

2006-07 Budget Overview: Resources and Environmental Protection

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

Presented To:
Assembly Budget Subcommittee No. 3
On Resources
Hon. Fran Pavley, Chair





Resources Agency— Proposed Expenditures



Total 2006-07 proposed expenditures for Resources Agency departments are \$3.7 billion,^a with funding as follows:

• Special funds	\$1.6 billion	(43 percent)
• General Fund	\$1.5 billion	(41 percent)
• Selected bond funds	\$396 million	(11 percent)
• Federal funds	\$169 million	(5 percent)
	<u>\$3.7 billion</u>	
^a Does not include expenditures for (1) DWR's energy purchases on behalf of the investor owned utilities or (2) the off-budget State Water Project.		



Resources budgets represent a very small portion of the total state budget:

- Proposed General Fund expenditures for resources programs represent about 1.6 percent of the total state General Fund budget.
- Proposed total expenditures for resources programs represent about 2 percent of the total state budget (all funds).



Proposed 2006-07 expenditures are about \$1.4 billion (28 percent) below 2005-06 estimated expenditures. This largely reflects a decrease of \$1.3 billion in bond fund expenditures for water, land conservation, and other resources-related projects. This decrease is partially offset by an increase in General Fund expenditures, mainly under the California Department of Forestry and Fire Protection (CDFFP), the Department of Water Resources (DWR), the Department of Fish and Game (DFG), and the California Conservation Corps.



Resources Agency— Proposed Expenditures

(Continued)



Major proposed budget changes include:

- + \$84.1 million (General Fund) in DWR for lining of the All-American Canal.
- + \$38.7 million (mostly General Fund) in CDFFP for increased employee compensation costs.
- + \$38.2 million (mostly General Fund) in DWR for levee maintenance and other flood management state operations and local assistance.
- + \$31.4 million (General Fund) in DWR for flood control capital outlay.
- + \$10 million (General Fund) in DFG as a funding shift to partially address revenue shortfalls in the Fish and Game Preservation Fund (FGPF) and to implement recent legislation (Chapter 689, Statutes of 2005 [AB 7, Cogdill]), dedicating a specified portion of FGPF monies for hatcheries and native trout.
- + \$8 million (General Fund) in the California Conservation Corps as a funding shift to bring the Collins-Dugan Reimbursement Account into balance.



Resources Agency— Funding Mix and Expenditure Trends



As shown in the figure below, Resources Agency expenditures began to increase substantially in 2000-01 with the influx of new bond funds. General Fund expenditures began to decrease significantly in 2003-04, largely reflecting the state's weakened fiscal condition and a shifting of funding for certain activities from the General Fund to fee-based special funds or bond funds. However, General Fund expenditures have ticked up in 2005-06 and 2006-07.

Resources Agency: 12-Year Funding Mix and Expenditure Trends

(Dollars in Millions)

	General Fund		Special Funds		Bond Funds		Federal Funds		Total Funds
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
1995-96	\$812	49%	\$745	45%	\$36	2%	\$65	4%	\$1,658
1996-97	771	45	782	46	94	5	63	4	1,710
1997-98	717	42	839	49	91	5	75	4	1,722
1998-99	1,105	53	840	40	56	3	76	4	2,077
1999-00	1,184	52	937	41	54	3	97	4	2,272
2000-01	2,110	54	1,050	27	655	16	118	3	3,933
2001-02	1,382	39	1,058	30	963	28	116	3	3,519
2002-03	1,147	33	1,079	32	1,113	32	109	3	3,448
2003-04	950	23	1,385	34	1,601	39	153	4	4,089
2004-05	1,031	28	1,534	42	1,006	27	107	3	3,678
2005-06	1,388	27	1,770	35	1,730	34	220	4	5,108
2006-07	1,530	41	1,596	43	396	11	169	5	3,691



California Environmental Protection Agency (Cal-EPA)—Proposed Expenditures

- ☒ **Total 2006-07 proposed expenditures for Cal-EPA departments are about \$1.3 billion, with funding as follows:**

Special funds	\$981 million	(76 percent)
Federal funds	\$171 million	(13 percent)
General Fund	\$71 million	(6 percent)
Selected bond funds	<u>\$69 million</u>	(5 percent)
	\$1.3 billion	

- ☒ **Environmental protection budgets represent a very small portion of the total state budget:**

- Proposed General Fund expenditures for environmental protection programs represent less than one-tenth of 1 percent of the total state General Fund budget.
- Proposed total expenditures for environmental protection programs represent less than 1 percent of the total state budget (all funds).

