

March 3, 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

LAO
75
YEARS OF
SERVICE

Budget Overview: Resources, Environment, and Food and Agriculture

Presented to:

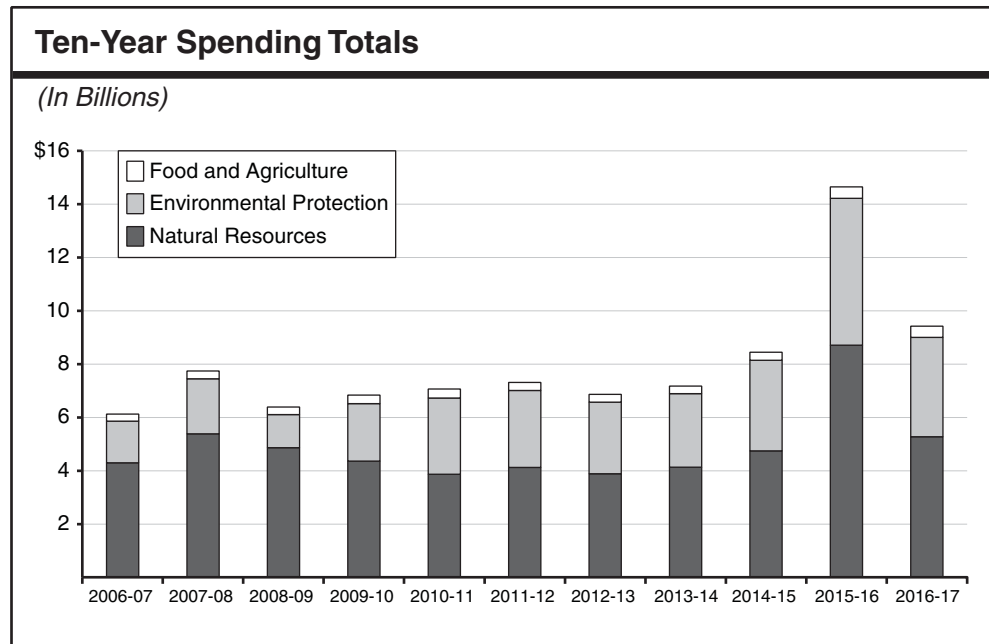
Senate Budget and Fiscal Review Subcommittee No. 2

On Resources, Environmental Protection,
Energy, and Transportation

Hon. Lois Wolk, Chair



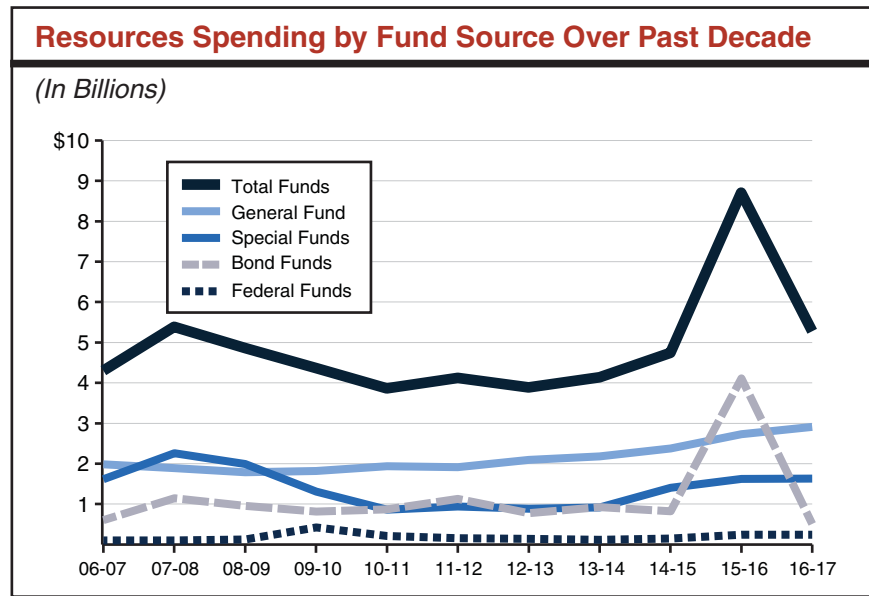
Spending in Historical Context



- Total Spending of \$9.4 Billion in 2016-17.** The Governor’s budget proposes spending a total of \$9.4 billion for departments within the California Natural Resources Agency (\$5.3 billion), California Environmental Protection Agency (\$3.7 billion), and California Department of Food and Agriculture (CDFA) (\$415,000).
- Spending Growth Since Recession.** Total spending for these departments was about \$6 billion or \$7 billion annually from 2008-09 through 2013-14.
- Reduction Compared to Current Year.** The \$5.2 billion 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.



