THE FISCAL RESPONSIBILITY PROJECT

NEW CALIFORNIA NETWORK

www.newcalnet.org

CHANGING THE ORDER OF THINGS

Building a Better Budget for California State Government

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Version 1.4

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NEW CALIFORNIA NETWORK
www.newcalnet.org

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About the New California Network

The New California Network was initiated in 2006 as a nonpartisan catalyst for modernizing state government. The state's persistent financial problems have made it clear that without improvements to how the state allocates and manages fiscal resources California's communities will not be able to reach their goals – for education, economic development, environmental protection, transportation, public health and safety and other critical issues.

To guide its efforts the Network has distilled some broad principles for fiscal and management reforms. **Those principles are contained in Appendix B of this report.**

To impact public policy, the Network has created projects intended to link expert analysis with robust public dialogues involving business, labor, government and civic leaders. We believe change is possible if politically, socially, geographically and ethnically diverse Californians contribute to shaping solutions and are willing to support those reforms as they mature into formal proposals.

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Preface to Handbook 1.4

The New California Network believes that California must improve its budget process to ensure exceptional value for the public dollars that fund essential public services. From March through June of 2007, NCN sponsored a series of regional meetings to share three conceptual budget reforms with business and labor leaders, local government officials, community leaders and members of the public. The goal of these meetings was to explore with community leaders the value and limitations of these ideas and to tap their perspectives on the most viable paths to implementation.

In preparation for each meeting, participants received a copy of NCN's fiscal reform materials in its publication, *Handbook 1.0: Changing the Order of Things*. The handbook outlines the challenges to be addressed, how other states have responded to similar problems, and strategies that could better equip California to leverage its budget process to address high priority needs and restore public confidence in government.

Following each meeting, NCN prepared a concise summary of the comments received and included those comments in the materials distributed at subsequent meetings. Those summaries are included at the end of this report. Four regional meetings were organized by NCN in San Diego, Fresno, Los Angeles and San Francisco. Additionally, NCN staff participated in meetings in Monterey, Sacramento, Colusa and other communities to discuss opportunities for fiscal reform and share the proposals under discussion.

The goal of this preface is to distill the comments and concerns received through the regional meetings and other discussions. The balance of Handbook 1.4 represents the document that was the basis of the regional discussions and the guidance gleaned in each meeting.

Throughout these listening sessions, participants presented a range of observations that have been grouped into the following themes:

- ***Goals***. For budget process reforms to be embraced, they must be valuable to decision-makers, interest groups and the public overall. NCN and its allies will need to be clear about the benefits – to time-constrained lawmakers, to invested stakeholders, and to a frustrated and distrusting public.
- ***Political realities***. Participants described a number of political, organizational and operational realities that must be considered in moving forward specific reforms and suggested ways to navigate around or use those realities to our advantage.
- ***Models***. State and community leaders recognized the value of experiences in other states and the private sector, and saw value in adapting those models to California.
- ***Moving forward***. Improving public outcomes will require thoughtful implementation, including understanding who will be threatened and engaging them in the effort.

These listening sessions affirmed the New California Network's perspective that the efforts and outcomes of state government have not kept pace with the needs of California. One participant summarized a common sentiment that "California's system of governance and budgeting is broken," and added that "budget reforms are essential, but an improved budget process alone will not get the job done for California and Californians."

Goals

The New California Network strives to make California safe, healthy and prosperous, by working to make state government fiscally sound, smartly managed and publicly accountable. The three budget reforms presented in this document are initial efforts to fortify state fiscal management.

The listening sessions revealed opportunities to engage diverse constituencies through distinct messages on California's budget challenges and how these reforms would provide value. In our presentation, we identified ongoing operational deficits as one symptom of the need for budget reform. For some participants, successful reforms would end the ongoing cycle of operational deficits, late budgets, and fiscal gimmicks that allow policy-makers to present a less than genuine picture of state finances. But a broader audience was engaged on the value of budget reforms for their ability to enhance the quality of public services. Participants recognized opportunities to leverage budget reforms to improve health care, enhance investments in infrastructure, and focus the legislature and state agencies in responding to high priority public needs.

Additionally, the specific reforms NCN is discussing – performance budgeting, an expanded fiscal planning horizon, and expanded use of the Joint Legislative Budget Committee – have synergistic values for improving transparency, public accountability and public awareness of the essential nature of public services. Thus these reforms are recognized for their capacity to bolster civic engagement.

Performance management strategies and improved fiscal planning in particular can provide clear and compelling information to help the public talk about the role of government, how government operates and where it is working and not working. That information, in turn, can enhance decision-making by policy-makers as well as voters at the ballot box.

Participants saw opportunity in these reforms. One former political leader cited the notorious political gridlock that hampers fiscal decisions in Sacramento and characterized this challenge as follows: "Democrats only speak as if there is unlimited funding and Republicans only speak as if there is no money at all. Our system has made it near impossible for compromise." Thus participants cautioned that reforms must enable elected officials and their political parties to find value in moving away from gridlock toward viable strategies for delivering improved public services.

Political realities

Participants made it clear that budget reforms will not take the politics out of budget deliberations. Reforms will guide decision-making. Better information can both inform political positions and moderate ideology.

Regional leaders pointed out that few policy-makers think about how performance information could help them get elected. They cautioned that to be endorsed and sustained, reforms must provide value to elected leaders who operate in political theatres. More specifically, participants urged NCN to consider how support for these reforms among elected officials might be tempered by the constraints that term limits, campaign finance laws and partisan-safe districts create for those individuals. To counteract those constraints, NCN was encouraged to build a constituency for change that could deliver the reform message to the statehouse.

Participants ultimately were hopeful the reforms discussed by NCN could result in a government that is more transparent, efficient and effective. They urged NCN to ensure that reform proposals produce institutional structures that drive the priorities of individual departments and their staff and connect those priorities to the work of the legislature. And thus they advised that NCN be explicit about how these potential reforms would improve the ability of public sector unions and other important constituencies to achieve their goals.

Models

A number of states have made progress using performance-based strategies to guide fiscal and management decisions. Similarly, the private sector has long used performance information, long-term fiscal planning and complementary tools to guide investment and management decisions. Lessons from those experiences can guide opportunities in California. Models in place elsewhere can be adapted to meet California's needs.

Conceptually, strategies pursued elsewhere can reveal opportunities. For example, longer term fiscal planning can highlight California's overall fiscal condition, rather than its immediate fiscal position. The state will need to develop tailored methods to capture the information it needs in ways that may be distinct from private sector strategies or the efforts of other states.

While other states have made productive use of joint legislative budget committees, doing so in California will require consideration of the competition that exists between the two legislative houses.

Putting in place performance-based budget tools, including performance measures, is not a cure-all and has been troubling in many public and private agencies. One key to success is understanding how efforts elsewhere have succeeded in changing institutional cultures to focus on meeting public needs, supporting collaboration across agencies and levels of government, and communicating frankly with the public about progress.

Moving forward

In addition to political considerations, a number of challenges must be addressed to successfully implement improved performance and planning strategies in California. Performance approaches can create focus on what are the most important achievements for the state, individual departments and programs. But that focus can reveal real constraints – political, fiscal, management or others – that may be difficult to admit or address. One strategy to understand that potential – as well as how to respond – is to further explore how other states and federal agencies have made progress. It will be important to design a strategy that will provide cover and opportunity for bad news to be presented as well as good news.

It also will be important to clarify the role of the Legislature, the Governor and key agencies such as the Legislative Analyst's Office and the Department of Finance. The Legislative Analyst and the Department of Finance can be key allies in these reforms. Both agencies would benefit from the availability of improved performance and forecasting information.

Similarly, it will be important to consider how any reform proposals will interact with ongoing work. The state is planning a new cost-accounting system. The existing budget process is continuous and consumes tremendous institutional resources. Transitions must be planned to ensure the confidence of the people who have to work under any new system.

Next Steps

Following the release of this document, *Handbook 1.4: Changing the Order of Things: Building a Better Budget for California State Government*, NCN is preparing a companion version, *Handbook 2.0*, which explores in greater detail the strategies employed in other states to improve their budget processes and how they could be adapted to California. Additionally, we are working with key constituencies, such as the labor community and business leaders, to understand their concerns and perspectives and how best to engage them to support budget reforms. These documents will be available in the fall of 2007 and will be accessible through NCN's website www.newcalnet.org. The information and analysis from these efforts will guide dialogue with elected leaders on opportunities to improve California's budget process.

There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.

-Niccolo Machiavelli

Introduction

The Fiscal Responsibility Project was initiated to identify reforms that could be broadly supported and would significantly improve fiscal decision-making at the state level, with a particular emphasis on the budget process. During the latter half of 2006, the New California Network consulted with leaders around the state and identified three concepts that had the potential to meaningfully reform how state government spends over $130 billion annually:

1. Performance budgeting, which is being used by many governments, could help California make the most of existing resources. **How this system has been used elsewhere is described beginning on page 7.**
2. Multiyear financial planning could result in better management of volatile revenues and growing costs. **A framework for rethinking budgeting planning horizons begins on page 13.**
3. Reforms in the Legislature's budget review process could build broader agreement and fortify public understanding. **The description of the current process and ideas for improving it begin on page 19.**

From Concepts to Proposals

In Spring 2007, the Network met with community, regional, and state leaders to advance these reforms from promising concepts to comprehensive proposals. The regional meetings were designed to:

1. Develop proposals that have the greatest potential to improve decision-making.
2. Identify ways to make these reforms compelling and valuable to encourage enactment and successful implementation.
3. Identify steps that should be taken so the reforms will be implemented for the greatest benefit.
4. Identify individuals and organizations that will formally support these proposals as they are considered by elected officials.

