

January 21, 2010

# Governor's Emergency Response Initiative

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Committee

Hon. Denise Moreno Ducheny, Chair





## Summary of Governor's Proposed Emergency Response Initiative

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- Surcharge on Property Insurance Policies Statewide.*** The Governor proposes to levy a surcharge on all commercial and residential property insurance policies statewide. The surcharge would be 4.8 percent of the premium amount. The administration estimates that such a surcharge would generate about \$238 million in the budget year and about \$480 million per year thereafter.
  
- How the New Revenues Would Be Used.*** As shown in the figure on the next page, revenues from the proposed surcharge would be used to create \$200 million of General Fund savings in the budget year. In subsequent years with full-year surcharge revenues, the revenues would be used to achieve General Fund savings (\$219 million) and to augment state program expenditures (\$73 million) in three departments with emergency response responsibilities—the Department of Forestry and Fire Protection (CalFire), the California Emergency Management Agency (CalEMA), and the Military Department. Beginning in 2011-12, the surcharge revenues would also support a \$150 million grant program for local first responders.



## Summary of Governor's Proposed Emergency Response Initiative *(Continued)*

<b>Uses of Governor's Proposed Insurance Surcharge</b>		
<i>(In Millions)</i>		
	<b>2010-11<sup>a</sup></b>	<b>2011-12<sup>b</sup></b>
<b>General Fund Offsets</b>	<b>\$200.0</b>	<b>\$219.1</b>
CalFire base budget	\$200.0	—
CalFire Emergency Fund ("E-Fund")	—	\$150.0
CalEMA—California Disaster Assistance Act assistance to local governments	—	69.1
<b>State Program Expansions</b>	<b>\$0.8</b>	<b>\$73.1</b>
CalFire—1,100 seasonal firefighters	—	\$31.9
CalFire—Various other	—	18.7
CalEMA—Wildland fire engines	—	15.2
CalEMA—Various other <sup>c</sup>	\$0.8	5.1
Military Department—Fire suppression assets	—	2.2
<b>CalEMA-Administered Grants to Local First Responders</b>	<b>—</b>	<b>\$150.0</b>
<b>Deposited Into Reserve</b>	<b>\$37.3</b>	<b>\$36.5</b>
<b>Total Revenues</b>	<b>\$238.1</b>	<b>\$478.7</b>

<sup>a</sup> Assumes one-half year surcharge revenues, with a March 1, 2010 law change and first payments collected on January 1, 2011.

<sup>b</sup> Reflects full-year surcharge revenues.

<sup>c</sup> Includes surcharge collection and other administrative costs.

CalEMA = California Emergency Management Agency



## Governor's Proposed Insurance Surcharge as a Funding Mechanism

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- ☑ ***Governor's Insurance Surcharge Proposal Is a Tax.*** Based on our discussions with staff at Legislative Counsel, we believe the Governor's proposal is a tax that would increase the state's funding obligations under Proposition 98.
  
- ☑ ***LAO Recommendation. Reject the Governor's Proposal.*** We find that the Governor's proposal—which is focused largely on the state's wildland fire protection services (entirely so for the budget year)—does not tie the proposed surcharge to the direct beneficiaries of these services. We do not think that it is good policy to raise additional general tax revenues for specific uses that benefit a defined population. Therefore, we recommend the Legislature reject the Governor's surcharge proposal. We offer an alternative fee proposal to partially support the state's wildland fire protection services (discussed later).
  
- ☑ ***Deposit Any Revenues in General Fund.*** Should the Legislature approve in concept an insurance surcharge as a new tax revenue source, we would then recommend that the surcharge revenues be deposited into the General Fund, and that the use of such revenues be governed by the Legislature's funding priorities for General Fund revenues for the particular budget year being considered.



## Delay Decision On Program Expansions Until Appropriate Budget Year

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### ***Proposed Augmentations May Have Merit, but Decisions Not Needed Now.***

- The various emergency response-related program augmentations proposed by the Governor (details provided on the next page) are likely to improve the protection of life, property, and state public resources, but none of the proposed augmentations requires the Legislature to act *now* to approve or reject the augmentations. This is because the program augmentations are not scheduled to begin until 2011-12.
- In any event, the Governor did not submit detailed budget change proposals for many of these out-year augmentations, so the Legislature lacks the required information to evaluate them.
- We recommend that the Legislature make any decision on augmentations alongside budget deliberations for 2011-12 and in the context of the Legislature's funding priorities for the affected departments (CalFire, CalEMA, Military) in 2011-12.



