

The 2020-21 Budget: California Department of Food and Agriculture

Summary

In this analysis we assess the Governor's 2020-21 budget proposals for the California Department of Food and Agriculture (CDFA). Specifically, we make recommendations regarding the Governor's proposals to (1) fund a comprehensive assessment to identify solutions to the California Exposition and State Fair's (Cal Expo) declining revenues and make available funding to offset near-term deficiencies, and (2) establish a Fresno-Merced innovation corridor to boost the region's economy. In summary, we recommend the following:

- **Cal Expo Fiscal Support and Assessment.** We find that the proposed comprehensive assessment of Cal Expo's operations is a reasonable step to undertake given Cal Expo's fiscal difficulties. However, we recommend that before the Legislature approves this \$750,000 (one time) request, it require that the department testify at budget hearings to provide additional details about the scope of the assessment that would be performed by a contractor. We further recommend the Legislature approve the \$1.5 million (one time) proposed by the administration to provide short-term fiscal relief to Cal Expo if it is needed, thereby reducing the risk of Cal Expo becoming fiscally insolvent within the next year.
- **Fresno-Merced Innovation Corridor.** We recommend the Legislature require the department to report at budget hearings and provide more information about how the proposed \$33 million grant program would be administered and the types of projects that would be eligible for grant funding. If the administration is unable to provide sufficient information about how it will implement this proposal and ensure transparency and accountability, we would recommend that the Legislature reject the proposed funding. (We note that the administration recently indicated it is likely to revise this proposal. However, the details of a revised proposal had not been made public at the time this analysis was prepared.)

DEPARTMENT OVERVIEW

CDFA is charged with protecting and promoting the state's agriculture. The department manages programs in the areas of (1) animal health and food safety, (2) agricultural marketing, (3) pest prevention, (4) enforcement of weights and measures, and (5) assistance to fairs and county agricultural activities. Many of the department's activities are conducted in partnership with county agricultural commissioners and county sealers of weights and measures.

The Governor's budget proposes \$589 million from various fund sources for support of CDFA in 2020-21. This is an increase of \$1 million (less than 1 percent) from the estimated current-year spending level. Under the Governor's plan,

year-over-year General Fund spending would increase by \$63 million, or 39 percent, mainly due to the following proposals: (1) \$33 million one-time funding for the Fresno-Merced innovation corridor, (2) \$20 million (one time) for State Water Efficiency and Enhancement Program (SWEEP), (3) \$11.3 million for capital outlay projects, and (4) \$10 million (\$8.5 million one time and \$1.5 million ongoing) for the Farm to School Program. The increases in year-over-year General Fund spending are largely offset by the following year-over-year decreases in other funds: (1) \$39 million from the Cannabis Control Fund that mainly reflects the phase-out of one-time program startup costs and (2) \$24 million from the Greenhouse Gas Reduction Fund.

CAL EXPO FISCAL SUPPORT AND ASSESSMENT

Background

Cal Expo Is an Independent Entity in State Government. Cal Expo is an independent state entity governed by an 11-member board of directors (Board) appointed by the Governor and the Legislature. The Board serves as the policymaking body for Cal Expo and has full responsibility for its year-round management and operation of all of its facilities. Daily operations are managed by a Chief Executive Officer selected by the Board.

Cal Expo Manages the State Fair and Hosts Other Events. Cal Expo is an approximately 350 acre facility that opened in 1968. It is responsible for hosting the annual State Fair in the summer and other events held during the rest of the year. These events include satellite wagering for horse racing, live harness racing, interim shows and trade exhibitions, an aquatic park, and Sacramento Republic soccer games. Cal Expo also can be activated as a regional emergency evacuation and recovery support center by the Governor's Office of Emergency Services.

Cal Expo Generally Operates on the Revenues It Generates. Funds received by Cal Expo are deposited into a continuously appropriated fund, and Cal Expo generally must sustain its operations with the revenues it generates from the state fair and other sources. For 2019, Cal Expo had estimated total revenues of about \$28 million with almost \$17 million, or 61 percent, of the revenue generated by the state fair. The Board adopts an annual budget which reflects the projected revenues and expenses for the calendar year. State law requires the Board to submit a report to the Legislature and Governor on or before May 31st of each year with respect to the financial condition, present operations, and future planned activities of Cal Expo.

