

FEBRUARY 18, 2021

# **The 2021-22 Budget: California Department of Food and Agriculture**

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LEGISLATIVE ANALYST'S OFFICE

## Department Overview

**Proposes \$594 Million in 2021-22.** The Governor’s proposed budget for the California Department of Food and Agriculture (CDFA) reflects a \$45 million (8 percent) increase compared to estimated current-year expenditures, due primarily to an increase in proposed General Fund spending for a variety of programs, such as those discussed below.

<b>Department of Food and Agriculture Budget Summary</b>					
<i>(In Millions)</i>					
Fund Source	2019-20 Actual	2020-21 Estimated	2021-22 Proposed	Change From 2020-21	
				Amount	Percent
General Fund	\$239	\$162	\$249	\$87	54%
Special funds	297	268	225	-43	-16
Bond funds	9	8	2	-6	-79
Federal funds	108	111	118	7	6
<b>Totals</b>	<b>\$653</b>	<b>\$549</b>	<b>\$594</b>	<b>\$45</b>	<b>8%</b>

**Major Proposals.** The Governor’s budget package includes several significant funding proposals—several of which we describe in more detail in this analysis—including:

- **Fairground Operational Support and Deferred Maintenance (\$60 Million).** The Governor’s budget includes one-time General Fund resources to provide operational support to state-affiliated fairs and to address deferred maintenance at fairgrounds.
- **State Water Efficiency and Enhancement Program (SWEET) (\$40 Million).** The Governor’s budget includes one-time General Fund (including \$20 million proposed for early action) for CDFA to award SWEET grants.



## Department Overview

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- **Transition to Safer Pest Management (\$11.8 Million).** The Governor’s budget includes ongoing funding—initially from the General Fund and the Department of Pesticide Regulation Fund until the full implementation of a proposed mill assessment increase—for integrated pest management (IPM) grants and for a cooperative agreement with academic institutions to expand IPM research and outreach to the agricultural community. (We describe this proposal in more detail in a separate analysis, [The 2021-22 Budget: Transition to Safer Pest Management.](#))
- **Needles Border Protection Station (\$10.4 Million).** The Governor’s budget includes one-time General Fund resources for the acquisition and planning phases of the Needles Border Protection Station Relocation Project.
- **California Farm to School Incubator Grant Program (\$10 Million).** The Governor proposes one-time General Fund for the Farm to School Incubator Grant Program, which supports schools in procuring locally-grown foods for school meals and educating students about food and agriculture.
- **Produce Safety Program (\$8.7 Million).** The Governor’s budget includes \$8.7 million (decreasing to \$7.9 million in 2022-23) in ongoing Federal Fund authority for CDFA to align its produce inspection program with the Federal Food Safety Modernization Act.
- **Technical Assistance for Underserved Farmers (\$6.7 Million).** The Governor’s budget includes one-time General Fund resources (including \$3.4 million proposed for early action) for technical assistance and grants for small, midsized, and disadvantaged farmers.
- **Assessment of Reporting Requirements and Online Portal (\$6 Million).** The Governor proposes one-time General Fund (including \$4 million proposed for early action) to assess (1) state reporting requirements and (2) the department’s online licensing and payment portal.



# Fairground Operational Support and Deferred Maintenance

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## Background

**Network of California Fairs.** Fairs are not run by CDFA. However, the department provides fiscal and policy oversight for the state’s network of fairs—78 fairs statewide—and allocates some state funding to the fairs annually.

- **Fairs Host Variety of Events.** Fairs are most known for their annual fair, but they also operate year round hosting smaller events like trade shows, concerts, and private events.
- **Fairs Are Part of Emergency Response Network.** Many fairs play an important role in the state’s emergency response network by serving as evacuation and recovery support centers.
- **Fairs Receive Some State Funding.** In most years, the fairs generate roughly \$400 million in annual revenues. The fairs receive \$2.6 million annually from the General Fund. Additionally, Chapter 798 of 2017 (AB 1499, Gray) provides fairs with a percentage of state sales tax revenues that are generated from activities on fairgrounds, roughly \$19 million in 2019-20.