***Separate Decisions on Augmentations From the Funding Source Issue.*** We recommend that the Legislature consider each augmentation proposal on its merits separately from discussions on funding source.



## Details of Proposed State Program Augmentations (Beginning in 2011-12)

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### CalFire Augmentations

The Governor proposes five augmentations totaling \$51 million to CalFire beginning in 2011-12. The proposals are the same as were presented by the administration (and ultimately rejected by the Legislature) in January and May 2009.

- ***Additional Seasonal Firefighters (\$31 Million, Ongoing).*** The CalFire engines are currently staffed with three personnel. Under this proposal, during fire season, engines would be staffed with four personnel (a practice currently in place and funded through the E-Fund).
- ***Helicopters (\$2 Million in 2011-12; Total of \$150 Million Over Six Years).*** Under this proposal, CalFire would replace 11 firefighting helicopters and remodel two helicopter bases. The CalFire's helicopter fleet is more than 40-years old and is facing increasing maintenance costs and scarcity of spare parts.
- ***Upgrade of the Wide Area Network (\$11 Million in 2011-12; Ongoing Costs of Around \$3 Million).*** Currently only 5 percent of CalFire locations have access to the existing Wide Area Network with the remaining locations connecting via dial-up technology. Under this proposal, the entire network would be upgraded and extended to cover most CalFire locations.
- ***Automatic Vehicle Locators (\$5 Million, Ongoing).*** The CalFire's current dispatch and communications system relies on fire or aircraft crews to report their location to the dispatch center manually. Under this proposal, vehicles would be fitted with a system that would automatically update the dispatch system with the vehicle's location.
- ***Aviation Asset Coordinator (\$0.3 Million, Ongoing).*** The CalFire works with the Military Department and federal military agencies to respond with firefighting aircraft. Under this proposal, CalFire would add 1.5 positions to better coordinate these activities between CalFire and other agencies.



## Details of Proposed State Program Augmentations (Beginning in 2011-12)

*(Continued)*

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### CalEMA Augmentations

- **Wildland Fire Engines (\$15 Million in 2011-12; Total of \$67 Million Over Six Years).** The administration intends to purchase 131 fire engines to supplement the current CalEMA fleet of about 140 engines.
- **Additional Staff (\$2.6 Million, Ongoing).** The administration intends to add staff for various emergency preparedness and response activities.



### Military Department Augmentations

- **Aerial Fire Suppression Assets (\$2.2 Million in 2011-12; Total of \$13.5 Million Over Six Years).** The administration intends to purchase aerial fire suppression assets, including modifications to existing helicopters and airplanes.
- **Additional Staff (\$1.3 Million Beginning in 2012-13, Ongoing).** The administration intends to add staff for various emergency response activities.



## LAO Alternative Fire Protection Fee Proposal

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- Assess New Fee on Direct Beneficiaries of State Wildland Fire Protection.** We recommend a fire protection fee that would be paid by the direct beneficiaries of the state's (CalFire's) fire protection services—property owners in State Responsibility Areas (SRA). The CalFire directly provides a service—wildland fire protection that serves to protect structures of property owners in SRA—that is *not* the legal or fiscal responsibility of any other level of government.
- Direct Beneficiaries and State as a Whole Should Share the Costs of Fire Protection.** There are both direct benefits of fire protection to those who live in SRA and general benefits to the state as a whole from CalFire's fire protection. We recommend that an SRA fee be implemented that shares the cost of fire protection between SRA landowners and the state's General Fund.
- Structure of Proposed Fee.** Because one of the key drivers of increasing cost is residential development in SRA, we recommend that the fee be focused on residential property owners in SRA. The fee on owners should (1) be generally proportional to the additional costs imposed on the state as a result of the presence of those structures and (2) take into consideration the level of risk faced by the fee payer and the benefit received by the fee payer from CalFire's services. These factors could include the fire hazard severity faced by the individual fee payer, the adequacy of fire protection provided by local governments, and CalFire's actual expenditures in the local area.