

May 12, 2008

2008-09 Cal-EPA Budget Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Subcommittee No. 2

On Resources, Environmental Protection, and Energy

Hon. Alan Lowenthal, Chair





Cal-EPA—Proposed Expenditures

- ☑ **Total 2008-09 proposed expenditures (January budget proposal) for the California Environmental Protection Agency (Cal-EPA) departments are about \$1.8 billion, with funding as follows:**

• Special funds	\$1.1 billion	63%
• Selected bond funds	\$397 million	22%
• Federal funds	\$174 million	10%
• General Fund	\$85 million	5%
	\$1.8 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).

- ☑ **Environmental protection budgets represent a minority of the total budget under the jurisdiction of the subcommittee:**
 - Proposed total expenditures (all funds) for environmental protection programs represent about 19 percent of the total budget under the jurisdiction of the subcommittee (Resources Agency budgets; Cal-EPA budgets; budgets of energy agencies outside of the Resources Agency, including the the Public Utilities Commission; and agricultural agency budgets).
 - Proposed General Fund expenditures for environmental protection programs represent about 5 percent of the total General Fund budget under the jurisdiction of the subcommittee.



Cal-EPA—Proposed Expenditures *(Continued)*

- Proposed 2008-09 expenditures are about \$487 million (22 percent) below estimated 2007-08 expenditures. This mainly reflects a \$459 million reduction in bond expenditures.



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>									
	<u>General Fund</u>		<u>Special Funds</u>		<u>Bond Funds</u>		<u>Federal Funds</u>		<u>Total Funds</u>
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
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	70	6	911	74	151	12	106	8	1,238
2006-07	84	5	1,023	66	198	13	253	16	1,558
2007-08	90	4	1,122	50	856	38	174	8	2,242
2008-09	85	5	1,100	63	397	22	174	10	1,756



Cal-EPA— General Fund Expenditure History

- ☑ General Fund expenditures for Cal-EPA departments overall have *decreased* from 2002-03 levels, largely reflecting a shift of funding from the General Fund to fees totaling about \$60 million in the Air Resources Board (ARB), State Water Resources Control Board (SWRCB), and the Department of Toxic Substances Control (DTSC).

- ☑ There have been some General Fund increases, however, in recent years for particular activities—including for costs associated with specific hazardous waste sites under the oversight of DTSC (Stringfellow, BKK, Casmalia).



Cal-EPA— Major Budget Changes

- Major proposed General Fund budget-balancing reductions include:**
 - \$3.7 million for various water quality activities in SWRCB.
 - \$2.5 million for illegal drug lab removal and emergency response in DTSC.

- Other major budget changes are concentrated in ARB and include:**
 - + \$6 million (Motor Vehicle Account) to continue the Governor's Hydrogen Highway Initiative.
 - + \$5.6 million (Air Pollution Control Fund) for implementation of greenhouse gas emission reduction legislation (Chapter 488, Statutes of 2006 [AB 32, Nuñez]). A majority of this amount is for the study, evaluation, and development of the Low Carbon Fuel Standard measures.



LAO's Major Budget Issues— Cal-EPA Programs



Governor Delays Identification of Stable, Long-Term Funding Support for Climate Change Programs

- Contrary to legislative direction, the Governor has failed to identify a stable, long-term source of funding in the budget for implementation of AB 32—climate change legislation enacted in 2006. Instead, the Governor has relied on more borrowing from unrelated special funds to pay for a majority of the program. While not taking issue with the merits of the activities proposed for funding, we recommend that the Legislature defer action on a majority of the budget proposal until the administration submits a funding plan that is responsive to legislative direction.



Avoiding Program Cuts and/or Creating General Fund Savings With Fees

- The budget proposes a number of General Fund budget-balancing reductions (BBRs) that can be avoided by shifting program funding to fees. We have also identified other opportunities to create General Fund savings through fees, freeing up the General Fund for other legislative priorities. Our fee proposals related to Cal-EPA include:
 - Timber harvest plan review—\$23.1 million in new regulatory fees, to backfill BBRs and create additional General Fund savings (\$21.2 million). This involves multiple state resources and environmental protection agencies. The SWRCB's component is \$4.4 million (pre BBRs).
 - Water quality and water rights—\$29.8 million in new and increased regulatory and benefit assessment fees, to backfill BBRs and create additional General Fund savings (\$26.6 million).