**Fairs Operate Under a Variety of Governance Structures.** The network of fairs includes 52 district agricultural associations (DAA), 23 county fairs, 2 citrus fruit fairs, and the California Exposition and State Fair (Cal Expo).

- **State-Affiliated Fairs.** DAAs are state entities with Governor-appointed boards (41 operate on state-owned land), and Cal Expo is an independent state agency with a board appointed by the Governor and the Legislature. DAAs and Cal Expo are collectively known as the state-affiliated fairs.
- **County and Citrus Fairs.** In contrast, county fairs are either directly operated by counties or nonprofit organizations, and both citrus fruit fairs are operated by nonprofit organizations.



# Fairground Operational Support and Deferred Maintenance

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**Current-Year Appropriation to Assist State-Affiliated Fairs Due to Pandemic.** The coronavirus disease 2019 (COVID-19) public health pandemic has prevented fairs from conducting their normal revenue-generating activities, such as hosting annual fairs and other events that involve large gatherings of people. The 2020-21 budget package included a supplemental appropriation of \$40.3 million from the General Fund to support state-affiliated fairs in light of the fiscal impacts of the pandemic.

- **Support for State-Layoff Costs.** At the time the budget was adopted in June 2020, the administration indicated that the supplemental funding was for state-affiliated fairs that did not have sufficient funds or reserves to cover employee compensation costs during the layoff process as fairs had to downsize staffing levels.
- **Operational Support.** In January 2021, the administration notified the Legislature that roughly \$20 million of the original allocation was not needed for layoff-related costs and instead would be used for general operational support for state-affiliate fairs in the current year in light of the pandemic.

## Governor's Proposal

**Budget Proposes \$60 Million to Support Fairs.** The Governor's budget includes one-time General Fund to support fairs in 2021-22.

- **Operational Support for State-Affiliated Fairs and Assessment of State-Owned Land (\$50 Million).** The Governor's proposal includes \$50 million to provide operational support to state-affiliated fairs due to the pandemic. According to the department, half of the funding would be distributed to state-affiliated fairs based on fair size and the other half distributed based on CDFA's assessment of their financial conditions. The department's current estimate of needs is \$64 million, but it is proposing a lesser amount (\$50 million) to account for possible operational efficiencies that could reduce budget-year costs. In addition, up to \$3 million of the \$50 million will be used for an assessment that would look at whether additional developments—such as housing—is feasible at fairgrounds that operate on state-owned land.



# Fairground Operational Support and Deferred Maintenance

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- **Funding for Deferred Maintenance (\$10 Million).** The Governor’s proposal also includes \$10 million to address deferred maintenance at fairgrounds. The department intends to prioritize funding to fairs that support emergency services.

## Assessment

**Providing Operational Support Is Reasonable, but Amount Needed Is Uncertain.** Fairs largely have been unable to conduct their normal revenue-generating activities due to the COVID-19 pandemic. Given that revenues for the fairs are highly dependent on hosting large events, it is reasonable to provide operational support for ongoing costs, such as salaries for essential employees and related administrative costs.

- **Estimates Might Change as Pandemic Evolves.** The amount of funding requested by the department is based on financial projections of costs assuming that fairs will not be able to conduct normal operations in the budget year. While this is a possibility, there is still much uncertainty about when and under what conditions revenue-generating operations will be able to resume. For instance, the state might update its social distancing guidelines as more people are vaccinated, which might allow fairs to resume some of their normal operations during 2021-22.
- **Structure of Proposal Limits Legislative Oversight.** As currently structured, the proposal would not provide an opportunity for the Legislature to know how funding is ultimately distributed—particularly the need-based distribution which will be based on decisions that the administration will make throughout the year as additional financial information on the fairs becomes available. Having such information would provide the Legislature with additional opportunities for oversight of how the funding is being targeted.



