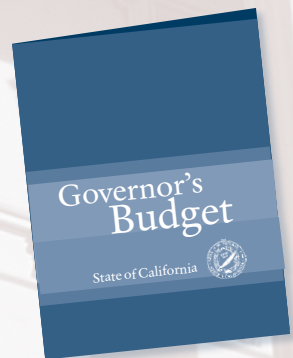
# Introduction

**I**f California were a nation, it would have among the top ten economies in the world. The annual state budget is – next to the State Constitution – the most important document in California government. It spells out how budget dollars are distributed. Education, assistance for people with disabilities, tax relief, fire protection, road building and other public services are evaluated in an open public process that takes up much of the year – and frequently makes headlines.

With so much at stake, it is good to know how the budget process works and how Californians can influence it. When a citizen knows the process, he or she can find important information about state government finance. Knowing when and where and to whom to press the case for funding or defunding is part of what this booklet is designed to explain. Demystifying the process for the public at large can help ensure that Californians have access to their own government.

The state budget is an expression of California society. In it there are popular programs and services balanced against demands for tax relief. The final state budget determines which services are provided and who pays for them and reflects what Californians value.

*The annual  
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is – next to  
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government.*



# How the Budget Process Works

## THE GOVERNOR'S BUDGET PROPOSAL

*The five-month period for consideration and passage of the state's multi-billion dollar general fund budget is the critical period.*



Legislative review of the budget begins in January and typically runs through June.

The State Constitution requires the Governor to submit a balanced budget proposal to the Legislature by January 10 of each year. The proposal details the state's spending plan for the fiscal year beginning on July 1.

The Constitution requires that the Governor's proposal be introduced in both the Assembly and the Senate as identical budget bills.

A large portion of state spending is constrained by the Constitution or Court action. Many of these constraints have been imposed by the voters through the initiative process. Proposition 13 of 1978 limits the amount of property tax that can be levied and increases state control over local finances; Proposition 4 of 1979 limits the amount of money that the state can appropriate; Proposition 98 of 1988 mandates funding levels from pre-kindergarten to community college.

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

After its introduction, the Legislature has until June 15 to pass the budget. This five-month period—a comparatively short time frame for consideration and passage of the state's multi-billion dollar general fund budget—is the critical period for public comment on the state's spending priorities.

The Legislative Analyst's Office (LAO), the Legislature's nonpartisan fiscal advisor, publishes a series of reports that review the Governor's budget proposal, starting in

January. The LAO's analyses are typically incorporated in the budget discussions in both houses of the Legislature. The reports include program background information, economic projections and recommended revisions to the Governor's budget proposal.

## **LEGISLATIVE BUDGET COMMITTEE HEARINGS**

In each house, the budget committee reviews the budget bill through May. The Senate budget committee, officially known as the Senate Committee on Budget and Fiscal Review, typically holds overview hearings in February. The Governor's budget proposal is then



divided into broad subject matters (such as Education, Resources, Health and Human Services or State Administration), and the committee assigns each state agency and department to one of five subcommittees. Subcommittee hearings typically begin in March. Before each hearing, the subcommittee staff prepare extensive agendas detailing the Governor's proposals and alternatives. The agendas are available to anyone on the budget committee's website.

During the subcommittee hearings, the Legislature has its broadest discussion of budget alternatives and makes many changes to the original proposed budget. State agencies, the Governor's Department of Finance and the LAO appear before these subcommittees with their recommendations. Interested citizens or groups may also appear before subcommittees. The subcommittee hearings are the best time for

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Californians to voice their opinions. Subcommittee hearings are open to the public and often televised on the California Channel.

By May 14, the Governor announces an updated revenue forecast, which accounts for changes in revenues since January. At this time, the Governor proposes more changes to his/her budget proposal. The update is known as the “May Revise” or “May Revision.” The subcommittees have about a week to consider the changes proposed.

## *Timing is Critical*

***If you are concerned about budget issues, let your legislator know.***

Make sure that any communication you attempt is accomplished as early in the budget process as possible. If you are concerned about budget issues, let your legislator know.

- Call the district office.
- Write a letter.
- Meet with your legislator or a member of his/her staff.
- Send an email.

After completion of the hearings, each subcommittee votes on the proposed changes and submits a report to the full Senate budget committee.