Following these regional meetings, the Network will convene discussions in the capital to develop a keen understanding of how these concepts should be applied in California, incorporating the lessons learned and the best practices from other states, and the particular needs and circumstances of California's decision-making institutions.

The proposals included in this report are not new. Since the mid-1990s, numerous California organizations and public bodies have made recommendations consistent with the concepts presented here. In 1996, the Legislature established the Constitution Revision Commission, perhaps the most ambitious public attempt to reform state fiscal policies and address other governance challenges. The Commission concluded that California's budget process "is not designed to make the critical decisions that are necessary to meet the needs of the state within available resources."[1] Similarly, the Little Hoover Commission in 1995 recommended that state leaders commit to long-term budget reform, utilizing performance-based budgeting tools.[2] The California Taxpayers' Association has called for budget reforms that would improve financial management and bolster the performance of public programs.[3] And the California Budget Project has recommended strategies to improve the transparency of California's budget process, including the use of performance measures to help policy-makers make more informed funding decisions.[4]

But while California has thought about reforms, a majority of states have already implemented strategies consistent with the concepts that make up one or more of these proposals. Each state has tailored its use of these conceptual reforms, as should California.

Numerous organizations have examined California's budget and fiscal structures and concluded that the state's fiscal strategies require reform, including:

Bay Area Economic Forum
California Budget Project
California Business-Higher Education Forum
California Business Roundtable
California Citizens Budget Commission
California Constitution Revision Commission
California Governance Consensus Project
California Taxpayers' Association
Joint Venture Silicon Valley
League of Women Voters
Little Hoover Commission
Senate Cost Control Commission
Speaker's Commission on State and Local Finance

Why the State's Fiscal Strategies are Inadequate

Following three straight years of revenue growth that exceeded expectations, a slowing state economy may force reluctant policy-makers to face two facts: *First*, operating deficits are difficult to solve with annual one-time measures. *Second*, revenues received within a fiscal year are generally insufficient to fund California's annual budget requirements.

For the last three fiscal years, the state has carried forward unspent funds from the previous year, allowing policy-makers to increase funding in education and health and human services. But the state still does not have sufficient revenue to meet its spending obligations on a year-to-year basis. While the administration argues that the Governor's proposed budget for 2007-08 reduces the operating deficit to near zero, the state would still be spending nearly $2 billion more than it will take in if one-time expenditures are included. The Legislative Analyst's Office, in its review of the Governor's budget, is more skeptical and suggests that the state is likely to end the 2007-08 fiscal year with an actual deficit.

What is an operating deficit? Why should anyone care?

Simply stated, an "operating" or "structural deficit" means there is not enough revenue within a fiscal year to support the spending proposed for that year. From the rhetoric, one might assume that the existence of an operating deficit depends on who crunches the numbers. In the case of the current budget proposal, the administration asserts that one-time spending not otherwise required – such as advancing the required payments for budget-related debt – should not be recognized in the calculation. This approach reduces the expenditure side of the ledger, virtually eliminating the operating deficit. Still, it can be argued that one-time spending is still spending and a simple difference between revenues and expenditures is what matters.

Equally important, to help close the 2007-08 budget gap, the Governor also proposes to reduce expenditures in a variety of programs – proposals that may not be accepted by the Legislature. The proposal does not analyze what is driving the cost of those programs and how those reductions will impact people, programs and even future budgets. Without that information, policy-makers and the public cannot assess the consequences of those reductions.

Can we fix the budget with yearly, one-time solutions?

Generally speaking, policy-makers favor one-time solutions to close seemingly difficult budget gaps because that approach often can resolve the immediate problem without increasing taxes or making major changes to programs. Historically, policy-makers have done a good job of closing annual budget gaps. But by focusing only on the immediate gap, the long-term consequences of decisions are not fully considered. And if the budget is still out of balance the following year, the Governor and Legislature have generally looked for a new set of one-time fixes.

There are two problems with simply facing budget gaps one year at a time. First, by making annual adjustments to close budget gaps the state misses the opportunity to address the cost pressures or revenue factors resulting in the imbalance. Second, program effectiveness becomes a lower priority than simply finding ways to adjust spending or revenues. In this way, the persistent budget gap is like a fever, indicating more serious fiscal ills that need to be cured.

What is wrong with the current budget process?

The New California Network has identified three basic faults that are recognized by leaders across the state and from both sides of the partisan divide.

1. Last year's budget is the basis for next year's spending.

There is one natural law that governs state spending: Programs get what they got in the prior year – plus growth. It has been a time-honored tradition that a new program with limited funding in the first year grows over time. The next budget is built on top of the budget that came before it. In terms of education spending, Proposition 98 embedded this practice in the constitution by requiring that any funds appropriated to K-14 education above the minimum guarantee be incorporated into the base funding level for the following fiscal year. Even when policy-makers want to control costs they tend to do so by limiting growth. For example, to control costs in health and human services programs, policy-makers limit cost-of-living adjustments, rather than scrutinize the underlying program to capture efficiencies or to improve effectiveness. There are few fiscal principles or program practices that are effective counterweights to the natural law of state budgeting.

2. The state's fiscal horizon is too short.

State budgeting in California is an annual event. For fiscal purposes, the world begins anew every July 1 and comes to an end on June 30. Internally, the administration's budget staff takes most of the 12-month calendar to build the budget for the following year. The Legislature, in turn, spends the last six months of each fiscal year discussing the Governor's proposal and adopting the state's budget for the coming 12 months. Expenditure requirements for state programs are viewed through a 12-month lens. Discussions of longer term forces, such as demographic and economic trends, give way to the immediacy of the annual appropriation cycle. From a policy-making perspective, the Administration and the Legislature should not focus solely on the next 12 months, but the health of a given program over several years.

3. The Legislative budget process lacks transparency and leaves little time for oversight.

As noted earlier, the Governor proposes a spending plan in January for the coming fiscal year and the Legislature is supposed to adopt the budget by June 15 for the Governor's consideration and signature by the start of the fiscal year on July 1. While the Legislature often has difficulty meeting the June 15 deadline, the more significant issue is how the Legislature uses its time to scrutinize the proposed budget.

The Legislature's process for developing the Budget Act has become less transparent. Both houses of the Legislature act over a three-month period in parallel – taking up the same programs and departments at roughly the same time. This process is intended for the Senate and the Assembly to separately act on a budget – allowing both houses to "speak" and then work out differences in a joint conference committee. Sadly, the days are gone when the budget committees and separate houses passed budgets reflecting their institutional priorities. Through a parliamentary maneuver by the majority party, the actions of the budget subcommittees are simply placed in the two-house conference committee without the benefit of full committee debate, or the more visible deliberation by each full house of the Legislature. This has reduced the public vetting and debate of critical public issues.

In addition, while the Legislature has taken steps to increase its oversight of state programs, continuity is difficult in part due to the continuous turnover of members on budget committees and the compressed time table for legislative action.

Finally, while the budget has grown in scope, size and complexity, term limits have reduced the experience that legislators have regarding the overall process, with the particulars of individual programs, and the cycles and trends in revenue and expenditures. While the budget process has evolved in recent years, it has not been intentionally redesigned to enable less experienced lawmakers to make informed decisions with a long-term view.

What would a better budget process look like?

Based on the headlines, a successful budget is completed on-time with few gimmicks to fill revenue and expenditure gaps. Those are hardly the right metrics if the purpose is to spend some $130 billion for the highest public benefit. So what would a better budget process look like?

For starters, the Governor's proposed budget would establish clear goals and priorities – for the overall state, for individual departments and the programs they manage. It would give decision-makers and the public some sense of how well these programs are working, and how they will use the next annual appropriation to do the job better.

That budget also would consider the distant horizon: assessing how long-term trends are impacting demands for services, the cost of providing services, and the revenue streams to pay for them. By taking a longer-term view, the budget discussions could be recalibrated to include actions that policy-makers could take now to impact long-term trends. Today's choices would be placed in the context of future circumstances.

The Legislature – through a variety of means, and clearly through more than isolated public hearings and closed door meetings – would vet, validate and amend the goals, priorities and metrics. The most significant policy choices would be given the greatest exposure. And at the program level, legislative subcommittees would understand in greater detail how well programs are working, and what department directors will be doing in the coming year to continue their progress. Administrators, in turn, would be able to have fact-based discussions on what they need to accomplish their missions.

So a better budget process would take a performance-oriented approach, put today's decisions in the context of future needs and resources, and publicly elevate significant policy choices.

Taken together these three reforms will allow decision-makers and the public to have a clearer understanding of the longer term impacts of budget decisions and require program administrators to focus on the "outcomes" rather than dollars spent. Improvements in the budget-making process over time will increase accountability and help build consensus around shared goals.

Although each of these proposals can be discussed on their independent merits, they are mutually supportive and potentially more transformative when integrated together. For example, instituting a longer budget planning period will greatly enhance the ability to apply performance measures to decisions. Program planning and oversight could focus on the longer term consequences of contemporary actions. Instituting a joint legislative committee to develop the budget would consolidate oversight and appropriation activities and allow for more experienced lawmakers to mentor the newly elected. This also would offer the public a single forum in which to participate in the budget making process.

I

PERFORMANCE BUDGETING:

Can we make better decisions?