# Fairground Operational Support and Deferred Maintenance

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***Funding for Deferred Maintenance Is Reasonable.*** A recent department assessment of fairgrounds indicated that there is \$176 million in deferred maintenance needs across the state. Given the substantial need, it is reasonable to provide one-time funding of \$10 million to support deferred maintenance at fairgrounds. Spending on deferred maintenance could prevent the state from paying even larger facility repair or replacement costs in the future. Moreover, we think prioritizing maintenance at fairs used to support emergency operations, such as during wildfires and COVID-19 testing, is reasonable to support public safety and public health functions.

***State Assessment of State-Owned Fairgrounds Could Provide Future Benefits.*** An assessment of fairgrounds that operate on state-owned land could be beneficial for a couple of reasons. First, an assessment might result in the state identifying opportunities to better maximize existing land, which could lead to development opportunities that benefit the local communities that fairs serve. Second, such development could provide opportunities to increase and diversify the revenue streams for fairs.

## Recommendations

***Delay Decision on Operational Support and Assessment Until May Revision.*** Given the current uncertainty around the extent to which fairs will be able to conduct normal operations in the budget year, we recommend the Legislature withhold action on this item until after the May Revision. The Legislature could use additional information available at that time regarding the status of the pandemic and vaccinations to inform its decision on the appropriate amount of funding to provide.

***Require Legislative Notification Prior to Distribution of Funds.*** According to the administration, the amount provided to state-affiliated fairs based on needs would be distributed on a quarterly basis. We recommend the Legislature adopt budget bill language requiring the Department of Finance to provide a 30-day notification to the Joint Legislative Budget Committee prior to the release of these funds. This notification should include details on (1) the amount provided to each state-affiliated fair, (2) the method the administration used to allocate funding, and (3) any remaining balance and the department's expected use of that balance.



# Fairground Operational Support and Deferred Maintenance

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**Approve Funding for Deferred Maintenance.** Given the amount of deferred maintenance needs across fairgrounds and the role they play in the state's emergency response network, we recommend the Legislature approve the requested \$10 million for this purpose.





# State Water Efficiency and Enhancement Program

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## Background

**CDFA Administers SWEEP.** CDFA administers SWEEP, which provides grants to agricultural entities to modify or replace irrigation systems in order to reduce greenhouse gas (GHG) emissions and save water. Examples of eligible projects include solar powered water pumps and soil moisture monitoring equipment.

- **Funding History.** CDFA has awarded \$81.1 million in SWEEP grants to date, of which \$65 million has been funded from the Greenhouse Gas Reduction Fund. A total of over 800 projects have been supported with the funding.

## Governor's Proposal

**Additional SWEEP Grants (\$40 Million).** The Governor's budget includes one-time funding from the General Fund (including \$20 million proposed for early action) for CDFA to award additional SWEEP grants.

## Assessment

**Proposal Addresses Several State Priorities.** Through previous legislation, the state has indicated that reducing GHG emissions and managing water resources are key priorities. SWEEP can contribute to both priorities by providing incentives to install more efficient irrigation systems. According to the department, projects funded from SWEEP cumulatively reduce annual GHG emissions by 80,000 metric tons and annual water consumption by 37.5 billion gallons.

**No Compelling Rationale for Early Action.** It is unclear why expediting half of the proposed appropriations several months earlier is essential, given that grants are not expected to be awarded until February 2022. Additionally, allocating the proposed funding in two grant solicitations of \$20 million would add administrative complexity for the department and applicants.

## Recommendation

**Adopt Full \$40 Million in the 2021-22 Budget.** We recommend that the Legislature approve the proposed funding, but minimize administrative complexity by appropriating all of the funds in the budget year.



# Technical Assistance for Underserved Farmers

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## Background

***Most Farms in California Are Small and Midsized.*** According to the U.S. Department of Agriculture (USDA), roughly 85 percent of farms in California are considered small or midsized. While most farms fall into these two categories, small and midsized farms account for only 12 percent of the state’s total market value of agricultural production. These groups are defined by the following:

- ***Ownership.*** Under the USDA definition, to qualify as a small or midsized farm, the majority of the business must be owned by the operator and related individuals.
- ***Revenues.*** Small farms are those with a gross cash farm income—annual income before expenses—of less than \$350,000, while midsize farms are those with a gross cash farm income between \$350,000 and \$1 million.

