

JANUARY 27, 2021

The 2021-22 Budget: California Natural Resources Agency



LEGISLATIVE ANALYST'S OFFICE

Agency Overview

California Natural Resources Agency Budget Summary					
<i>(In Millions)</i>					
Fund source	2019-20 Actual	2020-21 Estimated	2021-22 Proposed	Change From 2020-21	
				Amount	Percent
Bond funds	\$315	\$50	\$145	\$95	190%
Special funds	47	16	21	5	29
General Fund	122	9	20	11	116
Federal funds	1	1	1	—	—
Totals	\$485	\$77	\$187	\$110	144%

Proposes \$187 Million in 2021-22. The Governor’s proposed budget for the California Natural Resources Agency (CNRA) reflects a significant—\$110 million—increase compared to estimated current-year expenditures, due primarily to a net \$95 million year-to-year increase in bond spending authority. The following represent the most significant new proposals for CNRA, all proposed using one-time funds. (We discuss the first and third proposals in this analysis and will discuss the second in a separate publication.)

- **Habitat Restoration (\$125 Million).** This funding from Proposition 68 (2018) would be used for habitat restoration projects along the Sacramento and San Joaquin Rivers.
- **Remote Sensing Data for Wildfire Prevention (\$15 Million).** This proposal would use General Fund to collect data—such as by using light detection and ranging (commonly referred to as LiDAR) technology—to inform wildfire prevention activities.
- **Move to New Natural Resources Building (\$4.5 Million).** The Governor proposes using Environmental License Plate Fund (ELPF) monies to support costs associated with CNRA and its departments moving to a new building.



Habitat Restoration

Background

State Has Attempted to Negotiate Voluntary Agreements (VAs) for River Flows and Habitat Conditions. Over the past several years, CNRA has been helping lead an effort to negotiate VAs between the state, water users (such as irrigation districts and water agencies), and environmental groups. These are intended to help implement the State Water Resources Control Board's (SWRCB's) forthcoming update to the Bay-Delta Water Quality Control Plan, which establishes water quality control measures and flow requirements needed to provide reasonable protection of beneficial uses—including ecosystem health and human needs—in the watershed.

- ***VAs Intended to Achieve Restoration Goals Without Relying Solely on Water Flow Restrictions.*** An important goal of the VAs is to improve conditions for fish and wildlife—particularly those that are threatened and endangered—through measures beyond SWRCB flow requirements. This would be done through a combination of restoration projects—such as improving spawning habitat or installing fish screens—as well as water users agreeing to reduce pumping to improve environmental flows during certain conditions and times of the year.
- ***Seeking to Create Greater Water Supply Certainty for Water Users.*** To the degree that the VA efforts would improve conditions for fish in the Sacramento and San Joaquin River systems, SWRCB could incorporate them into its water flow requirements and potentially adopt more flexible regulatory restrictions on the timing and amount of water that users could remove from the rivers.
- ***Future of VAs Currently Unclear.*** The administration states that it is still committed to pursuing the VA process and seeking agreements that can be incorporated into SWRCB's regulatory decision-making process. However, uncertainties about potential changes to state and federal regulatory requirements for endangered species have complicated these discussions. Negotiations among all of the involved parties are not currently occurring.



Habitat Restoration

(Continued)

Proposition 68 Included \$200 Million to Implement VA Projects.

The bond authorizes these funds for projects to implement VAs executed by the participating collaborative partners and submitted to SWRCB by June 1, 2018.

- ***Bond Allows Funds to Be Spent on Other Habitat Restoration Projects.*** Proposition 68 states that if no VAs are executed and submitted by the specified date, the funds can be used for projects that protect and restore California’s rivers, lakes, streams, and aquatic ecosystems.
- ***Funds Can Also Be Used for Specific Statewide Obligations.*** In lieu of VAs, the bond also allows these funds to be used for restoration projects related to five specific commitments into which the state has entered: the Salton Sea Restoration Act, the Klamath Hydroelectric Settlement Agreement, the Central Valley Project Improvement Act, the San Joaquin River Restoration Settlement Act, and the Tahoe Regional Planning Compact.

Legislature Appropriated \$70 Million for VAs in 2019-20. Because no VAs were executed and submitted to SWRCB by June 2018, CNRA instead allocated funds for projects that met the other allowable uses specified in Proposition 68. Specifically, CNRA selected 15 projects totaling \$50 million to improve fish habitats in several Central Valley rivers and waterways. The agency has not yet designated uses for the remaining \$20 million.

Governor’s Proposal

Proposes \$125 Million for Habitat Restoration. The Governor requests that the Legislature appropriate the remainder of the funding that was originally intended for VAs for CNRA to allocate towards the alternative allowable uses specified in the bond. (Of the total \$200 million that Proposition 68 authorized, \$5 million is reserved for bond administration costs.) Under the administration’s proposal, the agency would determine how to allocate the funding for habitat projects and statewide commitments.



Habitat Restoration

(Continued)

CNRA Plans to Allocate Funding Through New Competitive Grant Program. CNRA indicates that it would focus the funds on multi-benefit efforts that could ultimately be included in future VAs and that improve the health of the Sacramento River, San Joaquin River, and Sacramento-San Joaquin Bay Delta. CNRA would select projects based on how well they meet criteria it has developed:

- Advance at least one recognized species recovery plan or effort.
- Be almost certain to deliver identified benefits to target species.
- Provide durable, long-term benefits.
- Be feasible to implement within a clear, reasonable time frame.
- Be planned for completion by an experienced project team.
- Be supported by a wide variety of governmental and nongovernmental partners.