CDFA Has Authority to Exercise Fiscal Oversight of Cal Expo. Under state law, CDFA has authority to assume the rights and duties of the Board if the department determines there is insufficient fiscal or administrative control. Specifically, the department may petition the courts for an order appointing the department, or a person designated by the department, as a receiver if it determines that Cal Expo is insolvent, or is in

imminent danger of insolvency. According to CDFA, it has historically provided little to no oversight of Cal Expo since Cal Expo is an independent state agency.

CDFA Projects Potential Operating Loss for Cal Expo. Based on information available in the fall of 2019, CDFA projected Cal Expo would have a roughly \$1.5 million operating loss in 2019. However, based on more recent information, Cal Expo is not expected to incur an operating loss in 2019, but is projected to incur a \$3.1 million loss in 2020. CDFA cites several reasons why Cal Expo has suffered operating losses in recent years including rising insurance premiums, higher energy costs, increased deferred maintenance costs due to aging infrastructure, and declining admissions for the state fair. As shown in **Figure 1**, over the past five years revenues have ranged between \$26.4 million and \$27.9 million while operations costs generally have equaled or exceeded revenues. This has resulted in declining reserves.

The Board and Chief Executive Officer have already implemented many options to generate additional revenues and reduce costs. For example, Cal Expo has imposed a hiring freeze, reduced the number of vehicles in its fleet, and eliminated all nonessential spending. The Board also states that it faces various statutory and regulatory hurdles that are not imposed on county fairs throughout the state. These hurdles include being subject to state collective bargaining requirements and being charged statewide administrative assessments.

Governor’s Proposal

The Governor’s budget plan for 2020-21 proposes a total of \$2.3 million in one-time General Fund resources to address Cal Expo’s projected revenue shortfalls and identify solutions to its operational, fiscal, and statutory issues as follows:

- **Contract for a Comprehensive Assessment (\$750,000).** The Governor proposes \$750,000 for CDFA to contract with an independent entity for a comprehensive assessment that identifies solutions to Cal Expo’s operational, fiscal, and statutory issues.
- **Short-Term Deficiency Funding (\$1.5 Million).** The Governor proposes \$1.5 million (one time) available upon order of the Director of the Department of Finance (DOF) to offset Cal Expo’s short-term funding deficiencies and reduce the risk of Cal Expo becoming fiscally insolvent within the next fiscal year.

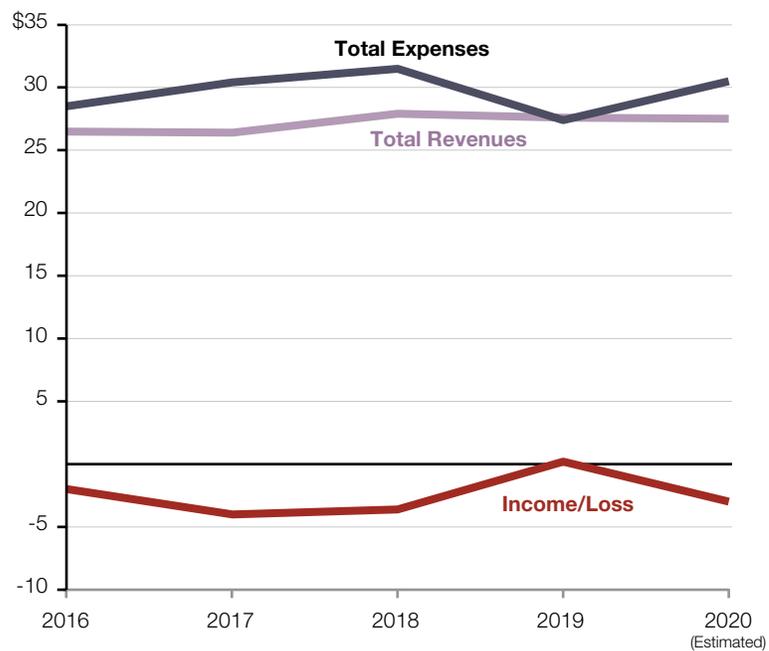
Assessment

Proposal to Hire Contractor to Perform Comprehensive Assessment Has Merit...