State government plays an essential role in shaping the health, safety and prosperity of neighborhoods, communities and regions throughout California. Education, economic development, environmental protection and other public programs create the conditions for innovation, sustainable growth, and a high quality of life. And while public programs are expected to produce increasingly better results, state government is under pressure to control costs. At the same time, most Californians do not believe that the government wisely spends their tax dollars.

No single reform will turn state government into the high-performing and publicly accountable organization that is needed for California to thrive. And while many governments are facing these same pressures, California's economic, social and geographic size and diversity create additional hurdles that must be overcome.

Still, California can learn from the federal government, other states and other nations that have gradually fortified the foundational elements of governing – including the allocation of resources in ways that over time improve results and public accountability.

By definition

Performance budgeting attempts to reduce costs or improve the effectiveness of public programs by linking results with budgetary decisions. Performance budgeting is more like a navigation system than an autopilot. It does not take the place of policy choices or judgments. Rather it informs decision-making and provides the means for policy-makers to refine public goals and assess whether current strategies are working to achieve objectives.

> "We've slipped out of a tradition of good fiscal management. California is an extreme example."
>
> Don Kettle, Political scientist and national expert in state finances. *USA Today*, June 22, 2003.

Performance-based budgets are a tool that can be used by the executive and legislative branches in the important process of allocating resources. Performance budgeting, however, is only one of several tools that combined can help public agencies to improve results. Strategic planning is essential to defining goals and organizing activities to achieve goals. Performance management is a framework for managing people, technology and other assets to improve results. Top performing governments typically align strategic plans, budgets and management systems to make the most of public dollars. Polling data show that a majority of Californians think state government wastes a lot of their money.[5]

Potential benefits

Performance budgeting is not an overnight fix to California's persistent budget problems. But it is a way to make better decisions big and small.

A performance focus – particularly in the critical function of budgeting – can provide more transparency and rationality to difficult decisions about where to reduce expenditures during lean years or where to increase expenditures in good years.

Some analyses suggest that performance budgeting leads to reduced government spending. But that result may reflect the ability of performance-based budgeting to help policy-makers achieve their goals more than the inclination of the tool to result in more or less government spending.

A results-based approach gives direction and incentive to program managers to improve progress toward measurable goals. It also encourages policy-makers, managers and stakeholders to assess proposals (and evaluate previous changes) based on results.

> Performance budgeting is not a silver bullet. But it would improve our aim.

Performance approaches can also reduce the costs of providing services and operating programs, helping governments with the trend of public expenditures growing faster than revenue.

Setting goals, improving the transparency in budget decisions, and documenting improvements can restore public trust in government.

Potential challenges

Like most reforms, performance budgeting is not easy. But the experiences of other states allow California to foresee the challenges and plan for success.

Many government programs do not collect the data that can be used to calculate results. But governments have navigated this issue by measuring what they can while systems are built to gather data that can be used to better manage programs and capture results.

Many programs lack clear goals, making it difficult to identify appropriate measures. A performance approach, however, exposes this problem, and can prompt policy-makers and program managers to identify goals and set priorities. Many recent governmental and academic efforts have contributed to the development of measures for most government functions.

Many programs are only one of several interventions responding to a specific problem, and so isolating the impact of individual efforts is often difficult. Many public agencies, for example, play a role in reducing crime. Still, developing metrics can help to identify duplicative efforts, gaps in services and give rise to management structures that align responsibility with authority, enabling accountability.

In addition, policy-makers sometimes dismiss performance data because they do not trust that the data accurately captures the impact of programs. Sometimes performance-based decision-making has been resisted because it discourages purely political compromises. And sometimes administrators resist it because it exposes poor performance, and over time the inability of programs to document their intended impact.

California's history with performance budgeting

During the recession of the early 1990s, California passed the State Government Strategic Planning and Performance Review Act, which required state agencies to complete strategic plans. In addition, four state departments launched pilot projects into performance budgeting – the Department of Consumer Affairs, the Department of General Services, the California Conservation Corps, and the Department of Parks and Recreation.

Faced with critical budget cuts, the Department of Parks and Recreation embraced strategic planning and performance-based management, as well as performance budgeting. The department used these tools to fortify the department during times of severe budget pressures, and to build a competency-based agency that was widely recognized for improving the management of state resources. While an early evaluation by the Department of Finance concluded the pilots to be a short-term success, the budgeting project – along with the strategic planning mandate – lost political support with a new gubernatorial administration.

The executive view

Some Governors have embraced performance budgeting as a tool for making difficult decisions, particularly when trying to rationalize budget cutting. Others have turned to performance budgeting as an essential tool for implementing a broader public agenda – to improve outcomes in education, health and human services, public safety, environmental protection or economic development. In both instances, the budget practice is easily scaled up to communicate priorities to the public, and scaled down to create accountability among political appointees. Governors also have used the strategic planning process to forge agreement among legislative and local leaders on their state's top priorities – reducing the chances that political stalemates will block their initiatives.

The legislative view

Research shows that legislators who are actively involved in a performance-based budget process also are actively involved in oversight of programs. In turn, research also suggests that performance-based budgeting works better – including the focus on performance by executive branch managers – when legislators take an active role in using performance measures to craft budgets and guide oversight of the executive branch.[6] The legislative leadership in Florida and Utah, for example, established performance-based budgeting as a way to rationalize competing demands for dollars and conflicting advocacy over how dollars should be spent.

> In June 2007, Bay Area leaders discussed changing the culture of the budget process:
>
> *Performance-based budgeting creates focus. It can get an organization asking: What is our mission? What is our focus? As soon as we start measuring we start focusing.*
>
> A summary of the Bay Area meeting is included on page 35.

Why now?

In California, there is bipartisan dissatisfaction with the budget process and a stalemate over how to improve it. Most budget reform discussions begin – and quickly end – with a discussion over raising taxes, lowering the legislative vote threshold for passing a budget, or shifting power from the legislative branch to the executive branch.

Performance budgeting has the potential to improve the decision-making process without becoming mired in those divisive issues. Performance-based budgeting is not a panacea or a silver bullet. But it can be used to focus elected officials and public administrators on improving results with the resources at hand – a concept that can garner bipartisan support and could generate the trust needed to navigate difficult policy issues.

Why would anyone attempt these reforms?

Like virtually every other reform, performance budgeting will be most successful if everyone involved finds it valuable. The experience in other governments shows that incentives can encourage decision-makers to use performance data to set policies, manage programs, measure progress and adjust strategies and spending.

Strong executive support focuses top managers on results. In implementing the President's Management Agenda, for example, the federal Office of Management and Budget has found that publicly reporting results across departments motivates public administrators. Similarly, administrators who know they will be held publicly accountable for results – such as in legislative hearings – are more likely to focus on improving outcomes.

While the research also shows that civil servants are primarily motivated by the desire to provide quality public service, some states have offered rewards for managers and departments that meet performance goals. Florida, for example, has created a pot of money that high performing agencies can compete for to support innovation. Other states have explored ways to let executive branch agencies reinvest savings, rather than returning un-spent dollars to the general fund.

In a different context, California lawmakers have essentially provided incentives to those agencies operating under the Sunset Review process by giving responsive and well-run agencies a longer term between legislative reviews. In the context of performance-based budgeting, well-managed organizations could be expected to receive greater support during budget and performance reviews. The system also could help public administrators focus policy-makers on the problems where statutory changes would translate into improved outcomes.

In March 2007, the New California Network presented these proposals to San Diego leaders. A summary of that meeting is included on page 24. In reviewing the Network's proposal for performance budgeting, San Diego community leaders made the following comments:

- *Some 70 to 80 percent of California's budget is on autopilot, but to improve public outcomes, the public and our elected leaders must more fully examine the details in the budget.*
- *Too often, performance measures focus on big issues, like "motherhood and apple pie," but those efforts do not provide the needed guidance on what departments need to do to address public needs.*

Where should California begin?

Creating the first performance-based budget may be the hardest, but also the most valuable step. Many agencies do not have current strategic plans – but they will need them if they want to articulate goals and identify performance measures. This step alone can help policy-makers to affirm priorities and require choices that will result in balancing expectations with expenditures.

The American Society for Public Administration suggests the following steps:

- Develop a strategic plan that links agency mission to each activity and program.
- Develop a performance plan with objectives that support the strategic goals.
- Make budget decisions that support the performance plan to the extent that resources can be made available, and in the process, set program priorities.
- Construct budgets and related justifications that speak to the strategic context and support the performance plan.
- Periodically assess progress plans, analyzing how inputs influenced performance.

California Falters, Other States Make Progress

In 2005, the Government Performance Project (GPP) released "grades" on how well states manage money and use information to guide policy, fiscal and management decisions, among other topics.

To assess performance on money management, the following criteria were used:

- A long-term perspective is used for budget decisions.
- The budget process is transparent and easy to follow.
- Financial management supports a structural balance between ongoing revenues and expenditures.
- Procurement activities are effectively managed.
- Effectiveness of financial operations and management practices are systematically assessed.

To assess information use, the following criteria were used:

- Officials focus on strategic policy direction and collect information to support that direction.
- Data is available on the costs and performance, and inform resource allocation decisions.
- Agency managers have the information required to make program management decisions.
- The governor and agency managers have data enabling the assessment of program performance.
- The public has appropriate access to information about the state, as well as the performance of state programs and state services, and is able to provide input to state policymakers.

