

March 9, 2016

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

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# 2016-17 Budget Overview

Presented to:  
Assembly Budget Subcommittee No. 3  
On Resources and Transportation  
Hon. Richard Bloom, Chair





## Resources and Environmental Protection Budget Summary

*(Dollars in Millions)*

Agency	2013-14 Actual	2014-15 Estimated	2016-17 Proposed	Change From 2015-16	
				Amount	Percent
<b>Natural Resources</b>					
General Fund	\$2,379	\$2,730	\$2,909	\$179	7%
Bond funds	820	4,114	504	-3,610	-88
Special and federal funds	1,548	1,865	1,867	2	—
<b>Totals</b>	<b>\$4,746</b>	<b>\$8,709</b>	<b>\$5,280</b>	<b>-\$3,429</b>	<b>-39%</b>
<b>Environmental Protection</b>					
General Fund	\$70	\$325	-\$31	-\$356	-110%
Bond funds	351	1,822	34	-1,788	-98
Special and federal funds	2,974	3,368	3,722	354	11
<b>Totals</b>	<b>\$3,396</b>	<b>\$5,516</b>	<b>\$3,725</b>	<b>-\$1,791</b>	<b>-32%</b>
<b>Food and Agriculture</b>					
General Fund	\$69	\$90	\$81	-\$9	-10%
Bond funds	—	1	1	—	—
Special and federal funds	238	335	333	-1	—
<b>Totals</b>	<b>\$307</b>	<b>\$426</b>	<b>\$415</b>	<b>-\$11</b>	<b>-3%</b>
<b>Public Utilities Commission</b>					
Special and federal funds	\$1,205	\$1,483	\$1,743	\$260	18%
<b>Totals, All Agencies</b>	<b>\$9,654</b>	<b>\$16,133</b>	<b>\$11,163</b>	<b>-\$4,970</b>	<b>-31%</b>



## Major Budget Changes— Resources and Environmental Protection

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- Total Spending of \$11.2 Billion in 2016-17.*** The Governor's budget proposes spending a total of \$11.2 billion for departments within the California Natural Resources Agency and California Environmental Protection Agency, as well as for the California Department of Food and Agriculture and California Public Utilities Commission (CPUC).
  
- Modest General Fund Increases for Resources Departments.*** Historically, the General Fund has provided roughly half of the funding for resources departments.

  - The budget proposes an increase of \$179 million from the General Fund in 2016-17, primarily reflecting (1) increased general obligation bond costs (\$75 million), (2) an increase in drought-related funding (\$65 million), and (3) a new proposal to provide the California Energy Commission with funding to research climate change (\$15 million).
  - The budget also includes a separate one-time appropriation of \$187 million from the General Fund for deferred maintenance, such as levee repairs and improvements at state parks.



## Major Budget Changes— Resources and Environmental Protection

*(Continued)*



### ***Continued Spending Increases From Special Funds.***

Historically, most funding for environmental protection programs and CPUC has come from special funds.

- The budget reflects a net increase of \$354 million from various special and federal fund sources for environmental protection programs. This includes an increase of \$484 million from the Greenhouse Gas Reduction Fund for the Air Resources Board and the Department of Resources Recycling and Recovery.
- The California LifeLine program administered by CPUC provides discounted telephone service to low-income households. The Governor's budget provides an increase of \$282 million (81 percent) for the program. The cost increase is largely driven by additional subscribers for wireless service, which CPUC added to the program in 2014.



***Bond Spending Down From Current Year.*** The Governor's budget reflects a total reduction of \$5.4 billion in bond spending for resources and environmental protection departments. This reduction reflects (1) major bond appropriations in 2015-16 related to water (Proposition 1 of 2014) and flood (Proposition 1E of 2006) projects and (2) how bond spending is reflected in budget documents.



## Key Policy Questions for Legislature In Proposed Resources and Environmental Budgets

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- Cap-and-Trade.** The budget includes a \$3.1 billion expenditure plan for cap-and-trade auction revenues. Funding is proposed to be distributed among more than two dozen programs, including many administered by resources, environmental protection, and food and agriculture departments.

  - To what extent has the administration provided sufficient information for the Legislature to evaluate the potential of each program to achieve greenhouse gas (GHG) reductions and other co-benefits, such as water savings, reductions in air pollution, and benefits to disadvantaged communities?
  
- Proposition 1—2014 Water Bond.** The budget includes \$465 million from Proposition 1 to address four state commitments for restoration activities related to the Klamath River, Central Valley Project Improvement Act, Salton Sea, and San Joaquin River.