The proposal to hire a contractor to perform an assessment of Cal Expo’s operational, fiscal, and statutory issues has merit for several reasons. First, Cal Expo does not have staff with the required

Figure 1

Cal Expo Revenues and Expenditures
As of January 2020 (In Millions)



expertise that could be redirected to undertake such a study. Second, we find that Cal Expo would benefit from an external review of its operations to determine if there are efficiencies that can be implemented, as well as to generate innovative ideas of ways to generate additional revenue. Third, the one-time nature of the study and the breadth of the issues it must address make it more practical to contract with a firm that has a team of subject-area experts in place than it would be for CDFA to hire new staff on a short-term basis.

...But Clarification of the Scope of the Proposal Is Needed. Based on discussions with CDFA, the department intends to contract with a full-service consulting firm that has the capability to assess all aspects of Cal Expo's operations, and that such an assessment is likely to take 12 months. However, few specific details about the scope of the assessment have been provided by CDFA, and it is unclear how CDFA arrived at \$750,000 as being the appropriate amount of funding for the assessment.

Additional details about the scope of the proposed assessment would provide the Legislature with information to determine if the assessment will meet the Legislature's needs and align its priorities. For example, the Legislature may wish to ensure that the assessment will include the following:

- **Recommendations for Statutory Changes.** Will the assessment include a complete legal review of all statute pertaining to Cal Expo, and will it identify recommended statutory changes?
- **A Complete Operational Review.** Which specific areas of Cal Expo's operations will be included in the assessment? Will the assessment include personnel, maintenance, accounting, marketing, and other operational areas? Will the assessment be completed in time to inform the 2021-22 budget deliberations?
- **Summary of Best Practices.** Will the assessment include a summary of best financial and operational practices used by other state and county fairs with recommendations for best practices that

should be adopted by Cal Expo? For example, will the contractor be required to review operations in other states to determine what other revenue-generation opportunities Cal Expo should implement?

- **Real Estate Valuation.** Will the assessment include information about the value of the real estate where Cal Expo is located and its potential alternative uses?
- **State of the Physical Plant.** Will the assessment include an evaluation of Cal Expo's physical plant and the estimated costs to maintain, upgrade, or replace it?

In our view, the assessment should provide sufficient information to form the basis of a long-term strategic plan that would ensure the financial viability of Cal Expo into the future. While it is our understanding that CDFA envisions a far-reaching assessment that would include potential options for the land Cal Expo is on as part of a broader vision of optimizing it as a state and/or local community asset, we believe further clarification of the proposal would be beneficial to the Legislature.

Size of Near-Term Funding Deficiency Still Uncertain. Based upon our analysis of the *Cal Expo and State Fair Approved 2020 Budget* adopted by the Board on December 13, 2019, Cal Expo is estimated to have an operating profit in 2019 of about \$121,000 instead of the projected \$1.6 million operating loss assumed by the administration. This reduces the need for the state to provide funding to offset Cal Expo's short-term funding deficiencies in 2019 and lessens the risk of Cal Expo becoming fiscally insolvent over the next several months. However, Cal Expo is projecting an operating loss of \$3.1 million in its approved 2020 budget. Therefore, it remains likely that the state will be asked to provide fiscal support to Cal Expo during 2020-21.

Near-Term Funding Proposal Does Not Provide for Sufficient Legislative Oversight. As proposed, the Governor's proposal would allow the Director of DOF to approve up to \$1.5 million in funding for Cal Expo without notifying the Joint Legislative Budget Committee (JLBC). In our view this does not allow for sufficient legislative oversight

of the expenditure of these funds. In analogous situations where there is uncertainty about the level of midyear resources that will be provided, it is a standard practice for the Director of DOF to send a notification letter to the JLBC 30 days prior to the release of such funds in order to facilitate legislative oversight of state expenditures to ensure that the proposed spending is consistent with legislative intent.

Recommendations

Require Additional Information About the Comprehensive Assessment Proposal. We find that the proposed comprehensive assessment is a reasonable step to undertake given Cal Expo's fiscal difficulties. However, we recommend that before the Legislature approves this request, it require that the department testify at budget hearings to provide additional details about the scope of the assessment that would be performed by a contractor. In addition, the Legislature could consider adopting budget bill language requiring CDFA to include specific areas of investigation in the contracted assessment that align with the Legislature's priorities. This approach would help to ensure the Legislature receives key information from the assessment to inform future policy decisions regarding Cal Expo.

