

# 2005-06 Budget Overview: Resources and Environmental Protection

---

LEGISLATIVE ANALYST'S OFFICE

Presented To:  
Senate Budget and Fiscal Review  
Subcommittee No. 2  
Hon. Sheila Kuehl, Chair





## Resources Agency— Proposed Expenditures

- Total 2005-06 proposed expenditures for Resources Agency departments are \$3.7 billion,<sup>a</sup> with funding as follows:**

• Special funds	\$1.6 billion	(44 percent)
• General Fund	\$1.3 billion	(35 percent)
• Selected bond funds	\$597 million	(16 percent)
• Federal funds	\$163 million	(5 percent)
	<u>\$3.7 billion</u>	

<sup>a</sup> Does not include expenditures for (1) DWR's energy purchases on behalf of the investor owned utilities or (2) the off-budget State Water Project.

- Resources budgets represent a very small portion of the total state budget:**

- Proposed General Fund expenditures for resources programs represent about 1.5 percent of the total state General Fund budget.
- Proposed total expenditures for resources programs represent about 2.2 percent of the total state budget (all funds).

- Proposed 2005-06 expenditures are about \$1.7 billion (32 percent) below 2004-05 estimated expenditures. This largely reflects a decrease of a like amount in bond fund expenditures for water, land conservation, and other resources-related projects. This decrease is partially offset by an increase in General Fund expenditures, mainly under the California Department of Forestry and Fire Protection (CDFFP), the Department of Water Resources (DWR), and the Department of Parks and Recreation (DPR).



## Resources Agency— Proposed Expenditures

---

(Continued)



### Major proposed budget changes include:

- + \$464 million (“judgment bond”) in DWR to finance pending flood-related lawsuit (the *Paterno* case).
- + \$59.1 million (General Fund) in DWR for lining of the All-American Canal.
- + \$9.7 million (General Fund) in DWR for levee maintenance and other flood management activities.
- + \$23 million (General Fund) in CDFFP for firefighting equipment and year-round staffing in Southern California.
- + \$11.2 million (General Fund) in DPR for Americans with Disabilities Act-related repairs.
- + \$6 million (special funds) in DPR for water quality system repairs in state parks.



## Resources Agency—Cost Drivers

---

The cost drivers for resources programs include the following:

- For a number of resources departments, the expenditure levels are driven mainly by the availability of bond funds for purposes of fulfilling their statutory missions. This would include departments whose main activity is the acquisition of land for restoration and conservation purposes as well as departments who administer grant and loan programs for various resources activities.
- Some resources departments own and operate public facilities, such as state parks and boating facilities. The number and nature of such facilities drive operations and maintenance expenditures for these departments.
- In addition, the state's resources programs include a number of regulatory programs. The cost drivers for these programs include the number and complexity of regulatory standards that are required to be enforced and the related composition of the regulatory universe.
- Finally, some resources activities have a public safety purpose, and the cost drivers include emergency response costs that can vary substantially from year to year. These activities include CDFFP's emergency fire suppression activities and the emergency flood response actions of DWR.



## Resources Agency— Funding Mix and Expenditure Trends

- ☑
 As shown in the figure below, Resources Agency expenditures began to increase substantially in 2000-01 with the influx of new bond funds. General Fund expenditures began to decrease significantly in 2003-04, largely reflecting a shifting of funding for certain activities from the General Fund to fee-based special funds or bond funds.

<b>Resources Agency: 12-Year Funding Mix and Expenditure Trends</b>									
<i>(Dollars in Millions)</i>									
	<u>General Fund</u>		<u>Special Funds</u>		<u>Bond Funds</u>		<u>Federal Funds</u>		<b>Total Funds</b>
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	
1994-95	\$734	44%	\$729	44%	\$90	6%	\$99	6%	\$1,652
1995-96	812	49	745	45	36	2	65	4	1,658
1996-97	771	45	782	46	94	5	63	4	1,710
1997-98	717	42	839	49	91	5	75	4	1,722
1998-99	1,105	53	840	40	56	3	76	4	2,077
1999-00	1,184	52	937	41	54	3	97	4	2,272
2000-01	2,110	54	1,050	27	655	16	118	3	3,933
2001-02	1,382	39	1,058	30	963	28	116	3	3,519
2002-03	1,147	33	1,079	32	1,113	32	109	3	3,448
2003-04	950	23	1,385	34	1,601	39	153	4	4,089
2004-05	1,067	20	1,820	34	2,301	42	215	4	5,404
2005-06	1,270	35	1,624	44	597	16	163	5	3,654