Assessment

Significant Need for Restoration Projects Along Central Valley Rivers. Multiple native fish species—including salmon and steelhead—have experienced severe population declines over the past few decades, due in part to habitat loss and degradation. As such, a strong rationale exists for spending state money to improve conditions along the Sacramento and San Joaquin Rivers and their tributaries to help these species recover.

Proposed Approach Would Allow Administration Broad Discretion Over How Funds Get Used. Because the bond language governing the allowable uses of these funds is very broad, the Governor’s proposal would allow CNRA to determine exactly how to prioritize use of these funds across potential projects and whether to expend a portion on one or more of the specified statewide obligations.

- **Competitive Grant Program Would Provide Some Transparency, but Still Defers Important Decisions to CNRA.** The proposed approach of developing a competitive grant program to allocate these funds is more structured and transparent than CNRA selecting projects without a public prioritization and scoring process—as it



Habitat Restoration

(Continued)

did for the \$50 million provided in 2019-20. However, neither the bond nor proposed budget bill language provides much guidance over specific priorities or areas of focus for designing the program. As such, the proposal would leave these up to CNRA to determine. Moreover, neither the bond nor budget language requires that CNRA allocate funds through a competitive grant program.

Legislature Could Provide Statutory Guidance to Ensure Expenditures Reflect Its Priorities. Should the Legislature have particular priorities for these funds—such as specific endangered species upon which it wants to focus, or one or more of the allowable statewide obligations—it could direct CNRA to focus on those objectives through language in the budget bill.

- ***Could Define Priorities for Grant Program.*** Additionally, the Legislature could codify project prioritization criteria to guide development of a competitive grant program for allocating these funds. These criteria could include the selection priorities suggested by the administration—should the Legislature find them reasonable—as well as any additional or alternative areas of focus.

Recommendation

Appropriate \$125 Million Proposition 68 Funds to Address Legislature’s Priorities for Habitat Restoration. We recommend the Legislature approve the proposed funds to help improve habitat conditions for threatened and endangered species, but add budget bill language to provide guidance for CNRA on how to prioritize use of the funds. For example, this could include language (1) requiring that funds be allocated through a competitive grant program, (2) specifying prioritization criteria to be used for selecting projects, and/or (3) identifying amounts to be used for specific statewide obligations.



Move to New Natural Resources Building

Background

Legislature Funded Construction of New Natural Resources Building. The new facility, located in downtown Sacramento, will be completed in mid-2021. Employees of CNRA and eight of its departments will move from the current Natural Resources office building and satellite offices over the remainder of the calendar year.

Governor's Proposal

Funds Move of Staff and Equipment to New Building (\$4.5 Million). The budget provides one-time funding from ELPF to relocate an estimated 4,100 employees and their equipment from the current offices to the new building. ELPF is funded by fees paid by drivers who choose to (1) personalize their license plate and/or (2) purchase a "legacy plate."

Assessment

Might Not Be an Allowable Use of ELPF. State law specifies that ELPF may only be used for projects and programs that meet specified purposes, such as restoration of natural areas, protection of threatened and endangered species, deferred maintenance at state parks, and public education. It does not appear that funding the relocation of staff and equipment is consistent with any of the specified allowable uses. (In addition, the Governor proposes a total of \$142,000 from ELPF for administrative costs at the Delta Protection Commission [DPC] and San Diego River Conservancy [SDRC] that are similarly questionable.)

ELPF Projected to Have Small Fund Balance. The administration's fund condition statement for ELPF estimates that the fund will have a \$2.1 million fund balance at the end of 2021-22. While positive, this fund balance is small, representing just 3 percent of estimated revenues. In part, the small fund balance reflects one-time budget proposals totaling \$8.8 million from ELPF, including the \$4.5 million to move to the new Natural Resources building.



Move to New Natural Resources Building

(Continued)

- **Prior-Year Numbers Not Final.** According to the administration, it has not finalized prior-year calculations for revenues or expenditures, and it asserts that revenues will be higher than estimated, and expenditures will be lower than estimated. If correct, the fund balance could be higher than what is shown in the fund condition statement. However, the administration has not yet provided the Legislature with information to substantiate this.
- **Revenue Uncertainty.** The pandemic could affect the demand for personalized and legacy license plates, which might be considered discretionary purchases for drivers facing economic hardships. To the extent that occurs, it would depress ELPF revenues, potentially over multiple fiscal years.

Recommendation

Shift Move Costs From ELPF to Other Fund Sources. We recommend using an alternative funding approach to support the costs of moving to the new Natural Resources building. (We also recommend using an alternative approach for the DPC and SDRC proposals.) Doing so would ensure compliance with state law. Moreover, a shift could be structured to reduce overall costs to ELPF, thereby increasing confidence that the fund will continue to be solvent at the end of 2021-22. We provide two options for legislative consideration:

- **Option 1: Swap With General Fund.** The budget includes numerous General Fund proposals to support activities that clearly would be allowable for ELPF, such as a one-time \$20 million proposal to fund deferred maintenance at state parks. The budget could instead fund the move with General Fund and use a mix of General Fund and ELPF for deferred maintenance. This would have no net impact on either the General Fund or ELPF but would ensure use of ELPF consistent with state law.



Move to New Natural Resources Building

(Continued)

- **Option 2: Spread Costs Among Various Funds That Support Resources Programs Being Moved.** CNRA and the departments being moved to the new building are supported by the General Fund and numerous special funds, and most of these funds can be used to support departments' administrative costs. The budget could apportion the proposed \$4.5 million to these funds in proportion to the number of employees being moved for each department and the relative share of department costs borne by their special funds. This approach would reduce ELPF costs but increase costs on other funds, including the General Fund. However, these would be one-time costs, and the impact to each individual fund would be relatively small.