  - What is the best way to allocate funds among these four projects—as well as Tahoe restoration activities, which are also identified in the proposition—given the total amount of resources necessary to complete the projects, the state’s role, the urgency of making progress, and various project uncertainties?
  
- Drought-Related Funding.** The Governor’s budget provides \$323 million—about two-thirds from the General Fund—in 2016-17 for drought-response activities.

  - How should the Legislature prioritize funding in the budget year given uncertainty about what the remainder of the water year will look like?
  - What steps should the state take to ensure that lessons learned from the current drought can inform and improve responses to future droughts?



## Key Policy Questions for Legislature in Proposed Resources and Environmental Budgets

*(Continued)*



### ***California Conservation Corps Residential Center***

***Expansion.*** The budget includes \$400,000 from the General Fund for the acquisition phase of three new residential centers. However, the administration's 2016 *Five-Year Infrastructure Plan* identifies these projects as the first phase of a major facility expansion with eight new centers identified in coming years at a cost of \$170 million over the next five years (and additional construction costs in out years).

- To what extent is an expansion of the residential program a legislative priority for the General Fund?
- Has the administration provided clear evidence of the programmatic benefits of residential programs and that these benefits justify the additional capital and operating costs that would be incurred?



### ***Motor Vehicle Fuel Account Transfer to State Parks.***

The budget redirects \$31 million in fuel tax revenue that would otherwise go to the Off-Highway Vehicle (OHV) Trust Fund to the State Parks and Recreation Fund (SPRF) on a one-time basis to cover a structural deficit in SPRF.

- How does the Legislature balance its historic intent that these revenues be used to benefit OHV users with the alternatives for balancing the SPRF structural deficit, including use of General Fund or budget reductions?
- What progress has the department made in implementing legislative and other reforms aimed at improving park operations and revenues?



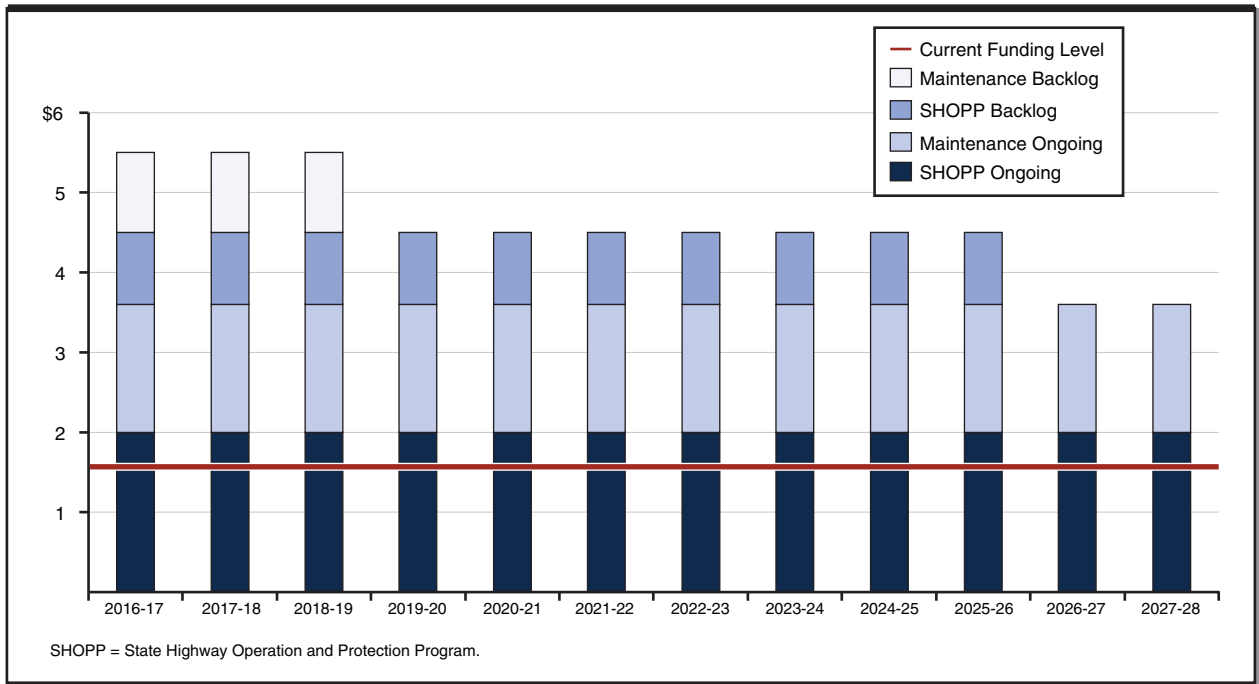
## Transportation Budget Summary— Selected Funding Sources