The Grades

Largest States	**Money Management**	**Information Use**
California	D	C
Florida	C+	B
Illinois	B	C+
New York	C+	C+
Ohio	B+	C+
Pennsylvania	B+	B
Texas	B	B

Source: Government Performance Project. www.gponline.org

Pioneers and Champions of Performance Budgeting

Florida. Florida's interest in performance budgeting was initiated and has been sustained by the Legislative leadership, and its performance focus is one of the most comprehensive. In Florida, budget requests must be accompanied by anticipated results. In allocating resources, lawmakers also establish targets, and an agency's progress toward those targets is monitored. The Legislature's Office of Program Policy Analysis and Government Accountability consults with the executive branch in preparation of proposals, advises lawmakers and conducts program reviews.[7] Florida also conducts zero-based budgeting reviews of agencies every eight years.[8]

Virginia. The Virginia Government Performance and Results Act required state agencies to develop strategic plans. Through a parallel process, the Council on Virginia's Future established a vision and outcome goals for the state, which are then pursued through a performance budgeting and performance management system.[9] The Legislature, in turn, conducts performance reviews and a two-year budget cycle allows lawmakers to focus one year on budget issues and the next year on program review. The government issues a report card, Virginia Results, which tracks outcomes. This strategy contributed to Virginia's A-grade in Governing Magazine's 2005 rankings of state governments.[10]

Utah. Utah's performance budgeting efforts are considered to be among the most data-driven. Like in other states, Utah started with a statewide commission, only here it was initiated by legislative leaders who wanted to improve decision-making.[11] The long-term vision was scaled down to strategic goals and then measurable outcomes.[12] The state's reliance on data – and cost data in particular – helped officials to surgically make difficult cuts during the recession. Utah is the only other state to earn an A- in *Governing* magazine's 2005 rankings.[13]

Washington. Faced with a severe budget crunch in 2003, Washington turned to a form of performance budgeting. The state's budget office identified 11 general results that reflected Washington's public priorities. A team of government, academic and other experts and stakeholders were then assigned to review those areas, identify performance measures, set priorities and rank programs in terms of their ability to contribute to desired results. The government then funded those priorities until it ran out of money. While it still resulted in hard choices, many lawmakers felt it was a more rational and open way of making those decisions. The state is now in the process of institutionalizing a performance approach into its budget process.[14]

New Mexico. Agencies are required to develop strategic plans and to link performance measures to department budgets. Both the executive office and the Legislature's finance committee prepare separate budgets based on departmental requests. The enacted budget includes appropriations and targeted performance levels, which are then reviewed by the Legislature throughout the year.

II

PLANNING FOR THE FUTURE

A Multiyear Fiscal Planning Program for California

For more than 40 years the state of California has been on an annual budget cycle. The administrative development of the budget begins in the summer and culminates in the introduction of the Governor's proposed budget the following January. For the most part, the fiscal forecasts that accompany the annual budget proposal make economic as well as revenue and expenditure assumptions for a 12-month period beginning the following July. Spending decisions are framed by the amount of funding a particular program will need over the 12-month period that begins July 1st and ends the following June 30th.

A primary frustration of the current annual budget cycle is the amount of time that it takes to implement any programmatic change. With 85 percent of the state general fund committed to programs that are affected by changing demographics, the lack of understanding of budget actions in the "out years" limits the ability of the Legislature and the Governor to fully account for the effects of their annual budget decisions. And on the revenue side, a longer horizon would require the state to plan for the volatility of the personal income tax. Two-year economic forecasts would anticipate declines in income tax revenue and thus require budget decisions to recognize anticipated gaps between long-term spending commitments and long-term revenue forecasts.

A multiyear analysis of major programs would reveal potential problems in future years and would allow policy-makers to avert crises that cannot be managed with short-term solutions. The current prison quagmire is a good example. The problem has been growing worse for years, with failures in policy, management and oversight increasing costs each year.

California's fiscal process relies on a strong executive who must propose a balanced spending plan based on a revenue forecast. Often Governors will propose policy changes that will need to be understood over the long term and will take several years to implement.

The current system of annual appropriations is of limited help to decision-makers who should be viewing both the performance of a given program and the impact of budget decisions on that performance over time. Similarly, a longer range view would help the state understand the impact of economic trends on the tax structure so that the volatility of the state's revenue system can be better understood.

> Fresno community leaders commented on the state-local angle:
>
> - *Currently, counties cannot carry over funding from one year to the next, which impedes their long-term planning capability and forces them to spend down all funding prior to the end of the year.*
> - *The multiyear planning cycles envisioned in NCN's reform concepts could assist counties working to address long-term goals.*
>
> A summary of the Fresno meeting is included on page 28.

This is particularly true if California is going to solve difficult public policy problems. For example, if the state is going to ensure health services for all Californians, policy-makers will need a multiyear approach since the transition from the existing services-based system to a new health insurance model will be as difficult as the design of a new universal health insurance system.

Implicit in the health coverage discussion is the demographic composition of California's population and how it will change over time. A multiyear forecast of the state's demographics is critical to helping policy-makers identify the fiscal commitments of a universal health insurance system. The same analysis can be made for the state prison and county jail systems. Annual spending commitments that do not take into account the "out years" will simply encourage the Legislature and the Governor to maintain the status quo. Alternatively, longer fiscal horizons could focus policy-makers on more squarely addressing those issues that over time pose the greatest fiscal and human impacts.

How Far the Horizon

The first question to be addressed is the optimal length of the forecast period. Is a two-year forecast too short and is a four-year forecast too long? Should there be different forecast periods for different responsibilities? For the purpose of discussion the following forecast periods are suggested:

Matching the horizon to the issue

Subject	Forecast period
Demographics and entitlements	Five years
Revenue	Two years
Expenditures	Two to four years
New or revised programs	Five years
Appropriations	Annual

From a practical point of view, the forecast period should be as long as our institutional eyesight allows us to see. For example, student enrollment in higher education relies heavily on demographics and state policies governing admission. It may be desirable to develop a longer term forecast of enrollment – reflecting demographic changes, enrollment goals, and the capacity and efficiency of higher education programs.

> In May 2007, Los Angeles leaders identified one advantage of using a longer fiscal horizon:
>
> *Longer term fiscal planning and forecasts move the discussion away from the fiscal position in a given year to a discussion of California's overall fiscal condition.*
>
> A summary of the Los Angeles meeting can be found on page 31.

At a minimum, a two-year fiscal planning process will allow the executive and legislative branches to implement program changes more realistically. Reforms in the state prison system, for example are likely to take several years to implement and administrators and legislative oversight committees need the ability to accomplish needed improvements in a realistic time frame.

Potential benefits

Overall, a longer term fiscal forecast would allow the Governor, Legislature and the public to better understand the implications of policy and budget decisions.

The Governor, the Department of Finance and departments administering public programs would benefit from institutionalizing longer term forecasts as part of the budget process. For example, trends in county administered social service programs would be identified and addressed in a multiyear fiscal plan so that funding, policy and management decisions respond to emerging needs.

- An extended fiscal period would strengthen the Legislature's ability to anticipate and plan for the dynamics that drive expenditures.
- Legislatures in other states have used multiyear budgeting to more equally divide their time between passing a budget and overseeing expenditures. A two-year cycle frees up time in the second year for focused program review.
- The public would benefit from a public dialogue that will accompany the discussion in the Legislature over the long-term implications of program decisions.

Challenges of an extended fiscal horizon

It is important to recognize that projecting the performance of the economy and its impact on revenues, as well long-term expenditure needs, is difficult and often imprecise. The state's experience with multiyear fiscal decisions is admittedly mixed. In the recession of the early 1990s, a multiyear planning process was implemented that foresaw fiscal recovery by the middle of the decade. But by the late 1990s, fiscal choices were made that ignored the anticipated longer term effects, causing significant operating deficits over time. The challenge will always be making good use of improved information, rather than simply providing that information.

One compelling reason for understanding the "out year" implications of fiscal decisions is to avoid short-term expenditure increases or revenue reductions that cannot be sustained. Linking a performance-based approach and a multiyear outlook could create incentives for policy-makers or program managers to make changes that may lower costs or improve program effectiveness. Longer planning horizons also may make it more difficult for policy-makers to ignore the fiscal impacts of contemporary decisions.

> In regard to fiscal planning, San Diego community leaders made the following observations:
> - *Our state leaders have not made fiscal planning a priority.*
> - *California should consider mandatory fiscal reserves, as is the custom in Utah.*
> - *Our state has a rainy day fund, but the level of funding set aside is a speculative figure. The best reserves are transparent and not based on "voodoo" economics.*

Among the options

There are a variety of ways to link longer fiscal forecasts to appropriations. To encourage discussion on the appropriate length of the fiscal horizon, we offer one concept. It should be noted that there are many variations within this approach. A thorough discussion of alternate approaches will help policy-makers settle on the most workable system for California.

Using a Biennial Fiscal Plan

A biennial fiscal plan would be proposed by the Governor in January of odd-numbered years. Biennial fiscal plans would be adopted by the Legislature during odd-numbered years and monitored during even-numbered years. The Legislature would still be required to adopt an annual budget and could amend a fiscal plan adopted during a prior fiscal year.

