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# Principles for improving state fiscal decisions

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***Published 12:00 am PDT Sunday, June 22, 2008***

In recent decades, California's fiscal system has evolved in ways that have made it difficult for state and local agencies to consistently provide high-quality services and proficiently respond to complex problems. The fiscal system does not suffer from a single ailment, and many of its infirmities are the unintended consequences of previous efforts to "fix" the system or respond to the imperative of the moment.

For California to achieve its economic, social and environmental goals, government agencies must manage revenues to continuously improve the quality and efficiency of education, transportation, public safety and other programs. This will require comprehensive changes to the fiscal system and how key decisions are made.

The significant gap between revenues and spending is a symptom of this dysfunction. Given the size and complexity of the issues, strategic and incremental changes are more likely to succeed. A logical first step is to improve the state's annual budget process – the central venue for fiscal choices that then ripple through the thousands of public agencies statewide. Five major problems and principles for solutions follow.

**Problem:** The state's spending obligations grow faster, on average, than revenue.

**Solution:** • Control escalating costs. The state needs to systematically scrutinize fast-growing expenditures to control costs or get the job done in a different way.

• Pay as we go. New programs and major expansions of existing programs should have an identified funding source as a condition of approval.

• Analyze the impact of tax breaks on the budget. Incentives in the tax system should be analyzed periodically to determine if they are effective.

**Problem:** California's volatile revenue system requires better fiscal management to ensure reliable public services through good times and bad times.

**Solution:** • Manage one-time revenue. Major "spikes" in revenue should be used to maintain a significant reserve and one-time purposes, such as infrastructure investment or tax rebates.

• Manage midyear shortfalls. The state needs a joint executive and legislative response to declining revenue during the budget year.

- Modify the tax system. One ingredient to long-term fiscal balance is to adjust the tax system to reflect the contemporary economy.

**Problem:** The one-year lifespan of the state budget puts too much emphasis on matching revenue and spending in a single year rather than strategically investing public dollars to meet critical needs over the long-term.

**Solution:** • Consider long-term impacts. When making fiscal decisions, policy-makers and the public should understand the long-term fiscal impacts of choices to better control costs and improve the return on investment over time.

- Evaluate long-term impacts of budget decisions. Increase public awareness of long-term commitments.

**Problem:** While the budget appropriates more than \$140 billion a year, it does not set clear priorities or ensure that dollars are allocated in the best way to achieve results.

**Solution:** • Focus on results. The governor's proposed budget and the budget act should be developed and discussed with a focus on improving results.

- Publish the results. Californians and their elected leaders should have information on the quality of public services and the impact of those services on individuals and communities.

**Problem:** Elected officials spend more time debating incremental changes in state spending than whether money is well spent – and how it can be better spent in the future.

**Solution:** • Seek agreement on goals. The Legislature should organize its fiscal activities to achieve broader agreement on the state's goals and the fiscal choices that will best advance those goals.

- Conduct better oversight. The Legislature should systematically review the performance of programs and their contribution to the state's goals and objectives, and encourage expert and public comment on how public funds could be better used to achieve objectives.

**Source:** California Forward

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