

March 8, 2017

# **Overview of the Governor's 2017-18 Budget Proposal for Assembly Budget Subcommittee No. 3**

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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 and Transportation  
Hon. Richard Bloom, Chair





## Expenditure Summary

<b>Expenditures for Agencies Overseen by Assembly Budget Subcommittee No. 3</b>					
<i>(Dollars in Millions)</i>					
<b>Agency/Department</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Change From 2016-17</b>	
	<b>Actual</b>	<b>Estimated</b>	<b>Proposed</b>	<b>Amount</b>	<b>Percent</b>
Transportation	\$17,345	\$17,973	\$19,710	\$1,737	10%
Natural Resources	5,087	8,040	5,083	-2,957	-37
Environmental Protection	3,627	5,774	3,307	-2,466	-43
Public Utilities Commission	1,367	1,632	1,752	120	7
Department of Food and Agriculture	356	450	387	-63	-14



## Transportation Funding Package

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### Governor's Proposal

- The Governor's budget includes a package of proposals to generate an annual average increase in transportation funding of \$4.2 billion over the next ten years.
- Funding would come from a mix of sources, including a new \$65 vehicle registration tax, increases to gasoline and diesel excise taxes, and cap-and-trade auction revenues.
- Revenues would be distributed through complex formulas to partially address a mix of transportation challenges, such as aging highway infrastructure and increased goods movement.



### LAO Roadmap for Developing a Transportation Package

- ***Determine Specific Transportation Challenges to Address.*** We recommend the Legislature first determine the level of shared funding for cities and counties and make highway maintenance its highest priority for the state's share.
- ***Determine Overall Funding Level.*** The magnitude of funding needed will vary based on which transportation needs are prioritized and how robustly the Legislature wishes to fund those needs.
- ***Determine Revenue Sources.*** We recommend considering (1) charging users of transportation systems, (2) a mix of sources, (3) stability of sources, and (4) distinguishing between temporary and permanent sources.
- ***Simplify Funding Distribution Model.*** We recommend the Legislature adopt a distribution model that is more simplified than the Governor's proposal.
- ***Determine Program Administration and Establish Accountability Measures.*** The Legislature will want to determine how new programs will be administered and ensure that funds are spent efficiently and effectively.



# Cap-and-Trade

<b>Proposed 2017-18 Cap-and-Trade Expenditure Plan</b>	
<i>(In Millions)</i>	
<b>Program</b>	<b>Amount</b>
<b>Continuous Appropriations</b>	
High-speed rail	\$375
Affordable housing and sustainable communities	300
Transit and intercity rail capital	150
Transit operations	75
Subtotal, Continuous Appropriations	(\$900)
<b>Discretionary Spending</b>	
Public transit and active transportation projects	\$500
Clean transportation and petroleum use reduction	363
Transformative Climate Communities	142
Carbon sequestration	128
Short-lived climate pollutants	95
Energy efficiency and renewable energy	28
Subtotal, Discretionary Spending	(\$1,255 <sup>a</sup> )
<b>Total</b>	<b>\$2,155</b>

<sup>a</sup> Does not total due to rounding.

**Governor’s Proposal.** The budget proposes to spend \$2.2 billion in cap-and-trade auction revenue in 2017-18. Consistent with current law, 60 percent (\$900 million) of 2017-18 revenue would be continuously appropriated to certain programs. Under the Governor’s proposal, the remaining \$1.3 billion in proposed discretionary spending would only be spent after the Legislature enacts with a two-thirds vote new legislation providing the Air Resources Board with the authority to operate a cap-and-trade program beyond 2020.

**LAO Recommendations.** We recommend approving the extension of cap-and-trade (or a carbon tax) with a two-thirds vote in order to (1) better ensure the state meets its greenhouse gas reduction goals cost-effectively, (2) reduce uncertainty regarding the state’s authority to auction allowances, and (3) broaden the allowable uses of auction revenues based on legislative priorities.



## Special Fund Structural Deficits

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**Several Special Funds Face Potential Shortfalls.** The proposed budget does not include full, ongoing solutions to the structural deficits of some special funds. The Legislature may want to begin consideration of options to provide ongoing budget solutions.

- **Fish and Game Preservation Fund.** Ongoing expenditures from the Department of Fish and Wildlife's largest funding source exceed ongoing revenues by about \$20 million. The budget proposes to partially address this by raising commercial "landing" fees by \$12.4 million, or roughly 1,300 percent. The budget would also make a one-time \$9 million transfer from another fund to address expenditures in 2017-18, leaving the need for an additional ongoing solution to address the remaining shortfall in 2018-19.
- **State Parks and Recreation Fund (SPRF).** For the fourth year in a row, the Department of Parks and Recreation is proposing a one-time augmentation to address the structural imbalance in its main special fund, which is necessary to maintain current service levels. This includes \$12.6 million from the SPRF fund balance and \$4 million from the Environmental License Plate Fund.
- **Beverage Container Recycling Fund (BCRF).** The BCRF has a structural imbalance estimated at \$26 million at the end of 2017-18. The administration released a policy paper—but no specific proposal—outlining general principles and suggested approaches to addressing the problem.

## Other Major Proposals

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- Cannabis Regulation—Department of Food and Agriculture (CDFA).*** CDFA requests \$22.4 million from the Marijuana Control Fund and 50.8 positions for activities related to licensing and enforcement of cannabis cultivators, as well as implementing a track and trace system for cannabis so that it can be monitored throughout the distribution chain. The administration indicates that it will propose legislation to reconcile differences between medical cannabis laws and the provisions of Proposition 64 regarding nonmedical cannabis regulation. We recommend aligning these regulatory systems to the maximum extent possible, as well as reducing the amounts proposed beyond 2017-18—such as for the roll-out of CDFA’s information technology systems—to allow greater legislative oversight.
  
- Drought Funding.*** The budget proposes \$178 million in one-time funding across five departments, primarily from the General Fund, to address ongoing impacts from the multiyear drought. This total includes \$91 million for the California Department of Forestry and Fire Protection to provide additional fire protection. The remaining funds for resources departments are to address water shortages and conservation, provide state level drought coordination and response, and assist fish and wildlife affected by drought conditions. The Legislature will want to consider how much of this funding continues to be needed in light of improved water conditions in the state, as well as whether some activities should be made ongoing to increase the state’s resilience in future droughts.