The first opportunity for California to operate under this proposal would be 2009, allowing sufficient time to transition from single-year planning and budgeting to a multiyear fiscal strategy. Under this conceptual proposal – beginning in 2009 - the process would be carried out as follows:

January 2009	The Governor presents a two-year fiscal plan for July 1, 2009 to June 30, 2011. • Five-year demographic forecasts would be included. • Two-year forecasts would be included for major economic sectors and major revenue categories. • Major expenditures, including the Proposition 98 guarantee, K-12 and higher education, health and human services would feature two-year forecasts. • Infrastructure investments would be supported by two-year forecasts. • Specific project appropriations also would include two-year forecasts.
February 2009	The Joint Legislative Budget Committee begins oversight hearings on the biennial fiscal plan.
May 2009	Governor releases revised two-year forecast as conditions warrant.
June 2009	By June 15, the Legislature would enact the two-year fiscal plan and Budget Act for the first half of the biennial fiscal plan. The Budget Act would contain appropriations for the entire two-year period if the Governor chose to do so and the Legislature agreed.
January 2010	The Governor would submit appropriations for the second year of the biennial fiscal plan. The Governor may submit revisions to the biennial fiscal plan as the second year appropriations are proposed.

Pioneers and Champions of Multiyear Budgeting

Thirty-two states require multiyear expenditure forecasts as part of their budget process. Forecasts range from two to 10 years. Of those states, 14 use a four-year forecast period.

Arizona. During each annual session, the Arizona Legislature considers funding for all budget units for the following fiscal year. The Legislatures also considers funding for selected budget units for the succeeding fiscal year. The Legislature may also consider supplemental adjustments to the current year's budget as well as reconsideration of any allocations made in advance for the next fiscal year.[15]

New York. New York's Executive budget includes a financial plan covering five years. The Financial Plan contains revised estimates for the current year, expenditure proposals for the next fiscal year and three out-year projections. Revenue and spending forecasts are based on "current services" estimates which include changes proposed by the Governor accompanying the fiscal year expenditure plan.

Oregon. Oregon´s budget covers two fiscal years, beginning in an odd-numbered year. Executive branch agencies start the budget early in even-numbered years and develop agency budget requests by September of those years. The governor prepares what in Oregon is referred to as the Governor's Recommended Budget, which is released in January of odd-number years at the start of a new biennium. The Legislature review's the governor's proposals and adopts budget bills for a two-year budget period. The Legislature has the authority to make changes to the adopted budget through Oregon's Emergency Board or through special sessions.[16]

Texas. Texas utilizes a two-year budget that is developed over the 24 months that precede its enactment. The process begins with the Governor and the Legislature approving agency strategic plans that form the basis for funding requests. The Texas Legislative Budget Board prepares instructions for Legislative Appropriations Requests that guide agencies in developing funding proposals. Legislative Appropriations Requests are reviewed by the Governor's fiscal office as well as the Legislative Budget Board and also submitted to the state auditor and state Comptroller of Public Accounts. The appropriations requests form the basis of Texas's budget legislation that will cover two fiscal years.[17]

Washington. Washington administers a state budget covering two years. The budget is supported by a six-year fiscal outlook beyond the two year budget, constituting an eight-year fiscal forecast for expenditures.[18]

Virginia. Virginia uses a biennial budget that adopts a two-year budget during even-numbered years with amendments considered during odd-numbered years. The budget process is similar to that used by California except that Virginia uses a strategic planning system and performance management tools that form the basis for funding requests. Capital budgeting in Virginia is handled differently. [19]

III

WHEN ONE IS BETTER THAN TWO

Improving the Legislative Review Process

The Legislature's consideration of the Governor's budget is supposed to be open and transparent. Legislative reforms of the early 1970s brought a new openness to the budget-making process. Prior to that time most of the decisions allocating public resources were made behind closed doors. For example, the two-house conference committee that met to hammer out differences between the two houses and the Governor met in private.

A group of newly elected reform-minded legislators arrived in early 1970s and began to open the legislative process to public view. Only some of those reforms remain. Without open and thorough deliberation in the Legislature, the Governor and the legislative leadership, commonly referred to as the "Big Five," are left to work out their differences in private.

The Constitution requires each house of the Legislature to approve a final budget. The process once required the Senate and the Assembly to separately act on its version of a budget so that when the budget went to the two-house conference committee, the agenda reflected policy differences of the two houses.

But the days are gone when the respective house budget committees and the full houses passed their own budgets reflecting their institutional priorities as worked out by the majority and minority parties. Through a parliamentary maneuver by the majority party, the actions of the respective budget subcommittees are simply placed in the two-house conference committee without the benefit of full review and public debate by each full house of the Legislature. For example, in the Senate, the entire education budget - which makes up 55 percent of total spending - is decided by two people, a majority of a three-member subcommittee. The decisions of those two legislators will form the basis for actions by the two-house conference committee and the budget that is finally handed to the Governor. The two houses, much less the minority membership, are not offered a voice by the majority party.

> Fresno leaders also commented on changing the culture of the budget making process:
>
> - *Together, these reform proposals could enable more legislators to better understand and participate in the state budget process.*
> - *A more transparent and accessible budget mechanism will clarify intentions and facilitate earlier consensus.*

Challenges of Separate Budget Reviews

Perhaps more than other factors, term limits and the resulting turn-over of members on budget committees have undermined the capacity of policy-makers to fully explore the implications of budget decisions, assign priorities and pursue their oversight roles.

Policy-makers assert that only through years of budget discussions are they sufficiently educated to understand how best to negotiate with the administration and ensure that resource decisions support public priorities.

As mentioned earlier, California's budget builds upon decisions made in prior years. Awareness of past decisions and the strategies used to address revenue increases and decreases can enhance the Legislature's ability to craft an appropriate budget. Further, primarily through experience, elected officials can hone their ability to use purse strings to effectively and appropriately shape the delivery of public services.

And because the Legislature is focused on the minutia of program-based budgeting, too little time and energy are left to focus on discussion of major issues, such as how to address the reality that a majority of Californians believe the state wastes a significant portion of public money.[20]

Over time, the Legislature's process for developing the annual budget also has become less transparent. Each house of the Legislature acts over a three-month period - in a parallel process - reviewing the Governor's budget proposals for the same programs and departments at roughly at the same time.

This process is intended for the Senate and the Assembly to separately act on a budget – allowing both houses to "speak" and then work out differences between them in a joint house conference committee. The parallel process creates conflicting schedules and two versions of a legislative budget that work to reduce public vetting and debate of critical public issues.

The parallel process undermines opportunities to build early consensus across the Senate and the Assembly. Establishing early consensus in some areas would allow more time for deliberations where consensus is lacking.

Enhance coordination to improve decisions and oversight

The Legislature's consideration of the Governor's budget is an "insider's game." Although the meetings of the budget subcommittees are noticed in the Legislature's daily file, the subcommittees typically involve a dialogue between the members of the committee, the Department of Finance, representatives of the Governor, the Legislative Analyst and sometimes an advocate for a particular program.

> San Diego community leaders suggested:
>
> *California should consider a strategy that is utilized nationally. The Legislature should begin using five-year reauthorizations to force big picture reviews of state priorities.*

While term limits have radically reduced the capital experience lawmakers bring to budget discussions, the process itself is basically the same as when legislative leaders had decades of budget experience. The continuous turnover of budget committee members could be mitigated by involving the members from both houses in program oversight – allowing more seasoned members (such as Senators who have termed out of the Assembly) to sit with members who have been recently elected. The budget process might be invigorated by a larger mix of new and veteran members.

An alternative process would include a greater emphasis on the use of joint house committees to develop state spending plans. The use of a joint committee or joint subcommittee meetings would bring greater coordination between the houses and several benefits to the important public debate over state spending.

One approach among many

California has a basis for joint legislative review of the state budget. One approach would be to adapt the Joint Legislative Budget Committee as the venue for considering the Governor's budget.

Existing law provides for the Joint Legislative Budget Committee (JLBC), which is the committee that oversees the Legislative Analyst's Office and has a variety of statutory duties. It was created by a statute passed and signed by Governor Warren in 1951. An excerpt of its statute outlines the primary duties of the Joint Committee. The JLBC statute is uniquely suited to take on the task of developing the state budget.

> "The committee shall ascertain facts and make recommendations to the Legislature and to the houses thereof concerning the State Budget, the revenues and expenditures of the State, the organization and functions of the State, its departments, subdivisions and agencies, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly. The committee has a continuing existence and may meet, act and conduct its business at any place within this State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions."

The composition of the JLBC could be expanded to include all of the members of the Assembly Budget Committee and the Senate Budget and Fiscal Review Committee. Subject matter committees could be formed and composed of members of each house in the same way that the current house committees are formed to deal with particular subjects. Under this proposal chairs of each house committee would serve as co-chairs.

As a joint committee with statutory powers it would have all of the necessary powers to provide oversight of state programs and administrative departments.

Improving the legislative budget process could be accomplished by improving coordination between the Assembly and Senate Budget committees. For example, during the early phase of the legislative budget process which runs from January through February, the subject matter subcommittees could meet jointly for oversight sessions. This would enable the Legislature to more efficiently organize and deploy the resources that support it.

Potential benefits

Under a joint committee structure, budget leaders would take ownership of budget provisions. Actions by subcommittees would be designed to gain the support of the full committee and be enacted. This alternative committee structure would increase the accountability of budget committee members as their recommendations would be transmitted to both houses of the Legislature for adoption.

Public understanding of fiscal options and thus accountability also would be enhanced. Under these proposals, the fiscal dialogue in the Legislature would be more focused and unified. Budget discussions would be held in a single public forum, with the administration, the Legislative Analyst's Office, and all other interested parties present.

Pioneers and Champions in Joint Legislative Budgeting

California's separate two-house budget process is distinctly different from most other states. California is the exception to the rule with joint meetings seldom scheduled and usually only under extraordinary circumstances.

- **Fourteen states** administer most of their budget responsibilities through joint committees.
- **Five states** consistently hold joint hearings between the two house budget committees.
- House budget committees of another **24 states** meet occasionally on specific major topics.

