

FEBRUARY 4, 2021

# **The 2021-22 Budget: California Department of Parks and Recreation**

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LEGISLATIVE ANALYST'S OFFICE

# Department Overview

<b>California Department of Parks and Recreation Budget Summary</b>					
<i>(Dollars in Millions)</i>					
Fund Source	2019-20 Actual	2020-21 Estimated	2021-22 Proposed	Change From 2020-21	
				Amount	Percent
Special funds	\$375	\$354 <sup>a</sup>	\$439	\$85	124%
General Fund	284	256 <sup>a</sup>	294	38	15
Federal funds	104	104	104	—	—
Bond funds	117	580	21	-559	-96
<b>Totals</b>	<b>\$880</b>	<b>\$1,294</b>	<b>\$858</b>	<b>-\$436</b>	<b>-34%</b>

<sup>a</sup> The General Fund total includes \$60 million transferred to make up for revenue shortfalls in the State Parks and Recreation Fund. The administration anticipates that an additional \$68 million will be transferred in the current year, which would decrease the special fund total and increase the General Fund total by a like amount.

**Proposes \$858 Million in 2021-22.** The Governor’s proposed budget for the California Department of Parks and Recreation (Parks) reflects a decrease of \$436 million (34 percent) compared to estimated current-year expenditures, due primarily to a large one-time appropriation of bond funding in 2020-21.

**Adjustment to Current-Year Funding Backfill.** The Governor’s budget also incorporates a reduction to the estimated amount of funding to be provided in the current year to address pandemic-related fiscal effects on Parks’ budget.

- **2020-21 Budget Provided \$150 Million.** The 2020-21 state budget package authorized a total of up to \$150 million from the General Fund to help backfill a projected shortfall across 2019-20 and 2020-21 in the State Parks and Recreation Fund (SPRF)—the department’s primary ongoing funding source. This was to address concerns that the number of park visitors—and associated fee revenue generated—would decline significantly due to the pandemic and stay-at-home orders.



## Department Overview

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- **Backfill Reduced by \$22 Million in Governor’s Budget Plan.** Parks now expects to receive \$22 million more fee revenue than initially anticipated. This will partially offset the need for the General Fund backfill. As such, the 2021-22 Governor’s budget reflects a revised estimate that only \$128 million from the General Fund will be needed to address shortfalls in 2019-20 and 2020-21. The Parks budget includes \$60 million transferred from the General Fund to SPRF in the fall of 2020 and the administration anticipates that an additional \$68 million will be transferred by the end of 2020-21. The department does not request a General Fund backfill to SPRF in 2021-22.

**Major New Budget Proposals.** The Governor’s significant budget proposals for Parks include the following (we discuss the first proposal in greater detail in subsequent pages, and the second proposal in a separate publication):

- **Harbors and Watercraft Revolving Fund (HWRP) Stabilization.** The Governor proposes a package of solutions—including roughly \$20 million in ongoing expenditure reductions, \$22 million in new annual fee revenues, and \$10 million in new General Fund spending for two years—to begin to address a structural imbalance in the HWRP.
- **Wildfire Risk Reduction Activities (\$85 Million).** The Governor’s budget provides one-time General Fund resources (including \$10 million for early action in 2020-21) to undertake projects—such as thinning vegetation and conducting controlled burns—that reduce the risk of wildfire on state park lands.
- **Woolsey Wildfire Repair (\$33 Million).** The proposed budget provides \$10 million from the General Fund and \$23 million in reimbursement authority on a one-time basis to conduct the second phase of fire damage repairs at Malibu Creek State Park and Leo Carrillo State Park. Additional funding will be contributed by the Federal Emergency Management Agency.
- **Deferred Maintenance (\$20 Million).** The proposal provides a one-time General Fund augmentation to address a portion of the



## Department Overview

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department's list of deferred maintenance projects, with special priority on those that focus on health and safety concerns and impacts for visitors.

- ***New Acquisitions (\$12.6 Million)***. The budget proposal includes \$6.3 million in one-time General Fund authority and \$6.3 million in federal reimbursement authority to acquire parcels that would add to existing state parks. The department anticipates receiving additional federal funds for this purpose from the Great American Outdoors Act approved by Congress in 2020.