Approve Proposal for \$1.5 Million in Short-Term Fiscal Relief. We recommend the Legislature approve the \$1.5 million proposed by the administration to provide short-term fiscal relief to Cal Expo if it is needed, thereby reducing the risk of Cal Expo becoming fiscally insolvent within the next year. The proposed \$1.5 million would be insufficient to offset the \$3.1 million operating loss currently being forecast by Cal Expo. However, there is some uncertainty about whether Cal Expo, in fact, will incur an operating loss in 2020 and, if so, of what magnitude. Given the uncertainty regarding Cal Expo's projected revenues in 2020, we do not recommend an adjustment to the Governor's proposal.

Require Legislative Notification Prior to the Release of Short-Term Funds. We recommend the Legislature adopt budget bill language requiring that the Director of DOF provide 30-day notification to the JLBC prior to the release of any funds to Cal Expo to address its 2020 deficiency. This would ensure the JLBC has an opportunity to review the proposed release of funds and that the Legislature has an opportunity to engage in ongoing oversight of Cal Expo's fiscal health and what actions it has undertaken to manage its resources.

FRESNO-MERCED FOOD INNOVATION CORRIDOR

Background

Fresno-Merced Corridor Is a Productive Agricultural Region. The Fresno-Merced corridor includes the Counties of Fresno, Merced, and Madera which recently ranked 3rd, 6th, and 11th respectively amongst California's 58 counties in terms of the gross value of their annual agricultural production. In 2017, the combined value of the agricultural production from these three counties totaled \$12 billion, or about 20 percent of statewide production. Major agricultural products include almonds, pistachios, grapes, poultry, and dairy. The Fresno-Merced corridor lies within the broader San Joaquin Valley, spans across eight counties, and is

one of the most productive agricultural regions in the world.

Region's Agriculture Is Supported by Educational Institutions. The San Joaquin Valley's agricultural industry is supported by several educational institutions. The Jordan College of Agricultural Sciences and Technology at California State University, Fresno—with an enrollment of more than 2,500 students—is comprised of seven departments: (1) agricultural business, (2) animal sciences and agricultural education, (3) child and family science, (4) food science and nutrition, (5) industrial technology, (6) plant science, and (7) viticulture and enology. University of California (UC) Merced offers a number of programs and

degrees that help prepare students for careers in agriculture. The UC Agriculture and Natural Resources Cooperative Extensions also support the San Joaquin Valley's agriculture industry in various ways.

Office of Environmental Farming and Innovation (OEFI) Administers Grant Programs.

The OEFI, within CDFA, supports agricultural production and incentivizes practices intended to result in a net benefit for the environment through innovation, efficient management, and science. OEFI currently administers incentive grant programs intended to improve air and water quality and sustainable agriculture. For example, OEFI administers the Healthy Soils Program (HSP) that provides financial assistance for implementation of conservation management practices that improve soil health, sequester carbon, and reduce greenhouse gas (GHG) emissions. OEFI also administers SWEEP, which provides financial assistance in the form of grants to implement irrigation systems that reduce GHGs and save water on California agricultural operations. In addition to HSP and SWEEP, OEFI administers a competitive grant process that awards funds to technical assistance providers, such as the UC Cooperative Extension, that have expertise in designing and implementing agricultural management practices.

Environmental Farming Act Science Advisory Panel (EFASAP). EFASAP is a nine-member panel convened by the Secretary of Food and Agriculture (Secretary). The panel is tasked with reviewing and documenting agriculture's impacts on the environment and identifying incentives to encourage agricultural practices with environmental benefits, amongst other tasks. The panel advises the Secretary on the implementation of HSP; SWEEP; and on issues relating to the impact of agricultural practices on air, water, and wildlife habitat. The panel holds quarterly public meetings.

Governor's Office of Business and Economic Development (GO-Biz) Leads State's Economic Development Activities. Several small units of GO-Biz serve as points of contact for businesses considering relocating to or expanding in California. These services include (1) no-fee, tailored site

selection services; (2) technical assistance, financing, and state procurement information for small businesses; and (3) help to obtain information about the various regulatory agencies that issue permits in California. GO-Biz also helps businesses needing to contact various state agencies and provides assistance for international investors.

