California’s budget process is a tremendous year-long effort involving all government agencies. The budget cycle, its difficulties, and its mechanisms can be better understood by dissecting it into two stages.

### STAGE 1

- **July 1**: Current budget is enacted. Department of Finance distributes budget letters to government agencies.
- **September, October**: Agencies submit budget requests to Department of Finance.
- **October, November, December**: Department of Finance meets with agencies to review requests.
- **January 10**: Governor submits proposed budget.

### STAGE 2

- **February**: LAO submits budget analysis and recommendations.
- **March, April**: Legislature holds public budget hearings with representatives from agencies, Department of Finance, and key stakeholders.
- **May**: Department of Finance submits the May Revision of the budget.
- **June 15**: Legislature approves budget by 2/3 majority vote.
- **June 15 – June 30**: Governor can either:
  1. Sign budget for immediate enactment, OR
  2. Veto individual items, in which case the legislature can override his veto with 2/3 majority vote.

**STAGE 1**: The first stage of the cycle lasts from July 1 to January 10. The Department of Finance and the rest of the executive branch are significantly involved in this stage.

- **The Department of Finance distributes “budget letters” to all government agencies.** California’s budgeting cycle begins annually on July 1, immediately after the current budget is enacted. At this time, the Department of Finance distributes policy and financial guidelines based on the governor’s priorities and the Department of Finance’s revenue and procurement cost forecasts. These guidelines are known as “budget letters.”

- **After agencies submit their requests, they meet with the Department of Finance to discuss their requests.** By September or October, government agencies must submit their budget baselines, requests, and other relevant information to the Department of Finance. From October to December, the Department of Finance meets with agency officials to discuss agency requests.

- **The governor submits the first version of the budget, and the nonpartisan Legislative Analyst’s Office (LAO) reviews it in detail.** The governor submits a publicly available version of the proposed budget on January 10 and provides an overview of the budget in his State of the State address. The LAO conducts an objective and detailed analysis of the budget.

**STAGE 2**: The second stage of the budget cycle begins after the governor has submitted the budget proposal and continues until the final budget is passed and enacted. Although the governor and the Department of Finance continue to play a role in this second stage of the budgeting process, the prominence of agencies diminishes and the legislature assumes primary responsibility in developing the budget.

- **The legislature hosts public hearings to discuss all budget requests.** In February, the LAO submits its budget analysis and recommendations, and for the following two months, public hearings are held during which the legislature receives testimony from agencies’ staff, the Department of Finance, and numerous key stakeholders in the public sector. These hearings are open to all members of the public and are accessible online.
The Department of Finance submits the May revision of the budget. After collecting data on new economic and demographic developments throughout the state and considering the proposals and testimonies set forth in the legislative hearings, the Department of Finance submits the revised budget to the governor, who releases the publicly available May revision of the budget, which is again followed by the LAO’s analysis. The legislature generally waits for this revision before making decisions on the largest budget programs.

The legislature approves the budget. After the May revision of the budget is submitted, the legislature is mandated by law to approve a budget by a two-thirds majority vote no later than June 15. After the legislature approves the budget, the governor can either sign the budget for immediate enactment or veto individual items, in which case the legislature may override his veto with a two-thirds vote. By law, the new budget must be enacted on July 1. Per Article XIII B of the California Constitution, the budget cannot prescribe expenditures from tax proceeds in excess of previous year’s expenditures, adjusted for population growth and the cost of living.

Practices Commonly Used in the Budget Process

Many states use a variety of budget practices to facilitate the budget process (see table and figure below). Such practices do not necessarily affect the overall size of the budget, but they provide information on the justifications and processes by which funds are allocated, and the practices are thus perceived as important transparency and accountability indicators by the general public and financial creditors. Some of these are:

- Establishing funding targets for agencies
- Permitting legislative access to the budget prior the governor’s release of the proposed budget
- Using agency performance measures
  - performance measurement
  - performance management
  - performance budgeting
- Submitting a mid-session revision of the budget

California’s Budget Practices

Mid-Session Revision. The only practice that California uses consistently is the mid-session revision (the May revise), while similarly populated states such as Florida, Illinois, and Texas use three of the four measures.

Performance Measures. Performance measures are available but rarely used in California’s budgeting process. Supporters of this practice argue that it offers a valuable perspective in shaping a budget. By examining agency goals, expenditures, and outcomes in evaluating a funding request, the legislature and governor can make better-informed decisions about how to appropriate future funding. Performance measures provide a tangible guide in determining the allocation of government funds.

Agency requests for increases in funding are reviewed during legislative hearings in the spring. In order to strengthen their case for increased funding, some agencies compile performance measures that describe and quantify agency goals and that measure their recent progress in achieving these goals. However, in reviewing individual budget items, the Assembly and Senate generally place more weight on the funds received by agencies in previous years than on the performance measures to determine future budget allocations.

Legislative Access to the Budget. Although a majority of states permit agencies to disclose budgeting request information to the legislature prior to the governor’s budget submission, California’s budget letters explicitly forbid agencies to disclose the information contained in their budget requests until after the governor submits his budget to the legislature in January. California bars legislative access to the budget prior to the governor’s release, and as a consequence, legislators might approve or deny agency requests based on incomplete information.
### Budget Practices in California and Nationwide, 2002

<table>
<thead>
<tr>
<th>Budget Practice</th>
<th>Practice Implemented in California</th>
<th>Total Number of States Implementing Practice</th>
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<tr>
<td>Funding Targets</td>
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<td>Legislative Access</td>
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<tr>
<td>Mid-Session Revision</td>
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Agency requests must follow predetermined dollar amounts.
Legislature allowed to review agency budget requests before governor submits proposed budget.
Agencies measure performance of various programs.
Agencies use performance measurements to determine budget allocations among their programs.
Agencies use performance measurements to justify requests for continued or increased funding in next fiscal year.
Governor is permitted to submit a revised budget after incorporating updated information from legislature and Department of Finance.