## California Environmental Protection Agency (Cal-EPA)—Proposed Expenditures

- ☑ **Total 2005-06 proposed expenditures for Cal-EPA departments are about \$1.4 billion, with funding as follows:**

Special funds	\$947 million	(70 percent)
Selected bond funds	\$178 million	(13 percent)
Federal funds	\$168 million	(12 percent)
General Fund	<u>\$69 million</u>	(5 percent)
	\$1.4 billion	

- ☑ **Environmental protection budgets represent a very small portion of the total state budget:**

- Proposed General Fund expenditures for environmental protection programs represent less than one-tenth of 1 percent of the total state General Fund budget.
- Proposed total expenditures for environmental protection programs represent less than 1 percent of the total state budget (all funds).

- ☑ **Proposed 2005-06 expenditures are about \$192 million (12 percent) below 2004-05 estimated expenditures.** As with Resources Agency departments, most of this decrease reflects a decrease in bond-funded expenditures (\$339 million). The decrease in bond expenditures is partially offset by an increase of \$148 million in special fund expenditures, mainly under the Air Resources Board (ARB) and the State Water Resources Control Board (SWRCB).



## California Environmental Protection Agency (Cal-EPA)—Proposed Expenditures

*(Continued)*

---



### Major budget changes include:

- + \$60 million (special funds) in SWRCB for cleanup or replacement of leaking underground storage tanks.
- + \$55 million (special funds) in ARB for diesel emission reduction incentives (Carl Moyer program).
- + \$16 million (mainly special funds) in ARB for enforcement, monitoring, and other activities.



## Cal-EPA—Cost Drivers

---

The cost drivers for environmental protection programs include the following:

- A core activity of departments and boards under Cal-EPA is the administration of regulatory programs that implement federal and state environmental quality standards. These regulatory programs generally involve permitting, inspection, and enforcement activities.
  
- Accordingly, the main cost drivers for environmental protection programs are the number and complexity of environmental standards that are required to be enforced, which dictate the universe of parties regulated by the departments and therefore the regulatory workload.



## Cal-EPA— Funding Mix and Expenditure Trends

- ☑
 As shown in the figure below, over the last 12 years, special funds have consistently provided the largest share of funding for environmental protection programs. There was a major spike in General Fund expenditures in 2000-01 and 2001-02, mainly reflecting one-time expenditures. In recent years, total expenditures have increased significantly, mainly due to new bond funds becoming available. In addition, a significant amount of funding has been shifted from the General Fund to fee-based special funds.

<b>Cal-EPA: 12-Year Funding Mix and Expenditure Trends</b>									
<i>(Dollars in Millions)</i>									
	<u>General Fund</u>		<u>Special Funds</u>		<u>Bond Funds</u>		<u>Federal Funds</u>		<b>Total Funds</b>
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	
1994-95	\$80	11%	\$432	58%	\$58	8%	\$170	23%	\$740
1995-96	84	11	454	58	34	4	213	27	785
1996-97	90	12	447	62	26	4	156	22	719
1997-98	105	13	528	64	34	4	154	19	821
1998-99	175	20	452	52	42	5	196	23	865
1999-00	166	19	549	61	36	4	142	16	893
2000-01	479	39	485	40	61	5	198	16	1,223
2001-02	407	27	608	41	309	21	173	11	1,497
2002-03	170	16	612	58	92	9	173	17	1,047
2003-04	81	8	677	64	191	18	100	10	1,049
2004-05	74	5	800	51	518	33	163	11	1,554
2005-06	69	5	947	70	178	13	168	12	1,362



## Resources Bond Fund Conditions

- As shown in the figure below, the budget proposes expenditures of \$821 million from five resources bonds approved by the voters between 1996 and 2002, leaving a balance of about \$1.2 billion in the bond funds for expenditure in future years. (Modest expenditures are proposed from pre-1996 bonds which are essentially depleted.)

<b>Resources Bond Fund Conditions By Bond Measure</b>				
<i>2005-06 (In Millions)</i>				
	<b>Total Authorization In Bond</b>	<b>Resources Available</b>	<b>Proposed Expenditures</b>	<b>Balances</b>
Proposition 204 <sup>a</sup>	\$995	\$254	\$17	\$237
Proposition 12 <sup>b</sup>	2,100	34	19	15
Proposition 13 <sup>c</sup>	1,970	388	104	284
Proposition 40 <sup>d</sup>	2,600	100	98	2
Proposition 50 <sup>e</sup>	3,440	1,254	583	671
<b>Totals</b>	<b>\$11,105</b>	<b>\$2,030</b>	<b>\$821</b>	<b>\$1,209</b>

<sup>a</sup> Safe, Clean, Reliable Water Supply Fund, 1996.  
<sup>b</sup> Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund, 2000.  
<sup>c</sup> Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Fund, 2000.  
<sup>d</sup> California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund, 2002.  
<sup>e</sup> Water Security, Clean Drinking Water, Coastal and Beach Protection Fund, 2002.



