

March 7, 2007

2007-08 Budget Overview:

Resources Agency Departments

(Including an Overview of the CALFED Bay-Delta Program)

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. Ira Ruskin, Chair





Resources Agency— Proposed Expenditures



Total 2007-08 proposed expenditures for Resources Agency departments are \$5.7 billion,^a with funding as follows:

• Special funds	\$2.1 billion	36%
• Selected bond funds	\$2 billion	35%
• General Fund	\$1.5 billion	26%
• Federal funds	\$154 million	3%
	<u>\$5.7 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 1.4 percent of the total state General Fund budget.
- Proposed total expenditures for resources programs represent about 2.8 percent of the total state budget (all funds).



Proposed 2007-08 expenditures are \$276 million (4.6 percent) below 2006-07 estimated expenditures. While this reflects a relatively modest decrease in *overall* spending, the budget reflects a substantial reduction (\$689 million) in General Fund expenditures in the Resources Agency, offset by a significant increase in bond spending (largely reflecting the infusion of Propositions 1E and 84 bond funds). This General Fund reduction is largely due to two sets of factors. First, is the elimination of a number of one-time General Fund expenditures that occurred in the current year, including for state parks deferred maintenance, repairs of critical levee erosion sites, local flood control subventions, and fish and wildlife programs. Second, the Governor proposes to use bond funds to reimburse the General Fund, in the budget year, \$200 million of flood control expenditures made in the current and previous years.



Resources Agency— Proposed Expenditures

(Continued)



Major proposed budget changes include:

- + \$598 million in Propositions 1E and 84 bond funds in the Department of Water Resources (DWR) for various flood control programs.
- + \$200 million in Proposition 1E bond funds to transfer to the General Fund, as reimbursement for previous flood control expenditures made using the General Fund appropriation in AB 142, Núñez (2006).
- - \$80 million (General Fund) for state parks deferred maintenance (the amount from the \$250 million 2006 appropriation originally projected to be spent in 2007-08).
- + \$47.3 million (General Fund) to continue lining of the All-American Canal.
- + \$24.8 million in electricity contract settlement funds in the Energy Commission for energy conservation projects at schools.
- + \$13.9 million (bond funds) in the Secretary for Resources to implement the San Joaquin River Restoration lawsuit settlement.



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. The influx of the 2006 resources bonds has kept the total Resources Agency budget at close to an all-time high in the budget year. General Fund expenditures peaked in 2000-01 (mainly reflecting substantial one-time expenditures), declined in 2001-02 through 2004-05 due to the state's weakened fiscal condition, but have ticked up in 2005-06 and subsequent years. In recent years, there has also been a shifting of funding for certain activities from the Genreal Fund to fee-based special funds or bond funds.

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	
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	1,477	40	1,518	42	557	15	99	3	3,651
2006-07	2,161	36	1,942	32	1,672	28	217	4	5,992
2007-08	1,472	26	2,061	36	2,030	35	154	3	5,717



Pre-2006 Resources Bond Fund Conditions



As shown in the figure below, after accounting for the budget's proposed expenditures from the five resources bonds approved by the voters between 1996 and 2002, a balance of just over \$600 million in these bond funds will remain available for expenditure in future years. (The budget proposes about \$600 million from the five bonds. Modest expenditures are proposed from pre-1996 bonds which are essentially depleted.)

Resources Bond Fund Conditions		
<i>(In Millions)</i>		
	Total Authorization In Bond	Balance Available ^a
Proposition 204 (b)	\$995	\$270
Proposition 12 (c)	2,100	14
Proposition 13 (d)	1,970	193
Proposition 40 (e)	2,600	12
Proposition 50 (f)	3,440	120
Totals	\$11,105	\$609

^a Amount available after accounting for prior and proposed appropriations through 2007-08.
^b Safe, Clean, Reliable Water Supply Fund, 1996.
^c Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund, 2000.
^d Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Fund, 2000.
^e California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund, 2002.
^f Water Security, Clean Drinking Water, Coastal and Beach Protection Fund, 2002.



Pre-2006 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 essentially depleted at the end of the budget year.

