

June 2, 2009

May Revision Overview: Resources

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:
Budget Conference Committee



Overview of Resources Funding

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- ☑ ***Multiple Funding Sources; Special Funds Predominate.*** The enacted 2009-10 budget package (February 2009) includes about \$7 billion in expenditures for resources and environmental protection programs, which is about 5 percent of all state-funded expenditures. Funding comes from various special funds (\$3.3 billion), the General Fund (\$1.9 billion), and bond funds (\$1.7 billion). The General Fund amount for resources and environmental protection programs reflects slightly less than 2 percent of all General Fund expenditures.

- ☑ ***Where Does the \$1.9 Billion General Fund Go?*** Of the General Fund expenditure total, \$683 million (35 percent) is for resources-related general obligation bond debt service. Accordingly, the balance of roughly \$1.3 billion directly supports program budgets. The largest General Fund programmatic expenditure by far in the resources area is for the Department of Forestry and Fire Protection (CalFire)—budgeted in February at \$766 million, mostly for the department’s core fire protection program.

The Role of the General Fund in Resources Budgets

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- ☑ ***Level of General Fund Support Has Been Highly Variable Over Time.*** The level of General Fund support for resources and environmental protection purposes, including for general obligation bond debt service, has been highly variable over the last ten years. Over this time, the level of General Fund support reached a peak of about \$2.6 billion in 2000-01 (when the state's General Fund condition was particularly healthy), and a trough of about \$1 billion in 2003-04.

- ☑ ***General Fund Support for Most Programs, Except Wildland Fire Protection, Generally Lower Than 2000-01 Levels.*** Apart from its support for fire protection, the General Fund generally supports resources and environmental protection programs at levels that are *lower* than in 2000-01. (On the other hand, General Fund expenditures for resources-related general obligation bond debt service have increased substantially over the last ten years.) For the most part, these declines in General Fund support are not reflected in reduced program levels. Rather, for departments under the Natural Resources Agency, these declines have been largely offset by newly available bond funds and in some cases by increased fees (such as state park fees). For regulatory departments under the California Environmental Protection Agency, the decline in General Fund support mostly reflects the shifting of funding from the General Fund to regulatory fees.

The Role of the General Fund in Resources Budgets *(Continued)*

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General Fund Is Usually One of a Number of Funding Sources Supporting a Resources or Environmental Protection Department's Budget. The figure on the following page shows the departments that are the major recipients of General fund monies in the resources and environmental protection areas, and the corresponding percentage of their budgets that are funded from the General Fund.

The Role of the General Fund in Resources Budgets *(Continued)*

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Enacted Budget General Fund Expenditures— Resources and Environmental Protection		
<i>(Dollars in Millions)</i>		
	General Fund Amount	As Percentage of Total Departmental Budget
Departmental Budgets		
CalFire	\$766.1	53%
Parks and Recreation	143.4	17
Department of Water Resources	129.6	7 ^a
Fish and Game	75.4	17
State Water Resources Control	40.6	7
California Conservation Corps	34.9	54
Toxic Substances Control	22.3	11
Coastal Commission	11.3	63
State Lands Commission	9.4	32
Environmental Health Hazard Assessment	8.3	42
Secretary for Natural Resources	5.7	7
Department of Conservation	4.8	— ^b
San Francisco Bay Conservation	4.1	71
Secretary for Environmental Protection	1.9	13
Native American Heritage Commission	0.7	99
Tahoe Conservancy	0.2	3
Air Resources	0.2	— ^b
Subtotals	<u>(\$1,258.9)</u>	
Agencywide General Obligation Bond Debt Service	<u>\$683.1</u>	
Total General Fund Expenditures	\$1,942.0	
^a Reflects percentage of total departmental budget excluding California Energy Resources Scheduling division. ^b Less than 0.05 percent.		

Governor's Combined May Revision Proposals

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- ☑ **May Revision Proposes About \$325 Million in General Fund 2009-10 Budget Solutions in the Resources and Environmental Protection Areas.** The May Revision includes the following major proposals in the resources and environmental protection areas to help the General Fund in 2009-10:
- ☑ **Program Savings.** These include:
 - Supplanting, on one-time basis, **\$76 million** of CalFire's General Fund base budget with revenues from a new "surcharge" (4.8 percent) on property insurance premiums statewide. (In subsequent years, the surcharge revenues would backfill emergency fire suppression and disaster assistance costs, for a General Fund benefit of \$219 million.) Staff of Legislative Counsel has opined that the Governor's proposed insurance surcharge would be a tax, thereby creating Proposition 98 funding obligations.
 - Eliminating **\$70 million** (about one-half) of the Department of Parks and Recreation's General Fund support in the budget year; all General Fund support (\$143.4 million) would be eliminated in subsequent years. The Governor's proposal provides that this would result in the closure of about 80 percent of state parks; parks remaining open would generally be those that can rely on self-generated fee revenues or boating or off-highway vehicle gas taxes for their funding support.
 - Making **\$24.9 million** of savings in the Legislature's 2009-10 budget available to CalFire to supplant a like reduction in CalFire's General Fund budget.
 - Eliminating, on a one-time basis, **\$17 million** from the General Fund for vehicle and equipment replacement in CalFire.