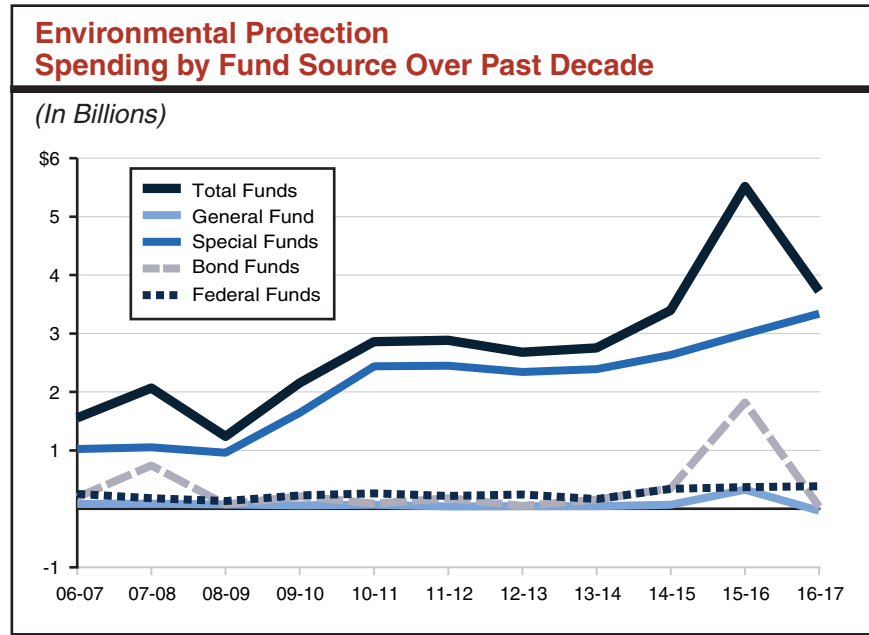
Resources Expenditure Trend



- Modest General Fund Increases.** 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).
- Control Section Provides Additional General Fund.** 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.



Environmental Protection Expenditure Trend



Continued Spending Increases From Special Funds. Historically, most environmental protection funding has come from special funds, usually derived from fees. The budget reflects a net increase of \$342 million from various special funds.

Spending From Cap-and-Trade Auction Revenues Drive Most of the Budget-Year Increase. The budget proposes a total increase of \$484 million in spending from the Greenhouse Gas Reduction Fund for the Air Resources Board and the Department of Resources Recycling and Recovery.



CDFA Budget Summary

Budget Summary for California Department of Food and Agriculture— Selected Funding Sources

(Dollars in Millions)

	2014-15 Actual	2015-16 Estimated	2016-17 Proposed	Change From 2015-16	
				Amount	Percent
General Fund	\$69	\$90	\$81	-\$9	-10%
Department of Agriculture Account	133	148	147	-1	-1
Federal funds	78	110	91	-20	-18
Greenhouse Gas Reduction Fund	12	62	77	14	23
Other funds	64	40	90	51	128
Totals	\$357	\$450	\$485	\$35	8%



Total Funding for CDFA Proposed to Increase Modestly.

The Governor's budget proposes an increase of \$35 million, or 8 percent, in 2016-17. Most of the proposed year-over-year increase—\$46 million—is related to the construction of the Yermo border inspection station, which was approved last year.



General Fund Proposed to Decrease Somewhat.

The proposed budget includes a modest decrease of \$9 million, about 10 percent, from the General Fund for CDFA. This is primarily due to one-time deferred maintenance funding provided in the current year. However, General Fund support for CDFA is up compared to during the recession.



Key Policy Questions for Legislature in Proposed Budget

- 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 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 Budget *(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 *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?



Deferred Maintenance. Control Section 6.10 of the budget bill includes \$187 million from the General Fund for deferred maintenance projects at several resources departments.

- What specific deferred maintenance projects will be undertaken, and are these high priorities for the General Fund?
- What caused these deferred maintenance backlogs, and what strategies do departments have to better ensure that deferred maintenance does not continue to accumulate?



Key Policy Questions for Legislature in Proposed Budget *(Continued)*



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 the 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?



Medical Marijuana Regulation. The budget includes a total of \$24.6 million in 2016-17 to implement a package of bills to regulate medical marijuana. This includes funding for the Department of Fish and Wildlife (\$7.7 million), State Water Resources Control Board (\$5.7 million), CDFA (\$3.4 million), and the Department of Pesticide Regulation (\$700,000).

- Given the scope and inherent complexities of creating this new statewide regulatory program, how can the Legislature best monitor departments' progress in developing regulations, conducting enforcement, and implementing monitoring systems?