## **Resources Bond Fund Conditions *(Continued)***

- The figure below shows the Governor’s expenditure proposal from the five resources bonds, by programmatic area. As shown in the figure, bond funds for park projects will be largely depleted at the end of the budget year.

<b>Resources Bond Fund Conditions<sup>a</sup> By Programmatic Area</b>			
<i>2005-06 (In Millions)</i>			
	<b>Resources Available</b>	<b>Proposed Expenditures</b>	<b>Balances</b>
<b>Parks and Recreation</b>	\$52	\$48	\$4
State parks	(44)	(40)	(4)
Local parks	(6)	(6)	(—)
Historical and cultural resources	(2)	(2)	(—)
<b>Water quality</b>	456	213	243
<b>Water management</b>	548	215	333
<b>Land acquisition and restoration</b>	396	184	212
<b>CALFED Bay-Delta Program</b>	578	161	417
<b>Air quality</b>	—	—	—
<b>Totals</b>	<b>\$2,030</b>	<b>\$821</b>	<b>\$1,209</b>

<sup>a</sup> Includes Propositions 204, 12, 13, 40, and 50.



## Use of Bond Funds To Replace General Fund

---

- For the most part, bond funds from the \$11.1 billion of recent bond measures have not been used to replace General Fund expenditures. Rather, they have largely supported new or expanded local assistance loan and grant programs (such as for local parks, water conservation projects, and wastewater treatment plant upgrades) or been used to increase capital outlay expenditures, such as for land acquisitions for state parks or conservation purposes.
  
- There have been a few cases where bond funds have been used to replace General Fund expenditures. These include the following baseline expenditures:

  - \$35 million for the CALFED Bay-Delta Program shifted from the General Fund to Proposition 50 bond funds.
  - \$22 million to support the Habitat Conservation Fund (Wildlife Conservation Board/State Coastal Conservancy) shifted from the General Fund to Proposition 50 bond funds.
  - \$6.4 million to implement the Drought Panel Recommendations (Department of Water Resources) shifted from the General Fund to Proposition 50 bond funds.
  
- In addition, there have been cases where bond funds have been used to fund expenditures that have traditionally been funded from the General Fund, including expenditures for:

  - The state share of federally authorized, locally sponsored flood control projects (Propositions 204 and 13 bond funds).
  - Carl Moyer diesel emission reduction incentives program (Proposition 40 bond funds).



## **Bond Program Implementation: Issues for Legislative Consideration**

---

- Some delays persist in getting funds out the door.
- Some specified uses of bond funds may not be in high demand.



## LAO's Major Budget Issues

---



### CALFED at a funding crossroads

- The California Bay-Delta Authority has adopted an \$8.1 billion ten-year finance plan for the CALFED Bay-Delta Program, assuming substantial increases in federal funds, unidentified sources of additional state public funds, and new water user fees. We recommend that the Legislature (1) establish statutory parameters for the application of the "beneficiary pays" funding principle and (2) set expenditure priorities so that CALFED can be "right sized" consistent with those priorities and realistic revenue assumptions.



### Addressing the "crisis" in flood management

- A DWR White Paper has identified various factors leading to a crisis in flood management, including aging flood control infrastructure with substantial deferred maintenance; escalating development in floodplains; declining fiscal resources; and the state's potential liability. A package of budget, statutory, and constitutional changes has been proposed by the administration to address the issues.



### Financing the *Paterno* lawsuit settlement

- Should state issue debt to finance the pending \$464 million settlement in the *Paterno* flood litigation?



### Recycling goals could be met more effectively

- We recommend a consolidation of the state's recycling and waste prevention programs.



## **LAO's Major Budget Issues**

---

*(Continued)*



### **Opportunities for additional General Fund savings**

- We offer some opportunities to create General Fund savings under the Department of Parks and Recreation and the California Conservation Corps by shifting funding from the General Fund to alternate fund sources.



### **Fire protection budget proposals lack details**

- Budget proposals for increased funding for firefighting equipment and year-round staffing in Southern California have not been justified.