The full committee may accept the report or amend it. The revisions are incorporated into the budget bill and sent to the full membership of the Senate for consideration. The Assembly follows a similar process.



Each house discusses and then votes on its version of the budget bill. A few items may receive careful scrutiny at this time, but most are accepted. It is possible for the bill to be amended on the floor of either house. Amendments may be suggested by any member of the Legislature.

From the floor, each house's budget bill is referred to a joint budget conference committee where differences between the houses can be resolved.

### **LEGISLATIVE CONFERENCE COMMITTEE**

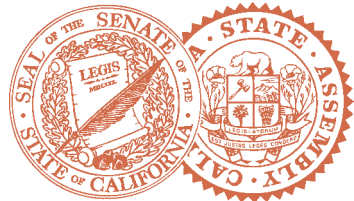
The differences between the Assembly and Senate versions are worked out in the budget conference committee, traditionally made up of three members from each house. Typically, the committee may only discuss those items in which there are differences between the two versions. These items are usually the most contentious in the budget. The hearings of the budget conference committee are open to the public and are broadcast by the California Channel.

No public testimony is heard during the conference committee hearings. The Legislature's role to agree, amend or reject budget items is on full display during the conference committee hearings.

Upon completion of its review, the conference committee votes on the proposed version. Legislative rules require that any conference committee change must garner a majority from each house.

In the event the conference committee cannot conclude or agree, legislative leadership may meet privately with the Governor or with each other to discuss any impasse.

*The  
California  
Channel  
broadcasts  
the meetings  
of the budget  
conference  
committee.*







## **LEADERSHIP MEETINGS**

When a compromise is reached, the leadership requests the conference committee conclude its deliberations and include the compromise.

When the conference committee adopts a compromise, it amends the budget bill, referred to at this point as the “conference committee report.” The report is passed to the floor of each house simultaneously. A conference committee report cannot be amended and must be approved by each house. If substantive statutory law must be amended in order to implement the budget, these statutory changes must also be passed by each house. Such bills are known as “trailer bills,” as they “trail” the budget and are processed separately from the main budget bill.

## **GOVERNOR’S SIGNATURE**

Typically, the Governor has 12 working days to sign the budget bill. The Governor also has the authority to “blue pencil” (reduce or eliminate) any appropriation contained in the budget. It is critical that you contact the Governor either by letter, phone or email to express your concerns about the budget. Because the budget bill is an urgency measure, it goes into effect as soon as it is signed.

## **VETO OVERRIDE**

The Legislature can override any blue-penciled item by a 2/3 vote in both houses. In practice, the Legislature rarely overrides a budget veto.

# *Budget Timeline*

## **July 1**

Fiscal year begins.

## **July 9 - September 15**

Department directors and agency heads initiate detailed reviews and develop budget proposals for their programs for the next fiscal year. These requests for program changes are then sent to the Department of Finance for review.

## **October - January 10**

The Governor evaluates the requests as reviewed by the Department of Finance and sends his or her proposed budget to the Legislature.



On or before January 10, the Governor delivers a state-of-the-state speech and presents his/her budget.

## **January - February**

The budget committee chairs in each house introduce the Governor's budget proposal in bill form. The Legislative Analyst's Office conducts a detailed review of the budget bill and releases various reports.

## **March - May**

Each house refers its budget bill to their respective budget committees.

The bills are then broken down by subject and assigned to the appropriate subcommittees by subject areas. After completion of the hearings, each subcommittee votes and then sends its report to the full budget committee.