Resources Bond Fund Conditions^a By Programmatic Area		
<i>(In Millions)</i>		
	Total Authorization In Bonds	Balance Available (July 1, 2008)
Parks and Recreation	\$2,746	\$11
State Parks	(694)	(7)
Local Parks	(1,812)	(4)
Historical and Cultural Resources	(240)	(—)
Water Quality	1,942	74
Water Management	1,888	110
Land Acquisitions and Restoration	2,793	44
CALFED/Delta-Related	1,686	370
Air Quality	50	—
Totals	\$11,105	\$609

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



Governor's Budget Proposal: Proposition 84 Bond Funds



The budget proposes a total of \$1.1 billion in expenditures from Proposition 84 bond funds in 2007-08, as shown in the figure below:

Governor's Budget Proposed Expenditures Proposition 84	
<i>(In Millions)</i>	
	2007-08
Water Quality	
Integrated regional water management	\$156
Safe drinking water	76
Delta and agriculture water quality	31
Protection of Rivers, Lakes, and Streams	
Regional conservancies	\$105
Other projects	9
Delta and coastal fisheries restoration	60
San Joaquin River	14
Colorado River	41
Stormwater pollution prevention	15
Flood Control	
State flood control projects	\$93
Delta flood control projects	58
Local flood control subventions	100
Floodplain mapping	25
Sustainable Communities and Climate Change Reduction	
Local and regional parks	\$1
Urban greening	11
Incentives for conservation planning	18
Protection of Beaches, Bays, and Coastal Waters	
Coastal areas and watersheds	\$93
Clean Beaches Program	9
Ocean Protection Trust Fund	29
Parks and Natural Education Facilities	
State park system	\$25
Nature education and research facilities	—
Forest and Wildlife Conservation	
Wildlife habitat protection	\$50
Forest conservation	35
Protection of ranches, farms, and oak woodlands	33
Statewide Water Planning	
Future planning	\$15
Total	\$1,102



Governor's Budget Proposal: Proposition 1E Bond Funds



The budget proposes \$624 million in expenditures from Proposition 1E bond funds in 2007-08, as shown in the figure below:

Governor's Budget Proposed Expenditures Proposition 1E—Flood Control	
<i>(In Millions)</i>	
	2007-08
State Central Valley flood control; Delta levees	\$520 ^a
Flood control subventions	—
Stormwater flood management	102
Flood protection corridors and bypasses; floodplain mapping	2
Total	\$624

^a Includes \$200 million "payback" to the General Fund for projects funded prior to bond passage.



LAO's Major Budget Issues— Resources Programs



Resources Bonds Implementation

- The budget proposes over \$2.3 billion in bond funding for various resources programs, most of which comes from two resources bonds approved by voters in November 2006. The state would spend substantially higher bond amounts than in the current year, particularly for flood management. To ensure the effective and efficient implementation of the new bonds, we recommend that the Legislature set funding priorities to guide new programs created by the bonds; establish appropriate cost-sharing arrangements; ensure related programs are coordinated; and exercise oversight by holding hearings, establishing reporting requirements, and controlling administrative costs.



Flood Management Issues

- The budget reflects a major infusion of funding, mostly from bond funds, for flood management. We make a number of recommendations to ensure that a systematic approach is used to complete improvements and repairs to the state's Central Valley flood control system, including requiring DWR to provide a plan for independent review and oversight of its flood-related capital outlay projects.



Budget Status of State Water Project (SWP)

- We recommend that funding for SWP—the state's main water conveyance system connecting Northern and Southern California—be brought "on budget." This is because SWP's current off-budget status makes it difficult for the Legislature to comprehensively address the state's water policy issues, particularly in light of SWP's increasing fiscal and programmatic ties to other state on-budget programs, such as the CALFED Bay-Delta Program.