- ☒ **Proposed 2006-07 expenditures are about \$433 million (25 percent) below 2005-06 estimated expenditures.** As with Resources Agency departments, most of this decrease reflects a decrease in bond-funded expenditures (\$415 million).



Cal-EPA—Proposed Expenditures *(Continued)*



Major budget changes include:

- + \$7.2 million (various special funds) in several environmental protection and energy departments for the Governor's Climate Change Initiative.
- + \$6.5 million (Motor Vehicle Account) in the Air Resources Board (ARB) to continue the Governor's Hydrogen Highway Initiative.
- + \$4 million (special funds) in ARB for enforcement, including enforcement of heavy-duty diesel regulations.



Cal-EPA— Funding Mix and Expenditure Trends



As shown in the figure below, over the last 12 years, special funds have consistently provided the largest share of funding for environmental protection programs. There was a major spike in General Fund expenditures in 2000-01 and 2001-02, mainly reflecting one-time expenditures. In recent years, total expenditures have increased significantly, mainly due to new bond funds becoming available. In addition, a significant amount of funding has been shifted from the General Fund to fee-based special funds.

Cal-EPA: 12-Year Funding Mix and Expenditure Trends									
<i>(Dollars in Millions)</i>									
	General Fund		Special Funds		Bond Funds		Federal Funds		Total Funds
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
1995-96	\$84	11%	\$454	58%	\$34	4%	\$213	27%	\$785
1996-97	90	12	447	62	26	4	156	22	719
1997-98	105	13	528	64	34	4	154	19	821
1998-99	175	20	452	52	42	5	196	23	865
1999-00	166	19	549	61	36	4	142	16	893
2000-01	479	39	485	40	61	5	198	16	1,223
2001-02	407	27	608	41	309	21	173	11	1,497
2002-03	170	16	612	58	92	9	173	17	1,047
2003-04	81	8	677	64	191	18	100	10	1,049
2004-05	78	7	729	64	199	17	133	12	1,139
2005-06	78	4	993	58	484	28	170	10	1,725
2006-07	71	6	981	76	69	5	171	13	1,292



Resources Bond Fund Conditions



As shown in the figure below, the budget proposes expenditures of \$496 million from five resources bonds approved by the voters between 1996 and 2002, leaving a balance of \$953 million in the bond funds for expenditure in future years. (Modest expenditures are proposed from pre-1996 bonds which are essentially depleted.)

Resources Bond Fund Conditions By Bond Measure				
<i>2006-07 (In Millions)</i>				
	Total Authorization In Bond	Resources Available	Proposed Expenditures	Balances
Proposition 204 ^a	\$995	\$250	\$3	\$274
Proposition 12 ^b	2,100	52	33	19
Proposition 13 ^c	1,970	423	95	328
Proposition 40 ^d	2,600	49	43	6
Proposition 50 ^e	3,440	675	322	353
Totals	\$11,105	\$1,449	\$496	\$953
^a Safe, Clean, Reliable Water Supply Fund, 1996. ^b Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund, 2000. ^c Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Fund, 2000. ^d California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund, 2002. ^e Water Security, Clean Drinking Water, Coastal and Beach Protection Fund, 2002.				



Resources Bond Fund Conditions *(Continued)*



The figure below shows the Governor's expenditure proposal from the five resources bonds, by programmatic area. As shown in the figure, bond funds for park projects will be depleted at the end of the budget year.

Resources Bond Fund Conditions^a By Programmatic Area			
<i>2006-07 (In Millions)</i>			
	Resources Available	Proposed Expenditures	Balances
Parks and Recreation	\$25	\$23	\$2
State parks	(16)	(16)	(—)
Local parks	(5)	(5)	(—)
Historical and cultural resources	(4)	(2)	(2)
Water quality	341	136	205
Water management	384	71	313
Land acquisition and restoration	226	138	88
CALFED Bay-Delta Program	473	128	345
Air quality	—	—	—
Totals	\$1,449	\$496	\$953

^a Includes Propositions 204, 12, 13, 40, and 50.