***California Farmer Equity Act of 2017.*** In 2017, the Legislature enacted Chapter 620 (SB 1348, Aguiar-Curry) to increase support for farmers who are socially disadvantaged—defined as a farmer who belongs to a group that has been subjected to racial, ethnic, or gender discrimination.

- ***Disadvantaged Farmers in California.*** CDFA estimates that socially disadvantaged farmers make up roughly 20 percent of the state’s 124,00 total farmers.
- ***Disadvantaged Farmers Not Familiar With Available Resources.*** In a recent report, CDFA found that many socially disadvantaged farmers are not familiar with available resources such as grants and technical assistance.

***University Program Provides Technical Assistance to Small Farmers.*** The University of California Division of Agriculture and Natural Resources (UC ANR) operates a statewide network of local cooperative extension sites and centers that are dedicated to conducting research, outreach, and education. Within this network is the Small Farm Program, which has one staff at each of four locations that provide technical assistance to small and socially disadvantaged farmers, including assistance with grant funding and licensing.



# Technical Assistance for Underserved Farmers

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## Governor's Proposal

### ***Technical Assistance for Underserved Farmers (\$6.7 Million).***

The Governor's budget includes one-time General Fund to establish two new grant programs and for UC ANR to support small, midsized, and disadvantaged farmers.

- ***Grant Programs (\$4 Million).*** The Governor's proposal includes \$2 million annually in 2020-21 and 2021-22 to fund two new grant programs for small, midsized, and disadvantaged farmers. The proposal includes the following: (1) grants to assist farmers in meeting matching fund requirements for various state and federal programs and (2) grants for nonprofit organizations that have historically provided technical assistance to small, midsized, and disadvantaged farmers. The department estimates that this funding will provide a total of 40 grants.
- ***UC ANR Contract and Temporary Hire (\$2.7 Million).*** The Governor's proposal includes \$1.4 million annually in 2020-21 and 2021-22 to fund a contract with UC ANR to expand its Small Farmers Program and for CDFR to hire a temporary position to serve as a liaison between the department and the program.

## Assessment

***Proposal Aligns With Past Legislative Priorities.*** The Legislature has indicated that supporting disadvantaged farmers is a priority through past legislation. This proposal aligns with this by providing grants that are directly targeted to disadvantaged farmers and by augmenting the existing technical assistance network that supports them.

***Key Details Remain Unclarified for Grant Programs.*** In our view, the proposal does not clarify several pieces of information that would assist the Legislature in its evaluation.

- ***Some Federal Overlap.*** The recent federal relief package provides funding—a total of \$75 million nationwide—for a USDA competitive grant program that also funds organizations that provide technical assistance to disadvantaged farmers. This may make some parts of the Governor's proposal duplicative with federal efforts.



# Technical Assistance for Underserved Farmers

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- **Funding Between Grant Programs.** The proposal does not indicate how funding will be split between the two new grant programs being proposed. The Legislature may want to better align spending with its own priorities.
- **Definition of Small Farmers.** The proposal does not indicate how CDFA will define small and midsized farmers for its proposed grant program that would provide direct assistance to these farmers. Using the USDA's definition would encompass a large portion of farmers in the state, which would make funding more difficult to target.

**No Compelling Rationale for Proposed Early Action of \$3.4 Million.** In our view, early action might be warranted if the administration demonstrates that early approval would ensure that high-priority projects or services are implemented more quickly to meet an urgent need. However, it is unclear why expediting appropriations several months earlier is essential for these programs given that neither will be used to support services immediately. According to the administration's time line, grants would not be awarded till October 2021. Additionally, contract funding for UC ANR is to expand services, which would likely take several months to implement.

## Recommendations

**Report at Budget Hearings on How Grants Will Be Distributed.**

We do not raise any concerns with the intent of the proposal. However, we recommend the Legislature require the department to report at budget hearings on (1) how this proposal complements federal grants that were recently augmented under the federal relief package, (2) how it will define small and midsized farmers, and (3) how it will split funding between the two new grant programs being proposed.