Arizona. The Arizona Legislature has a Joint Legislative Budget Committee (JLBC) patterned after the California Legislature's JLBC. The primary duties of the Arizona JLBC relate to "ascertaining facts and making recommendations to the Legislature regarding all facets of the state budget, state revenues and expenditures, future fiscal needs, and the organization and functions of state government." The House and Senate of the legislature have Appropriations committees that act on budget requests. The subject-matter subcommittees of the House and Senate Appropriations committees meet jointly to review and act on the governor's budget.[21]

Colorado. Colorado has what has been described as a "strong legislative budget process." Unlike most states, individual executive branch agencies submit budget requests directly to the Joint Budget Committee. The committee has six members, three from each house. Under Colorado law, the legislative branch is required to certify, by joint resolution, the amount from the state's General Fund available for appropriation for the next fiscal year, which forms the basis for appropriation decisions. State statutes also charge the Joint Budget Committee with analyzing the management, operations, programs, and fiscal needs of the departments of state government.[22]

Louisiana. The Louisiana Legislature conducts oversight hearings prior to the introduction of the budget giving the administration a view into the preferences of members of the Legislature.

Texas. The Legislative Budget Board (LBB) is a permanent joint committee of the Texas Legislature that develops budget and policy recommendations for legislative appropriations for all agencies of state government, as well as completes fiscal analyses for proposed legislation. The LBB also conducts evaluations and reviews for the purpose of identifying and recommending changes that improve the efficiency and performance of state and local operations and finances.

IV

Summary

This document suggests three aspects of the budget-making process that limit the ability of the state to meet its continuing commitments while addressing an ever-changing mix of public policy challenges.

The table below displays the three problems and a conceptual solution for each.

The Problem	Conceptual Solution
Each budget builds upon prior year spending, regardless of priorities or performance.	Implement performance budgeting.
The state's one-year fiscal horizon is too short.	Enact a biennial fiscal plan with multiyear forecasts.
The Legislative budget process lacks transparency and limits oversight.	Leverage the effectiveness of the Joint Legislative Budget Committee.

Enacted together, these proposals could strengthen budget deliberations and result in a more effective decision-making process that would improve policy outcomes. As noted in the table on the next page, the relationship between the reforms and how they interact are as important as the individual solutions.

Performance measurement can be the basis for improving investments in public programs and enhancing legislative oversight.

Performance-based budgeting combined with multiyear fiscal planning will enable the Legislature to anticipate needs, make new investments where necessary and shift funding from less essential areas to more essential programs. Biennial fiscal plans will free the legislature to improve program oversight during the second year of a budget term.

These two reforms, combined with a reworked legislative budget process will enable broad discussions of priorities and goals to inform budget and policy decisions. In a term-limited environment, policy-makers would be allowed more time to understand what is working, what is not, and what changes are needed to respond to public needs.

Implementing Fiscal Reforms

Timeline	Year 1	Year 2
January	Administration develops a biennial fiscal plan with first year appropriations. Performance measures are included for each identified program area.	Administration submits revisions to first year appropriations, the biennial fiscal plan and appropriations for the second year.
February/March	Joint Budget Committee reviews conclusions from prior year oversight – based on program goals and performance measures – to inform deliberations. Joint Budget Committee holds overview hearings of the biennial fiscal plan and first year appropriations.	Joint Budget Committee holds overview hearing on second year funding proposals and reviews progress of the biennial fiscal plan. Legislature conducts oversight hearings of major program areas based on performance information.
April	Subcommittees of the Joint Budget Committee hear spending plan for the first year of the biennial fiscal plan.	Subcommittees of the Joint Budget Committee hear spending plan for the second year of the biennial fiscal plan.
May	Administration releases updates to budget year and out-year expenditure and revenue forecasts.	Administration releases updates to budget year and out-year expenditure and revenue forecasts.
June/July	Legislature approves multiyear spending plan and first year allocations. Legislature adopts performance measures for agencies and programs.	Second year appropriations are adopted along with revisions to performance measures.
August	Legislature conducts oversight hearings on the accomplishments of the prior biennial fiscal plan.	Legislature adopts in statute recommendations for the next biennial fiscal plan.

San Diego Session

In Search of Fiscal Responsibility

A Listening Session with San Diego Leaders
March 30, 2007

Sponsored by the San Diego Regional Chamber of Commerce

In response to the Network's presentation on budget reforms, participants in San Diego shared the following comments.

- Some 70 percent to 80 percent of California's budget is on "autopilot," meaning the amount of expenditure is hard to change. Budget subcommittees have tremendous discretion in determining which issues they take on each year. But the public must understand the real constraints facing decision-makers and decision-makers must understand available opportunities to improve outcomes with available resources.

- If California government is to be transparent, efficient and effective, the state must get behind performance-based budgeting. Reform proposals should produce institutional structures that drive the priorities of individual departments and their staff. Those priorities also must be connected to the work of the Legislature. For example, public agencies must be able to understand and communicate cost-related information to managers. And departments must be able to use performance management tools that build upon clear goals for public programs. Without goals and data, policy-makers will only be able to focus on expenditures.

- In earlier years, performance-based efforts did not get past making overly broad goal statements ("motherhood and apple pie"), rather than identifying meaningful objectives that can drive decisions by policy-makers and departments leaders. To succeed, supporters must consider the likely political response to a performance budgeting proposal – which is to adopt the concepts, but not change behavior or focus decision-makers on important public objectives.

- Government agencies provide essential public services. The San Diego economy is built around human and physical infrastructures that support employers. The public sector is the primary provider of both factors. But unlike other states, public agencies in California are not working together to address regional needs. Public agencies in Florida, for example, are working with private companies to lure away employers from California and elsewhere. Here in San Diego, hospitals, government agencies and the universities that could be instrumental in supporting their success do not even talk to each other. One advantage of a performance approach is that it could reveal opportunities to improve collaboration toward common goals.

- An important component of California's fiscal challenges is the state-local relationship and how those tensions get played out through fiscal decisions. California must explore opportunities to give counties the revenue authority they need to meet their responsibilities to provide public services.

- California should consider mandatory fiscal reserves. Utah has mandatory reserves. California is required to have a rainy day fund, but those figures are speculative. The best reserves are transparent and not based on "voodoo" economics.

- California should consider requiring periodic reauthorizations of major programs. The deliberations and scrutiny of a reauthorization forces a big picture review that is focused on the outcomes achieved and changes needed to drive improvements.

- State officials are unlikely to make these reforms a priority. To succeed, budget reforms must become a priority for other leaders. To do that, proposals must demonstrate meaningful and transparent benefits.

- Focus attention on building short-term political support for multiyear budgeting. Many of the elements of multiyear forecasting are challenging from a practical perspective. But a multiyear perspective will push state leaders and the public to recognize how we fund public services, which can be a difficult conversation.

- California has a service-based economy and a goods-based sales tax. As a result, the state is very dependent on income tax. Multiyear fiscal planning may help decision-makers to more clearly recognize that challenge.

- The performance-based budgeting proposal will require the private sector to become a major player in making outcome-based policy-making real. Outcomes need to be based on best-available quantifiable results. The private sector can help create the political traction to make that happen.

- The proposal to expand the Joint Legislative Budget Committee could provide great value. The politics of reducing the number of committee seats will be tricky. One benefit of that change would be to address the challenges of term limits. Today there is little consistency in program oversight. For example, changes to the CalWORKs program are being negotiated by committee members who were not around when the original CalWORKs bill was passed.

- To further develop these proposals, it would be important to understand how California could improve the budget process while working with the budget system that is currently in place. For example, policy-makers and advocates need to see who will be collecting and reporting data on performance and outcomes. And there will be healthy skepticism that what has worked elsewhere may not work in California. It can be difficult to size proposals pioneered elsewhere to fit California, which has a national-size budget in a state format.

San Diego Regional Meeting Attendees

Scott Alevy
Director
San Diego Regional Chamber of Commerce

Erik Bruvoldt
President and CEO
San Diego Institute for Policy Research

Chris Cate
San Diego County Taxpayers Association

Steve Cushman
President and CEO
Cush Enterprises

Senator Denise Ducheny
Senate District 40, San Diego

Randy C. Frisch
Finance Director
San Diego Union-Tribune

Alan Gin, Ph.D.
Associate Professor of Economics
University of San Diego

Harvey Goodfriend
San Diego County Taxpayers Association

Katie Hansen
Associate Director of Public Policy
BIOCOM

Sherman Harmer
Urban Housing Partners

Lani Lutar
Executive Director
San Diego County Taxpayers Association

Jeff Marston
Principal
Marston and Marston

Mitch Mitchell
San Diego Gas & Electric

John O'Neill
Chairman
San Diego County Taxpayers Association

Andrew Poat
Vice President for Public Policy
San Diego Regional Economic Development Corporation

Doug Sawyer
President & CEO
United Way of San Diego County

Greg Stein
San Diego County Taxpayers Association

San Joaquin Valley Session

In Search of Fiscal Responsibility

A Listening Session with San Joaquin Valley Leaders
April 25, 2007

Sponsored by The Maddy Institute at CSU Fresno

In response to the Network's presentation on budget reforms, participants in Fresno offered the following comments:

- To move toward performance-based government, the state must put in place the capacity to collect data on performance. The administration should be charged with gathering and providing data to the Legislature on what it hopes to accomplish and how well it is performing. The New California Network and its allies must engage the Legislature on the value of that information, but it will be an uphill battle.