Strategic Growth Plan Bond Proposals

- ☑ The Governor has proposed over \$9.4 billion of resources-related bonds as part of his Strategic Growth Plan, mainly for flood protection and water management purposes.
- ☑ The allocation of funds in the flood/water bond proposals—contained in SB 1166 (Aanestad) and AB 1839 (Laird)—is summarized in the figure below.

Governor's Proposed Flood/Water Bonds— Allocation of Funds		
<i>(In Millions)</i>		
	Bond Acts	
	2006	2010
Flood Control		
Repair of levees in state system	\$210	\$300
Improvements/additions to levees in state system	200	200
Delta levees	210	700
State share of locally sponsored, federally authorized flood control projects	250	200
Floodplain mapping	90	—
Floodway corridor development within state system	40	100
Flood control subtotals	(\$1,000)	(\$1,500)
Water Management		
Integrated regional water management grants	\$1,000	\$2,000
Water quality improvements	250	500
Water storage	250	1,000
Science and technology	300	500
Resource stewardship and ecosystem restoration	200	500
Water management subtotals	(\$2,000)	(\$4,500)
Totals	\$3,000	\$6,000



Strategic Growth Plan Bond Proposals

(Continued)



In addition to the \$9 billion of flood/water bonds discussed above, the Governor proposes resources-related components of other bonds, as follows:

- **State Park Capital Improvements—\$216 Million.** This is part of the critical infrastructure facility (including courts) bond, contained in SB 1163 (Ackerman) and AB 1831 (Jones).
- **Firefighting Emergency Response Facility Improvements—\$215 Million.** This is part of the public safety bond, contained in AB 1833 (Arambula).



Issues to Consider When Structuring New Bond Measures



There are a number of issues for the Legislature to consider when evaluating the Governor's, as well as other, proposals for new resources bonds. These include:

- Retaining legislative oversight of bond expenditures through the annual budget act process.
- Deciding whether private entities should be eligible for funding.
- Setting limits on administrative costs.
- Ensuring bond programs are coordinated with similar existing programs.



LAO's Major Budget Issues



CALFED Needs Major Overhaul

- Four recent independent reviews of the CALFED Bay-Delta Program came to similar conclusions that the current governance structure is not working well, state priorities for CALFED are not clear, and meaningful performance measures for the program are lacking. However, the Governor's CALFED budget proposal is "business as usual."
- We recommend the enactment of legislation addressing the governance problems, setting expenditure priorities, establishing performance measures that tie to the budget process, and defining the beneficiary pays funding principle.



Fish and Game's Fiscal Problems

- The budget fails to address the structural deficit in the FGPF and the administration has failed to provide requested information necessary for legislative evaluation of the budget proposal and oversight of the department.
- We provide a solution to the FGPF fiscal problems and recommend that the Legislature withhold appropriating funding to the department until the critical reports are submitted. We also recommend that the Legislature conduct oversight hearings on the department's fiscal problems and its performance in carrying out its multiple program responsibilities.



LAO's Major Budget Issues

(Continued)



Climate Change and Hydrogen Highway Initiatives Need Legislative Roadmap

- We recommend that the Legislature provide statutory direction for a state climate change policy that addresses a number of issues, including greenhouse gas emission reduction targets, the appropriate mix of regulatory and voluntary strategies, and lead agency designation.
- We recommend the Legislature deny the request to continue funding for the Hydrogen Highway Initiative until results from current expenditures are evaluated and the Legislature signs off on its policy to move forward.



Reorganizing the State's Energy-Related Activities

- We think that the time is ripe for the state to reorganize its multiple energy entities into a more accountable and efficient structure. While we agree with many aspects of the Governor's reorganization proposal (contained in AB 1165 [Bogh]), we differ on others.



Addressing Two Special Funds With Substantial Fund Balances

- The Beverage Container Recycling Fund, administered by the Department of Conservation, is projected to end the budget year with a fund balance of \$429 million—an all-time high. The School Land Bank Fund, administered by the State Lands Commission, is projected to end the budget year with a fund balance of \$59 million—also an all-time high.
- We offer actions that the Legislature might take to draw down the fund balances.