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Funding Shifts. These include:

- Shifting, on a one-time basis, **\$30 million** of General Fund support in the Department of Fish and Game to the Fish and Game Preservation Fund.
- Shifting **\$7 million** of General Fund support for flood protection programs in the Department of Water Resources to Proposition 1E bond funds.



New Revenues. This includes:

- Statutorily approving the Tranquillon Ridge oil drilling lease proposal (State Lands Commission jurisdiction), potentially resulting in state revenues of \$1.8 billion over the duration of the lease, with **\$100 million** in the budget year.

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(Budget-year General Fund benefit from implementing option is noted.)



Program Savings—\$86.5 Million. These options include:

- **CalFire**—Close low-priority fire stations and other facilities (\$10 million) and eliminate funding for DC-10 aircraft contract (\$6.8 million)—\$16.8 million.
- **Conservation Corps**—Eliminate department—\$17.1 million (half-year savings).
- **Fish and Game**—(1) Suspend General Fund support for Marine Life Protection Act Initiative (\$4.8 million) and (2) eliminate General Fund support for California Environmental Quality Act review (\$2.5 million)—\$7.3 million.
- **State Water Board**—Eliminate General Fund support for Total Maximum Daily Load program to regulate water pollution—\$10.6 Million.
- **Various Resources Departments**—Eliminate General Fund support for timber harvest plan reviews—\$21.6 million.
- **Various Resources Departments**—Eliminate General Fund support for CALFED program oversight—\$7.2 million.
- **Water Resources**—Eliminate General Fund support for California Irrigation Management Information System (\$1 million) and for Delta levees (\$4.9 million)—\$5.9 million. Note: The Governor proposes shifting \$3.9 million from the General Fund for Delta levees to bond funds.

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Funding Shifts—\$325.8 Million. These options include:

- **CalFire**—Enact wildland fire protection fee—\$270 million.
- **Fish and Game**—Increase regulatory fees—\$3 million.
- **Office of Environmental Health Hazard Assessment**—Fund regulatory support activities fully from fees—\$5 million. (Note: The Governor has proposed a funding shift of \$1.6 million.)
- **Parks and Recreation**—Increase state park fees—\$12.5 million.
- **State Water Board**—Increase fees for water quality management activities and core regulatory program—\$26.6 million.
- **Water Resources**—Increase fees to fully pay for (1) watermaster program and (2) Central Valley Flood Protection Board and related programs—\$8.7 million.



Special Fund Loans—\$175 Million. These options include:

- **Energy Commission**—loan to General Fund from balance in Renewable Resource Trust Fund—\$140 million.
- **Energy Commission**—loan to General Fund from balance in Alternative and Renewable Fuel and Vehicle Technology Fund—\$35 million.

LAO Alternatives to Major Specific Budget Solutions of Governor

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Budget Context	Governor's Budget Solution	LAO Alternative
CalFire's \$766 million General Fund budget	Create \$76 million of General Fund savings by enacting an insurance surcharge statewide (considered to be a tax by staff in Legislative Counsel, thereby creating Proposition 98 funding obligations).	Create \$286.8 million of General Fund savings by enacting a wild-land fire protection fee on direct beneficiaries of state's fire protection services (\$270 million) and implementing program savings (\$16.8 million).
Parks and Recreation's \$143.4 million General Fund budget	Create \$70 million of General Fund savings in budget year by transitioning to close about 80 percent of state parks; about \$40 million in fee revenues otherwise collected would be lost.	Keep all parks open, but create \$12.5 million of General Fund savings in budget year by increasing state park fees to adjust for inflation.

Other May Revision Proposal of Note

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Reform of Beverage Container Recycling Program to Address Deficit in Special Fund. While not directly characterized as a General Fund budget solution, the Governor's May Revision proposes several major policy changes to the Department of Conservation's beverage container recycling programs, in response to a projected deficit in the Beverage Container Recycling Fund (BCRF) of around \$160 million at the end of 2009-10. Since close to \$400 million of loans from the BCRF to the General Fund are outstanding (including a \$99.4 million loan in the enacted February budget), the administration's proposal is an attempt to relieve what would otherwise be pressure on the General Fund to repay these loans early to keep the BCRF solvent. The proposed policy changes include a number of program expenditure reductions and the creation of a new competitive grant program.