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LAO's Major Budget Issues— Resources Programs

(Continued)



Wildland Fire Protection Expenditures

- The fire protection budget of the state's forestry department (mostly funded from the state General Fund) continues to rise significantly. This reflects changing forest conditions fueling fire risk, increasing housing development at the wildland-urban boundary, and increasing labor costs. We make a number of recommendations to control the rising costs, including clarifying state and local roles for providing emergency services, modifying the criteria by which land is designated a state responsibility for fire protection, and enacting a fee on private landowners to partially cover the state's costs in providing fire protection services that benefit them.



Funding for State Parks Maintenance

- Despite a growing backlog in deferred maintenance at state parks—currently over \$900 million—the budget provides no funding to address the problem. There is also a significant funding shortfall related to ongoing maintenance at state parks. To address these problems, we recommend using \$160 million of Proposition 84 bond funds allocated to state park restoration and rehabilitation for deferred maintenance, and augmenting the department's ongoing maintenance budget by \$15 million, funded from fees.



LAO's Major Budget Issues— Resources Programs

(Continued)



CALFED Bay-Delta Program

- The budget proposes \$473.6 million across eight state agencies for the CALFED Bay-Delta Program in 2007-08. We recommend tying the use of performance measures (currently under development) to the budget process, and raise concerns about a number of CALFED's budget proposals. Specifically, we find that the funding proposal for the South Delta Improvements Program is premature, matching funds are lacking to allow the surface storage feasibility study work to practically proceed, and that the budget inappropriately proposes bond funds to replace water user funding contributions that have run out to support a conservation planning effort that benefits the water users.



CALFED Bay-Delta Program: An Overview



What Is CALFED?

- Pursuant to a federal-state accord signed in 1994, CALFED was administratively created as a consortium of state and federal agencies that have regulatory authority over water and resource management responsibilities in the Bay-Delta region. The CALFED program now encompasses 12 state and 13 federal agencies. The objectives of the program are to:
 - Provide good water quality for all uses.
 - Improve fish and wildlife habitat.
 - Reduce the gap between water supplies and projected demand.
 - Reduce the risks from deteriorating levees.
- Since 2000, CALFED's program implementation has been guided by the "Record of Decision" (ROD)—representing the approval of the lead CALFED agencies of the final environmental review documents for the CALFED "plan."



How Has CALFED Been Organized?

- From the mid-1990s through 2002, CALFED's organizational structure evolved administratively and was loosely configured.
- Legislation was enacted in 2002 (Chapter 812, Statutes of 2002 [SB 1653, Costa]) to prescribe, for the first time in statute, an organizational structure for CALFED. A new state agency in the Resources Agency—the California Bay-Delta Authority (CBDA)—was created to oversee the overall program and to directly implement the program's science component. Statute assigned responsibility for implementing the program's other elements (such as ecosystem restoration) among a number of other state agencies.



CALFED: An Overview

(Continued)

- In 2006, in the budget process, the Legislature reorganized CALFED in an effort to clarify lines of accountability within CALFED and hold the program accountable for its performance. In this reorganization, all CBDA positions were transferred to either the Secretary for Resources or one of five other CALFED implementing agencies. Importantly, the Secretary was given clear responsibility for overall program planning, performance, and tracking.



How Has CALFED Been Financed?

- The ROD envisioned that CALFED would be financed over time by roughly equal contributions of federal, state, and local/user funding. The ROD endorsed the concept of “beneficiary pays” as a CALFED funding principle, as has the Legislature in numerous statements of legislative intent.
- The reality is that CALFED has struggled with implementing the beneficiary pays principle and the federal government has substantially lagged the state in its funding contribution for CALFED. As shown in the next figure, the state (mainly using bond funds) has been the major funding contributor for CALFED.



CALFED: An Overview

(Continued)

CALFED Funding, by Source				
<i>2000-01 Through 2006-07 (In Millions)</i>				
Year	State Funds	Federal Funds	Local/User Funds^a	Total Funding
2000-01	\$337.2	\$67.7	\$308.9	\$713.8
2001-02	354.7	85.5	455.8	896.0
2002-03	309.8	50.9	166.0	526.7
2003-04	423.3	56.7	251.3	731.3
2004-05	283.8	34.5	476.0	794.3
2005-06	125.6	91.6	142.4	359.6
2006-07	475.6	77.7	— ^b	553.3
Totals	\$2,310.0	\$464.6	\$1,800.4	\$4,575.0
Funding as Percent of Total	50.5%	10.2%	39.3%	100%
^a There is additional local funding of an unknown amount that supports CALFED objectives, but it is not currently tracked unless it is in the form of matching funds.				
^b Unknown.				