*(Dollars in Millions)*

	Actual 2014-15	Estimated 2015-16	Proposed 2016-17	Change From 2015-16	
				Amount	Percent
<b>Department of Transportation</b>					
General Fund	\$83.4	\$84.0	—	-\$84.0	100.0%
Special funds	3,189.5	3,564.8	\$4,255.5	690.6	19.4
Bond funds	531.1	430.2	259.9	-170.4	-39.6
Federal funds	4,226.3	5,712.7	4,737.5	-975.3	-17.1
Local funds	1,014.9	1,121.1	1,238.1	117.0	10.4
<b>Totals</b>	<b>\$9,045.2</b>	<b>\$10,913.0</b>	<b>\$10,490.9</b>	<b>-\$422.1</b>	<b>-3.9%</b>
<b>California Highway Patrol</b>					
Motor Vehicle Account	\$2,009.3	\$2,198.4	\$2,241.2	\$42.8	1.9%
Other special funds	177.2	185.1	136.7	-48.3	-26.1
Federal funds	17.0	20.2	20.2	—	—
<b>Totals</b>	<b>\$2,203.5</b>	<b>\$2,403.7</b>	<b>\$2,398.2</b>	<b>-\$5.5</b>	<b>-0.2%</b>
<b>High-Speed Rail Authority</b>					
Bond funds	\$1,115.3	\$269.3	\$1,153.6	\$884.2	328.3%
Federal funds	840.5	28.0	32.0	4.0	14.3
Greenhouse Gas Reduction Fund	250.0	600.0	600.0	—	—
Reimbursements	0.9	—	—	—	—
<b>Totals</b>	<b>\$2,206.7</b>	<b>\$897.3</b>	<b>\$1,785.6</b>	<b>\$888.2</b>	<b>99.0%</b>
<b>Department of Motor Vehicles</b>					
General Fund	-	—	3.9	\$3.9	—
Motor Vehicle Account	\$1,044.2	\$1,090.9	\$1,060.1	-30.9	-2.8%
Other special funds	43.6	47.3	45.4	-1.9	-4.0
Federal funds	1.4	2.9	2.9	—	—
<b>Totals</b>	<b>\$1,089.2</b>	<b>\$1,141.1</b>	<b>\$1,112.2</b>	<b>-\$28.9</b>	<b>-2.5%</b>
<b>State Transit Assistance</b>					
Public Transportation Account	\$383.9	\$299.4	\$315.2	\$15.8	5.3%
Bond funds	668.9	154.0	44.1	-109.9	-71.3
Greenhouse Gas Reduction Fund	24.2	119.8	99.8	-20.0	-16.7
<b>Totals</b>	<b>\$1,077.0</b>	<b>\$573.2</b>	<b>\$459.1</b>	<b>-\$114.1</b>	<b>-19.9%</b>

# Highway and Road Maintenance and Repair Needs

(In Billions)



As part of the ongoing special session on transportation, both the Governor and the Legislature have made it a priority to identify increased funding to help address highway and road repair needs. We estimate that the state has ongoing highway repair needs of about \$3.6 billion annually as well as an existing backlog of needed repairs totaling roughly \$12 billion. This is significantly higher than can be addressed through the existing funding of about \$1.6 billion for these purposes.



The above figure summarizes the annual funding required to meet the ongoing needs and address the maintenance backlog over a three-year period and the highway rehabilitation backlog over a ten-year period. The Governor's budget includes a package of proposals that would partially fund these needs.





## Other Major Transportation Issues

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- Motor Vehicle Account (MVA) Fund Condition.*** Due to expenditures outpacing revenues, the MVA has faced an operational shortfall in recent years and will continue to experience a shortfall in 2016-17, absent corrective actions. In order to address this shortfall and to support proposed new expenditures, the Governor proposes to raise the vehicle registration fee by \$10 and index the fee to inflation. While the Governor's approach is one way of addressing the problems in the near term, the Legislature will want to also consider alternatives.
  
- High-Speed Rail Business Plan.*** In February 2016, the High-Speed Rail Authority (HSRA) released a draft of its 2016 business plan. State law requires HSRA to develop a business plan every other year that provides certain information, such as the estimated cost and funding available for the project. The Legislature will want to ensure that the changes in the business plan are aligned with its priorities.