

Public Utilities Commission's Zero-Based Budget

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Committee on Utilities and Commerce
Hon. Anthony Rendon, Chair





Background

- Mission and Responsibilities.*** The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned “public utilities,” including gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The CPUC also administers programs that provide subsidized utility services to certain underserved populations and support research and development activities. The CPUC’s primary responsibility is to ensure that the utilities provide adequate service to the public at equitable and reasonable rates.

- Budget.*** The 2015-16 budget includes \$1.5 billion from various state and federal funds to support CPUC’s activities. State funds are generated from charges assessed on regulated entities and ratepayers. The budget includes no General Fund resources to support CPUC’s activities.



Increased Legislative Oversight of CPUC's Budget



Recent Legislative Concerns About CPUC's Operations.

In recent years, several incidents and reviews led to legislative concerns about CPUC's operations. For example, a December 2012 audit conducted by the Office of State Audits and Evaluations at the Department of Finance identified significant weaknesses with CPUC's budget operations. Some of the deficiencies identified were ineffective assignment of budget duties, insufficient staff training, and inadequate fund balance reconciliations.



Legislature Requires CPUC to Provide Zero-Based Budget (ZBB).

In response to these concerns, the Legislature approved budget-related legislation in 2013 (Chapter 356, Statutes of 2013 [SB 96, Committee on Budget and Fiscal Review]) which included a requirement that CPUC conduct a ZBB for all of its programs by January 10, 2015.



What Is a ZBB?

- ☑ **Analytical Justification of Each Budgeted Activity.** Generally, the term ZBB refers to a system of budgetary review that requires analytical justification for each program or activity proposed in the budget. In contrast to typical budgeting practice, ZBB involves review and approval of part or all of an organization's budget, rather than just the incremental, year-over-year changes.

- ☑ **Types of ZBBs.** In practice, ZBBs have evolved over time and currently take many different forms. Some of the different forms or alternatives used by governments include:
 - **Standard ZBB.** This is generally used to help clarify the minimum level of funding needed to continue to operate a program and the trade-offs between additional funding levels and service levels.
 - **Zero-Line Item Budgeting.** This attempts to identify the minimum level of funding needed to provide a given service level.
 - **Alternative Budgeting.** This attempts to assess the degree to which different spending levels would affect the level of service provided by various programs.
 - **Periodic Agency Review.** This is a comprehensive review of an agency's mission, legal requirements, and whether the agency's allocation of resources reflects its mission and priorities.



CPUC Informational Budget Report

- Provides Description of Commission's Requirements, Activities, and Resources.*** In January 2015, CPUC submitted a document to the Legislature entitled *Informational Zero-Based Budget to Provide Transparency Into Operations of the California Public Utilities Commission*. The report generally answers the following questions:
 - What are CPUC's legal requirements and responsibilities?
 - What types of activities does the commission conduct to fulfill its responsibilities?
 - How many resources—including CPUC staff and funding—are allocated to the different types of activities?

- Offers Insight Into Breadth of CPUC Responsibilities and Activities.*** Given the breadth of responsibilities and activities within CPUC, the information in the report can help the Legislature better understand what CPUC does and how many state resources it has devoted to various activities. For example, someone interested in CPUC activities related to electric power procurement and generation—such as the state's renewable portfolio standard—could use the report to learn more about CPUC's regulatory authority and how many state staff are assigned to different types of activities related to oversight of electric procurement and generation.



CPUC Informational Budget Report

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Lacks Analysis of Activities and Resources. Based on our understanding of the various types of ZBBs, the CPUC report is not a ZBB. A common goal of most ZBBs is to encourage government agencies to analyze their existing resources in an effort to determine whether resources could be deployed in a more efficient and cost-effective manner. While the report includes a *description* of current activities and resources, it lacks a comprehensive *analysis* of these activities and resources. The report does not provide an analysis of the minimum level of funding needed to achieve current service levels or an analysis of the degree to which having higher or lower funding levels would affect the amount or quality of services provided. Without such an analysis, the report provides relatively little information to inform the Legislature about potential changes to the level or distribution of resources provided to CPUC.



Issues for Legislative Consideration

The report includes a significant amount of descriptive information about CPUC's current operations and activities, but very little analysis of current resources and activities. The Legislature will need to determine what, if any, additional analysis it wants. The Legislature may want to consider some of the following issues when weighing its different options.



Be Clear About Goals and Expectations

- Chapter 356 did not include detail about the Legislature's goals and expectations for the ZBB. If, going forward, the Legislature wants additional information or analysis, it would be helpful to provide more specific guidance on its goals and expectations.
- For example, if the Legislature is interested in information on more specific aspects of CPUC's operations, such as contracting practices, it may want to be more specific about those goals when requesting any additional analysis.



Goals and Expectations Should Drive Additional Direction to CPUC

- If the Legislature determines that it would like additional analysis or information, its goals and expectations should help inform what *type* of additional analysis or information it needs.
- For example, if the Legislature is interested in an analysis of the degree to which CPUC is following contracting requirements or whether the existing contracting requirements are adequate, then a ZBB might not be the most effective tool. An audit of past contracting and the degree to which they comply with state statute and regulations might provide more useful information in this area.