Various Concurrent Planning Efforts Will Help Define CALFED's Future

The multiple, ongoing planning efforts include the following four activities:

- **“Stage One” Assessment.** Pursuant to ROD requirements, CALFED is required to oversee an independent, technical review of the program's performance (relative to project milestones found in the ROD) over its first seven years, to help guide the remainder of what is anticipated to be a 30-year program. Specifically, the review will assess the current state of the Delta ecosystem and evaluate how well CALFED has achieved the program's water quality objectives. The CALFED expects to release a public draft of the Stage One report in June.



CALFED: An Overview

(Continued)

- **Delta Risk Management Strategy (“DRMS”).** Chapter 573, Statutes of 2005 (AB 1200, Laird), requires DWR to evaluate the potential impacts of levee failures in the Delta (from risks such as earthquakes and climate change) and further requires DWR and the Department of Fish and Game to evaluate options for protecting various benefits provided by the levees. The departments are to report to the Governor and Legislature by January 1, 2008, with the results of their evaluation.
- **Delta Vision.** Chapter 535, Statutes of 2006 (SB 1574, Kuehl), and Chapter 77, Statutes of 2006, (AB 1803, Committee on Budget), require the Secretary for Resources to develop a strategic vision for a “sustainable” Delta, including sustainable ecosystems, land use patterns, transportation uses, water supply uses, utility uses, recreation uses, and flood management strategies. The plan, referred to as the “Delta Vision,” is to be submitted to the Governor and Legislature by December 31, 2008.
- **Bay-Delta Conservation Plan.** This involves the development of habitat conservation plans that will allow Bay-Delta water users who voluntarily agree to be governed by the plan to work together to comply with state and federal endangered species laws regarding their water project operations.



CALFED: An Overview

(Continued)



The 2007-08 Governor's Budget proposes \$473.6 million for CALFED, mainly from state bond funds. The budget proposal is summarized in the figure below.

CALFED Expenditures—State Funds Only		
<i>(In Millions)</i>		
Expenditures by Program Element	2006-07	2007-08
Ecosystem restoration	\$124.6	\$127.0
Environmental Water Account	74.6	2.8
Water use efficiency	59.4	52.1
Delta vision	1.4	1.9
Watershed management	17.7	2.4
Drinking water quality	20.8	122.6
Levees	18.9	64.0
Water storage	10.3	9.8
Water conveyance	91.1	58.7
Science	39.3	24.1
Water supply reliability	9.4	—
CALFED program management	8.1	8.2
Totals	\$475.6	\$473.6
Expenditures by Department		
Water Resources	\$338.1	\$257.4
State Water Resources Control Board	10.8	0.7
Secretary for Resources	35.8	14.2
Fish and Game	84.4	109.6
Conservation	0.3	1.5
Forestry and Fire Protection	1.7	1.6
San Francisco Bay Conservation	0.1	0.1
Health Services (Public Health)	4.4	88.7
Totals	\$475.6	\$473.6
Expenditures by Fund Source		
Proposition 50	\$276.5	\$222.6
Proposition 84	—	148.3
Proposition 13	107.1	32.5
Proposition 204	18.3	1.7
General Fund	26.7	16.6
State Water Project funds	43.9	49.6
Other state funds	3.1	2.3
Totals	\$475.6	\$473.6



CALFED: An Overview

(Continued)



Key Issues for Legislative Consideration in Evaluating Governor's Budget Proposal

- What should be funded in the budget year in light of the on-going planning efforts that will determine CALFED's future?
- How should the beneficiary pays funding principle be applied to the budget proposals for the (1) South Delta Improvements Program, (2) surface storage feasibility studies, and (3) Bay-Delta conservation planning?
- What role should performance measures play in the budget process?