### **Late May - June 15**

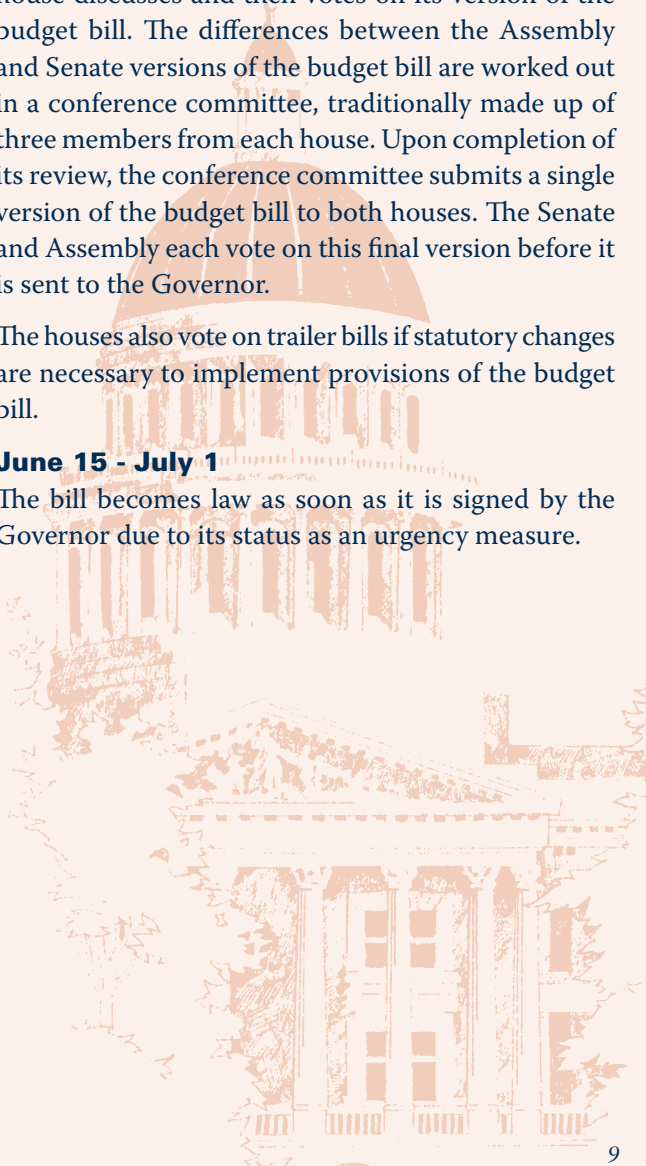
The budget committee of each house considers the subcommittees' reports and sends a revised budget bill to the floor for evaluation by the full body. Each house discusses and then votes on its version of the budget bill. The differences between the Assembly and Senate versions of the budget bill are worked out in a conference committee, traditionally made up of three members from each house. Upon completion of its review, the conference committee submits a single version of the budget bill to both houses. The Senate and Assembly each vote on this final version before it is sent to the Governor.

The houses also vote on trailer bills if statutory changes are necessary to implement provisions of the budget bill.

### **June 15 - July 1**

The bill becomes law as soon as it is signed by the Governor due to its status as an urgency measure.

*The differences between the Assembly and Senate versions of the budget bill are worked out in a conference committee, traditionally made up of three members from each house.*



# Documents

## **GOVERNOR'S BUDGET**

Over 1,300 pages long and contains details of expenditures proposed for the next budget year. Each item of appropriation is numbered with a 10-digit code that identifies the department, general purpose and funding source. The Governor's budget is available online at [www.dof.ca.gov](http://www.dof.ca.gov).

## **GOVERNOR'S BUDGET SUMMARY**

Contains an overview of the major provisions of the proposed budget and is a more manageable document of less than 200 pages. The Governor's budget summary is available online at [www.dof.ca.gov](http://www.dof.ca.gov).

## **SALARIES AND WAGES SUPPLEMENT**

Contains the three-year detail of expenditures for positions in state government.

## **BUDGET BILL**

Prepared by the Department of Finance, identical bills are introduced in each house of the Legislature by the chairs of each budget committee. The bill is arranged in the same order as the

Governor's budget and reflects the same proposals and requests. The budget bill is available online at [www.leginfo.ca.gov/bilinfo.html](http://www.leginfo.ca.gov/bilinfo.html).



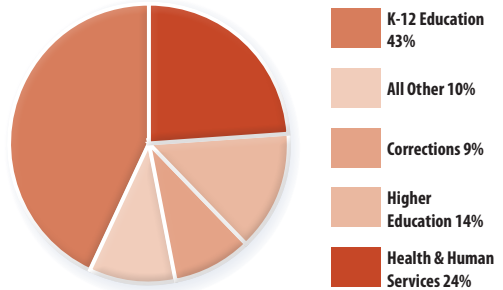
## SENATE BUDGET COMMITTEE'S QUICK SUMMARY

The Senate Budget and Fiscal Review Committee publishes a brief summary of the Governor's budget proposal. The summary is available on the committee's website at [sbud.senate.ca.gov](http://sbud.senate.ca.gov).