- One fundamental challenge is to get elected officials to change their expectations and behavior. Today, state legislators are heavily influenced by special interests. The decisions made in Sacramento are not always based on best available options. Policy-makers must be willing to accept changes and the consequences of those changes.

- To succeed, reforms must ensure that the incentives for decision-makers are aligned with goals.

- NCN's reform ideas should explore and explain how they would work within the laws passed through the initiative process. The public perception is that state funding is tied up by past initiatives, which could reduce the value of reforms that have worked in other states. For example, NCN could explore how these proposals would work with ERAF, Proposition 1A, Proposition 98 and other initiatives.

- The tools that NCN has presented are excellent. But the value of any tool is in its proper use. Unless reforms will inspire discipline on the part of decision-makers, they will have little impact. And it is unclear how these tools will overcome the challenges incumbent with term limits. Incoming legislators often have no institutional knowledge, which means that they do not understand important policy issues and often are focused on their next election.

- The multiyear planning cycles envisioned in NCN's reform ideas could assist counties working to address long-term goals with single-year funding. Right now counties cannot carry over funding from one year to the next, which impedes their ability to plan and forces them to spend down all funding prior to the end of the year.

- Any reform proposal must be understood in the context of California's state and local government relations. Performance information is not only for funding decisions in the state budget. Most large state programs impact local government. And much of the state funding trickles down into many local agencies and programs.

- In the past, some state leaders showed a mastery for the budget process that allowed them to implement changes faster than otherwise was possible. Curt Pringle, for example, understood the budget better than most. NCN's three proposals together could enable more legislators to understand how the state operates as well as the opportunities before policy-makers to improve public outcomes.

- NCN's proposals stand on their merit. The challenge will be translating these ideas so that they are consistent with the values of special interests. These reforms would have a better chance of success if NCN could discuss how they would improve the ability of public sector unions and others to achieve their goals.

- Among the three ideas, the most productive and least difficult idea might be to link the Senate and Assembly budget committees into a joint committee.

- The best strategy to sell these ideas might be to bring in experts from other states where they were pioneered to discuss the value to decision-makers and the public. It would be helpful to know how these reforms could result in reduced costs, better service delivery or other improvements.

- Also consider capturing support from key constituencies. The Legislative Analyst might be an ideal ally for these ideas. Her office would benefit from these proposals as they would allow her staff to provide better information to decision-makers.

- NCN's reform ideas seem to be missing a strategic planning component. Strategic planning is key and successfully allowed Sunnyvale and other pioneers of performance-based budgeting to work.

San Joaquin Regional Meeting Attendees

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Fresno Chamber of Commerce

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Fresno County Administrative Office

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Assistant Professor
Department of Political Science
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Kathleen Donowa
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Los Angeles Area Session

In Search of Fiscal Responsibility

A Listening Session with Los Angeles Area Leaders
May 22, 2007

Sponsored by the Judith and John Bedrosian Center on Governance and the Public Enterprise

In response to the Network's presentation on budget reforms, participants in Los Angeles offered the following comments:

- Three challenges have caused political stalemate in California. All reform must happen in the context of those stalemates. First, term limits constrain the ability of elected leaders to develop the leadership skills needed to improve public outcomes. Second, campaign finance laws have limited the capacity of elected officials to buck special interests. Third, reapportionment has resulted in almost no turnover of legislative seats across the parties. It would be important to consider how NCN's proposals would address those constraints.

- In a world of limited resources, it is important to look at how different programs compare and allow decision-makers to focus on the relative value of specific choices. Performance-based budget reforms must enable policy-makers and the public to understand choices and tradeoffs and make the best decisions possible in the context of real-world fiscal constraints.

- Policy-makers need a forum that allows them to set priorities in a public way, particularly in an environment of declining resources. Less important than when you have a surplus. California has moved to subcommittee budgeting, which in effect has abdicated the Legislature's responsibility to create a spending plan and turned that responsibility over to the Governor. When policy-makers refuse to set priorities, they essentially leave those decisions up to someone else. In this case, it is either the Governor or departments.

- Making expanded use of California's Joint Legislative Budget Committee to craft a bicameral budget could improve state budget decisions. The proposal certainly would improve the balance in decision-making authority across the two branches of government. But getting there would be tough politically. The competition between the two legislative houses would likely get in the way.

- Part of the challenge for California is to rein in ballot-box budgeting. Setting fiscal policy through the initiative process undermines the ability of elected leaders to set priorities. Proposition 10, for instance, locks in spending decisions that assume priorities will never change. In the real world of public finance, there is only so much money to go around, and locking in spending decisions leaves less funding for everything else. As a result, some programs get pushed down the priority list, and in California those programs include health care, social service programs, and higher education.

- When we make future spending decisions – especially decisions that are locked in through an initiative – based on how much money a program received last year, then the state has enormous problems, because it locks in the distribution of funds and does not allow us to periodically reassess our priorities.

- In California's term-limited and campaign finance environments, Democrats only speak as if there is unlimited funding and Republicans only speak as if there is no money at all. Our system has made it near impossible for compromise.

- For performance-based approaches to budgeting and management to work, the administration must have a vision for strategic management. Legislative-driven reforms that focus on performance will falter because they require management leadership. Thus there is a role for the executive and the legislative branches to manage toward better outcomes. At the state-level, the Department of Finance has a key role in making performance approaches work, because that department must work with the Governor to create and implement that performance management vision.

- NCN's proposals have merit, but they need to create the constituency to make reforms possible. Thus it would be important to understand who would support these reform ideas and who would be threatened.

- Public sector unions and others could be important constituencies for these proposals. But the details on any given reform proposal will be important to understanding how constituencies may see value. With the proposal for multiyear fiscal planning, that seems like a proposal that many could support. The change to the legislative process is more difficult for external organizations because it is unclear how the change would help them achieve their goals. On performance-based budgeting, that proposal is the most problematic because it is difficult for constituencies to understand what the reform could mean.

- In the NCN presentation, on one slide it asks Who Cares that California's fiscal situation is problematic. It would be important to get constituencies to consider why they care about the state budget.

- Budget reforms will require attention to the details. Policy, budget and management decisions are connected. But policy-makers often treat them as if they are not. At the political level, few policy-makers think about how performance data could help them get elected and thus they might be challenged to spend limited political capital on developing better information on performance.

- There also is a disconnect between managers and line staff. Until you get people to agree on valid incentives, you will be challenged to get them to work together on performance issues.

- Senator Roberti in his comments raised the issue of the relative value of different programs – health care, education and social services, for example. It would be important to potential constituencies to consider how NCN's ideas would help policy-makers and others make better decisions about the trade-offs across program areas as well as within program areas.

- Also must consider that much of what government does is not easily quantifiable. If we only put money into programs that can provide us with easily quantifiable data on performance, then we will ignore much of what government does.

- One exciting opportunity in these reform ideas is the ability to use longer term fiscal forecasts and planning to move the discussion away from fiscal position in a given year, to a discussion of California's overall fiscal condition. Longer term fiscal planning and forecasts can ensure the state's fiscal condition is solid, without losing sight of our fiscal position in a given year.

- As NCN moves forward with these ideas and conversations, it would be important to position an accountability strategy within each proposal. The public is looking for improved accountability. They want to know what they are getting for their money. Accountability could be improved through each of these reform ideas.

- Our system of governance and budgeting is broken. We need to build a larger strategy. Budget reforms are essential, but an improved budget process alone will not get the job done for California and Californians.

- One advantage of multiyear fiscal planning is that it will make it easier to see the limitations of short-term budget gimmicks that get the state past an immediate fiscal dilemma. If policy-makers are using accounting tricks or shifting funds from one pot to another, that should show up in the longer-term fiscal planning and forecasts because delaying a payment from one year to the next would be captured in any revenue discussion for the second year.

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Bay Area Session

In Search of Fiscal Responsibility

A Listening Session with Bay Area Leaders
June 19, 2007

Sponsored by the Association of Bay Area Governments and the Bay Area Economic Forum
Hosted by the Public Policy Institute of California

Dean Bonner provided opening remarks. Mr. Bonner's presentation can be accessed through the New California Network's website at www.newcalnet.org.

Following Mr. Bonner's presentation, Jim Mayer and Fred Silva presented the New California Network's conceptual budget reform ideas. In response to the Network's presentation, participants offered comments reflecting the following themes:

Translating budget challenges into public values: For some, poor fiscal management – as reflected in ongoing operational deficits – is the problem to be solved. For others, improved fiscal management must translate into better public achievements, in health care, transportation, social services, employment and other essential public programs.

Implementation challenges: Performance strategies, long-term vision and improved process can focus attention on high value public priorities, but do not underestimate the implementation challenges. Consider thoughtfully who will be supportive, who will be threatened and how to proceed when information is lacking and support limited.

Listen to the lessons of others: Many states have made progress where California has not, and those lessons offer value. But there is no silver bullet. There are only opportunities that must be explored and attempted.

The budget process is inherently political. Underlying all process reform, public policy making is an art form practiced by politicians. Performance measurement is not simply a counterweight to the political process.

Specific comments include the following:

- In NCN's presentation, California's fiscal challenges are captured in the form of the structural deficit, but it is unclear how the proposed reforms would address the deficit. To improve public understanding of the value of the proposed solutions, NCN should be explicit on how the strategies would address CA's fiscal challenges.

- Performance measures are essential under NCN proposals, but many public agencies struggle to put in place appropriate measures. And many of those measures have been designed to allow public officials to avoid accountability, rather than document results. It would be helpful to understand how NCN would address these concerns.