**Approve Any Funding in the 2021-22 Budget.** If the Legislature were to approve any funding under this proposal, we recommend that it appropriate this amount in the budget year. Early action is likely not warranted given that funding will not be used to support immediate services in the current year.



# Assessment of Reporting Requirements and Online Portal

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## Background

***CDFA and Other Agencies Regulate Agricultural Industry.*** CDFA is the state's primary agency responsible for regulating agricultural products, practices, licenses, and permits. There are also other agencies within the California Environmental Protection Agency (CalEPA) that play a role in regulating the agricultural industry. For instance, the Department of Pesticide Regulation oversees the use of agricultural pesticides, and the State Water Resources Control Board regulates the diversion of surface water, such as for irrigation.

## Governor's Proposal

***Assessment of Reporting Requirements and Online Portal (\$6 Million).*** The Governor's budget includes one-time General Fund resources for the department to conduct two assessments.

- ***Assessment of Reporting Requirements (\$4 Million).*** The Governor's proposal includes \$4 million in 2020-21 for early action to hire a consultant to assess the extent to which there are duplicative reporting requirements for the agricultural industry across CDFA and CalEPA departments, as well as to make recommendations on how to reduce duplication.
- ***Assessment of Online Licensing and Payment Portal (\$2 Million).*** The Governor's proposal includes \$2 million in 2021-22 for a feasibility study related to the department's online licensing and payment portal. This would be the first step in determining the scope and costs of a potential information technology project to improve or replace the current portal.



# Assessment of Reporting Requirements and Online Portal

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## Assessment

**Identifying Duplication Could Be Reasonable, but Concerns With Proposal.** Identifying and resolving duplicative reporting requirements could be a worthwhile effort for the state to the extent it resulted in the reduction of unnecessary administrative burdens on the agricultural industry and costs to the state.

- **CDFA Has Not Yet Provided a Compelling Justification for Assessment.** While an assessment could be reasonable, the department has not yet provided a clear explanation of the scope of the problem it intends to address. For example, CDFA has not provided our office with even an initial list of potentially duplicative reporting requirements that it intends to assess. Consequently, we cannot be certain that there is a significant problem being experienced by the agricultural industry, or that providing additional funding for the assessment will be effective in creating long-term cost reductions or efficiencies.
- **No Compelling Rationale for Early Action.** It is unclear why expediting appropriations for the assessment of reporting requirements is essential for the department, given that no immediate improvements will be made in the near term. According to the department's time line, the assessment would take about 18 months to complete.

**Assessment of Online Licensing and Payment Portal Is Reasonable.** The department has indicated that its current online portal does not allow for the regulated industry to pay for various permits and licenses at the same time, which is viewed as overly burdensome to the agricultural industry. Assessing the feasibility of improving the department's current portal would allow it to better understand what next steps should be taken to make this service more efficient and convenient, as well as what the costs would be to make improvements. The department would need to come back to the Legislature for future appropriations to fund subsequent phases of any such project.



# Assessment of Reporting Requirements and Online Portal

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***Proposes General Fund for Activities That Largely Benefit the Agricultural Sector.*** We find that both proposed assessments largely benefit the agricultural sector, which raises questions on whether the General Fund is the most appropriate funding source, or if it might be more appropriate to use fee revenues to support these efforts. According to the administration, it proposed using General Fund because both proposals are one-time costs that are best suited to be funded through the General Fund. We do not find this to be a compelling rationale because the proposals do not provide a broad enough public benefit to necessitate General Fund resources.

## Recommendations

***Reject \$4 Million for Assessment of Duplicative Reporting Requirements.*** The department has not provided us with a compelling list of duplicative reporting requirements that it intends to assess. Therefore, we recommend that the Legislature reject the \$4 million being requested for this purpose from the General Fund.

***Report at Budget Hearings on Possible Other Funding Sources for Assessment of Online Portal.*** We recommend the Legislature require the department to report at budget hearings on what special funds could be used to support the online portal assessment in lieu of using General Fund.



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