### SENATE BUDGET COMMITTEE'S OVERVIEW OF THE BUDGET

The Overview provides a general discussion of the Governor's budget and an item-specific description of the major initiatives proposed by the Governor. The Overview is available in late January or early February on the committee's website.

Allocation of General Fund Spending  
Governor's Budget



## LEGISLATIVE ANALYST'S ANALYSES OF THE BUDGET

The Legislative Analyst's Office analyzes items contained in the Governor's budget. These reports are available beginning in mid-February at [www.lao.ca.gov](http://www.lao.ca.gov).

## SUBCOMMITTEE AGENDAS

For each hearing, the budget subcommittee staff prepares extensive agendas for the budget items discussed at each hearing. Agendas are available on the budget committee's website and at the hearings.

## SENATE BUDGET COMMITTEE MAJOR ACTIONS REPORT

The Budget Committee issues a report to the full budget committee at the conclusion of the subcommittees' hearings. This Major Actions Report lists the actions recommended by the subcommittee on all the items it has had under consideration. The report is available on the Senate budget committee's website.

## **CONFERENCE COMMITTEE AGENDA**

The agenda lists budget items in conflict between the two houses and the final resolution of the conference committee. The conference committee agenda is available on the Senate budget committee's website.

## **BUDGET ACT**

The final budget bill, as enacted by the Legislature and signed into law by the Governor.

## **SENATE BUDGET COMMITTEE'S FINAL ACTION REPORT**

The report provides a general discussion of the signed budget, vetoes, and an item-specific description of the major initiatives in the budget. The review is available on the committee's website.

## **BUDGET SUBCOMMITTEES**

### **Senate**

- No. 1 Education
- No. 2 Resources, Environmental Protection, Energy and Transportation
- No. 3 Health and Human Services
- No. 4 State Administration and General Government
- No. 5 Corrections, Public Safety and the Judiciary



### **Assembly**

- No. 1 Health and Human Services
- No. 2 Education Finance
- No. 3 Resources and Transportation
- No. 4 State Administration
- No. 5 Public Safety
- No. 6 Budget Process Oversight & Program Evaluation

# *Glossary of Budget Terms*

**ACCRUAL** - an accounting principle which attributes revenue or costs to the fiscal year in which the obligation occurs, rather than when the revenue is collected or costs are paid.

**APPROPRIATION** - money set apart in the budget, or by a piece of legislation, typically for a specific use.

**APPROPRIATION LIMIT** - established by Prop. 4 (Section 8 of Article XIII B of the California Constitution). Passed by voters in 1979, this is the maximum amount of tax proceeds that state and local government may appropriate in a fiscal year. The limit is adjusted annually but based on the 1986-87 appropriation amount.

**AUGMENTATION** - an increase in an appropriation.

**BILL** - a proposed law introduced by a member of the Legislature. The budget bill is a list of appropriations for the fiscal year, by department, fund source and type.

**BLUE PENCIL** - the California Constitution grants the Governor "line item veto" authority to reduce or eliminate any item of appropriation from any bill, including the budget bill.

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

**BUDGET ACT** - budget bill after it has been signed into law by the Governor.

**BUDGET CHANGE PROPOSAL (BCP)** -

document prepared by a state agency to propose and justify budget changes to existing levels of service and is used in preparing the Governor's budget.

**BUDGET COMMITTEE** - the Senate Budget and Fiscal Review Committee and the Assembly Budget Committee which review and amend the Governor's budget proposal.

**BUDGET CONTROL LANGUAGE** - provisional language placing conditions on the use of an appropriation.

**CAPITAL OUTLAY** - expenditures which result in acquisition of or addition to major fixed assets, such as buildings.

**CONFERENCE COMMITTEE** - group of six members, with three representatives from each house, appointed to consider matters upon which the two houses disagree.

**CONTINUOUS APPROPRIATION** - amount available each year under a permanent constitutional or statutory expenditure authorization. A continuous appropriation is not dependent on passage of the budget.

**COST-OF-LIVING ADJUSTMENT (COLA)** - increases provided in state-funded programs which are intended to offset the effects of inflation.

**DEFICIENCY** - if a department has an unanticipated increase in its costs, it may incur costs in excess of the funding appropriated in the Budget Act. It will seek a "deficiency" appropriation in legislation.