Governor's Proposal

Establish an Innovation Corridor. The Governor's budget proposes \$33 million in one-time General Fund (which can be committed over three years) to establish the Fresno-Merced Innovation Corridor Grant Program. The proposed program would provide grants for various efforts intended to support research and development, education, commercialization, and innovation that will advance sustainable agricultural production and create jobs in the San Joaquin Valley. CDFA plans on making grants available primarily to educational institutions, but would consider other state agencies and other regional partners.

According to CDFA, it would partner with local education institutions, GO-Biz, and regional partners—such as local government agencies—to design and implement this proposal. The department would use the public meetings of EFASAP to establish a grant framework for the program and solicit public comments on it. CDFA plans to work with state and local stakeholders to develop specific program outcomes to be measured. CDFA would report on the program at the quarterly public meetings of EFASAP, and materials would be posted online for public viewing.

Proposal Might Change. The administration recently informed us that it is likely to revise the Fresno-Merced innovation corridor proposal. However, the details of a revised proposal had not been made public at the time this analysis was prepared.

Assessment

While the administration indicates that it might revise this proposal, in the absence of any details related to such changes, our assessment is based on the current proposal in front of the Legislature.

Few Details on How Grant Funds Would Be Spent. The proposal gives CDFA broad discretion to consider a wide array of grant proposals. In our view, the proposal does not provide sufficient information to determine what types of projects will be funded by the program, who will benefit from the grants, and whether the grant program would duplicate existing programs or fill unmet needs. Furthermore, it does not identify the amount of grant funds that would be dedicated to specific allowable uses. For example, the proposal does not identify the amount of funds that would be available for grants to educational institutions versus funds available for other purposes. Absent these types of details, it is impossible to analyze what the economic benefits of the proposal would be to the San Joaquin Valley.

Few Details on How CDFA Would Administer Grants. The proposal provides a high-level description of how grants would be administered by CDFA. However, CDFA has not yet provided any detail on (1) the process for interested parties to apply for a grant, (2) the criteria for reviewing grant applications and how the review would be performed, and (3) the type of reporting the department would provide on grant awards and project outcomes. In discussions, CDFA indicated that its experience administering other grant programs such as HSP and SWEEP will help it to quickly and efficiently establish the new grant program and administer it in a fair and transparent manner.

Recommendations

Withhold Action Pending Additional Information. We recommend the Legislature require the department to report at budget hearings and provide detailed information about how the grant program would be administered and the types of projects that would be eligible for grant funding. Specifically, we believe it would be beneficial for CDFA to do the following:

- Provide more information on the process to apply for grants, criteria for reviewing and approving grants, and the reporting the department would provide on grant awards and project outcomes. It should also identify the OEFI resources that would be used to administer the grants.
- Provide information on how CDFA would ensure that grant funds are targeted to (1) meet identified regional agricultural or economic needs, (2) provide the greatest public benefit, and (3) reflect legislative priorities.
- Describe how the department would ensure public transparency and accountability, such as by posting grant information—such as on grant awards and project outcomes—on a public web page.

We recommend that the Legislature wait to take action on the proposal until the administration provides the additional information described above. In our view, the administration's proposal does not include sufficient information about the proposed grant program to allow an assessment of its costs and benefits. When additional information is provided, we will reassess the proposal. If the administration is unable to provide sufficient information about how it will implement this proposal and ensure transparency and accountability, we would recommend that the Legislature reject the proposed funding.

We Will Evaluate Details of a Modified Proposal if Submitted to Legislature. As noted earlier in this analysis, the administration has signaled its intent to issue a revised version of the Fresno-Merced innovation corridor proposal. However, at the time this analysis was prepared, no additional details regarding specific revisions were available for us to evaluate, nor was it clear when a revised proposal would be made public. If a revised proposal is released, we will analyze it and provide the Legislature with updated recommendations.

LAO PUBLICATIONS

This report was prepared by Shawn Martin, and reviewed by Brian Brown and Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

To request publications call (916) 445-4656. This report and others, as well as an e-mail subscription service, are available on the LAO's website at www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, CA 95814.