- The legislature is notorious for not listening to the people; ballot initiatives are draining dollars, and the burden trickles down to the local level. To move forward, any reform strategy will need to change the mindset in Sacramento such that the legislature is willing to accept reforms which have shown progress elsewhere.

- Be cautious when turning to other states as models. Even in Idaho and Virginia, where some progress has been made, most agency budgets continue to build upon prior year spending. These states may have worked out some challenges, but be careful not to idealize those efforts.

- Many challenges in other states relate to how a performance framework is conceptualized. Most state programs are simply clusters of administrative activities. Meaningful reform may need to go back to the planning process for public programs. One possible solution may be to focus public dialogue away from gross or tiny indicators and on the broad goals of public programs.

- Performance-based budgeting creates focus. It can get an organization asking: What is our mission? What is our focus? As soon as we start measuring we start focusing. Performance-based budgeting brings natural improvement.

- Realistically, in California it is difficult to have any improvement before you get around the "2/3-vote strangle-hold" on the budget. California is among perhaps three states with such a vote requirement.

- To move forward and capture the attention of the public, NCN will need to make it clear that there are broad outcomes that the government can achieve so that it's clear how performance measures fit together.

- The reason that voters have supported ballot box budgeting is that they are given a single question – such as do you support education – instead of being asked to make tough allocation decisions. Longer term strategic looks are needed at heavy capital investments, like infrastructure. But elected officials will be reluctant to hand over the tools the emerging technocrats will need to make decisions.

- Do not underestimate the difficulty of coordinating major social service data sets. The need to look across service delivery systems is complicated with existing data sets, thus innovation is hampered.

- To better communicate with the public, it will be important to indicate how these reforms will have an effect on the personal lives of Californians, such as the impact on highways or schools.. If the public does not trust government, it will be a hard sell to get them to support budget reforms. The presentation should be grounded more in real things that people see, to show them that life can be better with these new tools.

- Some public sector functions can be easily measured. But in important areas, such as the social services, including child welfare, it can be exceptionally difficult to measure progress or outcomes. It would be helpful to understand how the reform you are proposing would deal with innovations in prevention.

- A focus on taxpayers is not immediately clear in these reforms. State government has an uphill battle in garnering the attention of the public because it provides the least actual value to taxpayers. NCN will need to connect the operating deficit with its reforms to enable taxpayers to understand the value of what you are proposing.

- Performance measures are imperative. The state will need to figure out on a department basis what is most important to achieve. State leaders can use proxies in the beginning. For example, in the first few years that focus can be on outputs until state leaders can figure out how best to capture information on outcomes. The only nitpick on NCN's presentation: appropriations should be biennial. The legislature should allow the executive branch to move forward with two years worth of spending.

- To explore the practical issues associated with these ideas, it would be helpful to know how these reforms were pursued in other states. Be prepared to discuss who led those efforts, who was threatened and how conflicts were addressed.

- Do not neglect the reality that the budget process is inherently political. The people have a profound distrust of state government. Budget decisions are made through political will and political influence. It's not about what we cut, it's about what we have that we might be able to make a little more effective. Government could learn a few things from business. Business has very easy metrics: did we increase our market share, make more money? Head Start does not have such an easy time. Do not worry about the specific metrics, just allow measures to indicate if we are doing a good job.

- Do not forget the 4-year-old who needs dental care who pays no taxes and has no vote. Learn from other states, and get back to civic engagement and public trust. We must figure out how to enlarge the conversation to get people to talk about civics. To talk about government, how it works and how it doesn't. This is the framing of a process that if we are lucky will get us to solutions.

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Frequently Asked Questions

In presenting the New California Network's budget reforms, several questions are consistently raised. To address frequently asked questions, we have prepared the following responses.

Q. Much of state funding is tied up in funding guarantees, such as Proposition 98 that established a constitutional minimum funding guarantee for schools and community colleges, or long-term commitments such as the Medi-Cal program. How would these structural limits on funding decisions impact NCN's reform ideas?

A. The adoption of performance measures in the budget process and use of using a multi year fiscal planning will allow the Governor and Legislature to better manage fiscal resources in the implementation of state obligations under the constitution. Generally, constitutional and related statutory limits on budget decisions restrict policy-makers' ability to move funding form one program area to another. For example, Proposition 98 guarantees a set amount of funding for education. Propositions 10 and 63 levied specific taxes dedicated to child development programs and mental health services respectively. But these propositions, with some exceptions, do not dictate how that money is to be spent within the program areas. The budget reforms identified by NCN would thus enable policy-makers to make more effective decisions regarding how the money is spent without jeopardizing the mandates in the constitution.

Q. Since major policy is often set through the initiative process, won't it be difficult to administer programs when the rules are set by the voters?

A. Application of performance measures and multiyear planning will improve the performance of programs whether they are established through the legislative process or the initiative process. Both tools will allow policy-makers and administrators to better understand whether programs are working, what changes may be needed to improve outcomes, and how the state must prepare today to respond to future needs.

Q. Term limits have reduced the number of years legislators can be in office. How will these ideas help elected officials quickly learn how to do their job?

A. Evidence from other states suggests that newly minted lawmakers and seasoned veterans will both benefit from state budget reforms. California's budget process builds upon prior year funding. Veteran lawmakers report that its takes many years to understand the budget and how to impact public programs because so many of their decisions are incremental. The availability of performance measures and improved multiyear planning will allow policy-makers to more quickly define their expectations for the operations of public programs and the outcomes they achieve, as well as help them understand whether public programs are progressing toward those goals. Further, enhanced use of the Joint Legislative Budget Committee would create additional opportunities for veteran lawmakers to guide and mentor newly elected policy-makers as they collaborate to craft a joint Senate-Assembly budget.

NEW CALIFORNIA NETWORK

Statement of Principles

A declaration for a fiscally responsible, smartly managed, 21st century state government

While Californians define the future, their government is stuck in the past. Narrow political agendas divert attention from critical problems, and potential reforms are imprisoned by partisan gridlock. True "good government" proposals get squashed as soon as they challenge entrenched interests.

Elected officials – confronted with a prolonged fiscal crisis – dodge difficult decisions and push the consequences into the future. While four out of five Californians are dissatisfied with their government, lawmakers find refuge in partisan stalemates.

The New California Network believes that reform is not only possible, it is imperative.

California is governable. But that government must serve, communicate with, and be accountable to all Californians – not just those who have voted in the past or who contribute to political campaigns.

State government can set the industry standard. But that government must be grounded in the global and knowledge-based economy of the new century. Schools, transportation systems, prisons and even the Department of Motor Vehicles must incorporate and support innovation.

Fiscal responsibility is essential to restoring public trust. Budget gimmicks and inappropriate debt drive up costs and leave the bills for our children. Spending money without focusing on results further erodes the public's confidence in government.

To restore state government, Californians must first reclaim it. Reforms need to be initiated in open and nonpartisan venues, and they must be developed with the meaningful involvement of Californians and their community leaders.

The following principles are a starting place for thoughtful and respectful discussions that can lead California past the gridlock and toward a government that is modern, responsive, effective and accountable. Californians can contribute to this effort by endorsing the principles, learning more about the challenges facing the state, and communicating their concerns and ideas to community leaders and elected officials.

Principle No. 1: State leaders need to set priorities and live within the state's means.

The state budget should fund the public's highest priorities, plan responsibly for future years, and link spending with specific results.

- Increases in spending should be limited to real indicators of population and economic growth.
- Just like responsible families, policymakers should create a savings account – setting aside money in good years so basic needs can be met in lean ones.
- Budget decisions should be based on evidence that Californians are getting their money's worth. Money should be shifted to the most effective programs. And programs that are not making an important difference should be eliminated.

Principle No. 2: Public dollars need to be better managed.

California's public programs should provide high-quality and cost effective services.

- Programs need to be better designed, better managed and incorporate new technologies to reduce costs, improve services and show results.
- Public managers need greater discretion and incentives to make changes and then be held accountable for progress toward established goals. The performance of government programs should be clearly reported and easily accessible to the public.

Principle No. 3: State and local governments need to work together.

State and local government leaders need to realign the responsibility for operating programs with the authority to get the job done.

- California needs to link the ability to raise and allocate revenue with the responsibility for achieving results.
- Cities, counties and special districts should be encouraged to develop shared services to reduce costs and improve results.

Principle No. 4: We need to build and protect California.

Energy, transportation, communications, schools and other investments should strategically position California to prosper in a global marketplace while protecting natural resources and cultural assets that set California apart.

- Consistent investments in public facilities need to be smartly designed, constructed and managed to improve the state's economic competitiveness and quality of life.
- The state should seek out the most efficient and innovative ways to meet public needs and encourage private investment in facilities that serve the general public.
- When appropriate and practical, the costs of improving facilities should be paid by those people who directly benefit.

Principle No. 5: California needs a 21st century tax system for a 21st century economy.

California's revenue system should support important public goods and services in ways that are fair, reliable and do not discourage investment and innovation.

- Taxes and fees should provide a reliable source of revenue so that in good times and bad times important public services can be provided with skill and competence.
- The revenue system should be based on a knowledge and service-based economy. When possible, taxes and fees levied should be linked to the services provided.
- The revenue system should not discourage the investment, job creation and sound land-use decisions that are essential for all Californians to prosper.
- The tax system should be modernized regardless of whether taxes are increased or decreased. After improving the performance and accountability of government programs, the public and their elected officials can determine whether taxes should be raised or lowered.

To publicly endorse these principles, please visit www.newcalnet.org

New California Network

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