**DOF** - Department of Finance: the Governor's fiscal office which analyzes fiscal legislation and prepares the budget.



**ENCUMBRANCE** - an obligation to expend funds, such as a contract. In some cases, encumbered budget funds may be expended in a following fiscal year.

**EXPENDITURE** - amount of an appropriation spent or used.

**FILE** - daily printed program or agenda of business before the house and its committees.

**FISCAL COMMITTEE** - in addition to the budget committee, the Appropriations Committees in the Assembly and the Senate are the fiscal committees to which all fiscal bills, except the budget and related budget trailer bills, are referred if they are approved by policy committees. If the fiscal committee approves a bill, it then moves to the floor.

**FISCAL DEADLINE** - date on the legislative calendar by which all bills with fiscal implications must have been taken up in a policy committee and referred to a fiscal committee. Any fiscal bill missing the deadline is considered “dead” unless it receives a rule waiver allowing further consideration.

**FISCAL YEAR (FY)** - a 12-month budgeting and accounting period. In California, the fiscal year 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 the house may be referred to as “on the floor.”

**GENERAL FUND** - predominant fund for financing state operations; used to account for revenues which are not specifically designated by any other fund. The primary sources of revenue are personal income tax, sales tax, and bank and corporation taxes.



**GENERAL FUND FUNGIBLE** - special funds which may be transferred to the General Fund.

**GOVERNOR'S BUDGET** - spending plan submitted by the Governor in January.

**JLBC** - the Joint Legislative Budget Committee which hears requests from the Administration on budget deficiencies, as well as resolving any issues from the implementation of the existing Budget Act.

**LAO** - Legislative Analyst's Office, the non-partisan fiscal advisor of the Legislature.

**LEGISLATURE** - constitutional body elected to pass laws.

**MAY REVISION** - sometimes referred to as the "May Revise" and occurring in mid-May, the updated estimate of revenues and expenditures that replaces the estimates contained in the Governor's budget submitted in January.

**PROPOSITION 98 GUARANTEE** - constitutional and statutory provisions that set a minimum funding level for K-12 and community colleges.

**QUORUM** - number of members required to be present before business can be transacted: 21 in the Senate and 41 in the Assembly. A majority of the membership constitutes a quorum.

**RESERVE** - amount set aside in a fund to provide for an unanticipated decline in revenue or increase 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.

**SESSION** - period during which the Legislature meets.

**SPECIAL FUNDS** - funds where monies have been collected for user fees or where revenues are set aside for a particular use.

**TRAILER BILL** - a bill that accompanies the budget which makes statutory changes necessary to implement the provisions of the Budget Act.

**URGENCY** - a matter affecting the public peace, health or safety; any measure so defined goes into immediate effect. A bill designated “urgency” generally requires a two-thirds vote of both houses.

**VETO** - action of a Governor in disapproval of a measure. May be overridden with a two-thirds vote of both houses. Line item veto – Governor may reduce or eliminate items of appropriation while approving the rest of the bill.

# *Major State Budget Propositions*

## **PROPOSITION 13**

Passed in June 1978, Proposition 13 puts a cap on property taxes by assessing property value upon change of ownership or new construction. Thereafter, the taxable value may increase by no more than the rate of inflation or 2%, whichever is less. Proposition 13 and legislation following the enactment of Proposition 13 fundamentally shifted the funding of schools and other services delivered by the counties to the state.

## **PROPOSITION 98**

An initiative passed in November 1988 that provides a minimum funding guarantee for school districts and community colleges. The term is also used to refer to any expenditure which fulfills the guarantee.

## **PROPOSITION 1A**

In November 2004, the voters of California approved an amendment to the California state constitution intended to restore predictability and stability to local government budgets.

## **PROPOSITION 25**

Passed in November 2010, Proposition 25 changed the legislative vote requirement necessary to pass the state budget and spending bills related to the budget from two-thirds to a simple majority. Proposition 25 also provides that if the Legislature fails to pass a budget bill by June 15, all members of the Legislature will permanently forfeit any reimbursement for salary and expenses for every day until the day the Legislature passes a budget bill.

## **PROPOSITION 26**

Also passed in November 2010, Proposition 26 requires that certain state fees be approved by a two-thirds vote of the Legislature and certain local fees be approved by two-thirds of voters. The measure also increases the legislative vote requirement to two-thirds for certain tax measures, including those that increase any taxpayer's liability but do not result in a new increase in revenue, previously subject to majority vote.