# Harbors and Watercraft Revolving Fund Stabilization

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## Background

***Fund Supports Boating-Related Activities.*** The HWRF is used to support various boating-related activities, including management of invasive aquatic plants and other species, as well as local assistance grants for boating facilities and safety programs. The department also makes regular transfers from the HWRF to the Public Beach Restoration Fund, which provides grants for sand replenishment projects.

***Most Revenue Generated From Vessel Registration Fees and Fuel Taxes.*** The HWRF receives a significant portion of its revenue from vessel registration and renewal fees, as well as a transfer of gas tax revenues from the Motor Vehicle Fuel Account. Vessel registration renewals in California are conducted on a biennial basis. As a result, fee revenue for the HWRF fluctuates predictably each year.

- ***Initial Registration Fees.*** The state charges an initial registration fee of \$20 for most vessels that are registered in odd years and \$10 for those registered in even years (the second year of the two year cycle).
- ***Renewal Fees.*** The state also charges a registration renewal fee that is due every two years in odd numbered years totaling \$20 for most vessels.
- ***Fee Levels Have Not Been Updated in Many Years.*** The existing vessel registration and renewal fee levels have been in place since 2005.

***Fund Has Ongoing Structural Imbalance.*** Annual expenditures from the HWRF now exceed its typical level of revenues. This imbalance arose from several factors, including factors related to both expenditures and revenues.

- ***Increasing Expenditures.*** Annual expenditures from the HWRF have nearly doubled in less than a decade—increasing from \$48 million in 2014-15 to \$94 million in 2020-21—due to factors such as increases in employee compensation, addressing a growing prevalence of aquatic invasive species, and because of new activities that have been shifted onto the fund.



# Harbors and Watercraft Revolving Fund Stabilization

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- **Declining Revenues.** Vessel registration revenues have been relatively flat in recent years because the registration fees have not changed, averaging about \$16 million across the two-year collection cycle. However, the 2019-20 budget made a technical correction to how gas taxes are allocated that resulted in a significant reduction in the amount of annual revenues that are transferred from the Motor Vehicle Fuel Account into the HWRF. Due primarily to this change, total revenues for the fund have declined from an average of about \$58 million annually across 2014-15 through 2017-18, to an annual average of about \$40 million projected across 2020-21 and 2021-22.
- **Department Has Relied on Reserves to Manage Shortfall in Recent Years.** The HWRF has faced a revenue shortfall for the past couple of years—including in 2020-21—which Parks has covered primarily by drawing down the fund’s reserves (including savings from underutilized grant programs).

**Current Operating Shortfall Roughly \$54 Million.** The administration estimates that absent any corrective actions, the fund will have an annual gap of approximately \$54 million across its two-year fee collection cycle between existing revenues of roughly \$40 million and existing expenditures of roughly \$94 million.

## Governor’s Proposal

**Proposes Three-Part Solution.** The Governor proposes the following approach to addressing the HWRF imbalance:

- **Raise Vessel Fees (\$22 Million).** The proposal would increase the existing biennial fees charged for vessel registrations and renewals from \$20 to \$70 (and from \$10 to \$35 for new registrations in even years). Parks estimates this increase would raise about \$36 million in even years and \$6 million in odd years, providing an average of \$22 million to support annual expenditures across each two-year cycle.



# Harbors and Watercraft Revolving Fund Stabilization

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- **Reduce HWRF Expenditures (\$20 Million).** The administration proposes the following ongoing reductions to existing HWRF-funded programs:
  - **Public Beach Restoration Fund Grants (\$6 Million).** The Governor proposes to stop making annual transfers from the HWRF to this fund. The transferred monies have been used to provide grants to local entities to add sand to eroded beaches. While the amounts provided have varied by year, they have averaged about \$6 million annually.
  - **Boat Launching Facility Grants (\$5.7 Million).** The proposal would more than halve this existing program, which has not been fully subscribed in recent years. The program, currently funded at about \$12 million annually, provides grants to qualifying public agencies to fund facilities such as boat launching ramps; boarding floats; and associated parking areas, restrooms, and lighting for motorized and nonmotorized boaters.
  - **Marina Loan Program (\$5.5 Million).** The Governor proposes to eliminate this program because it has had very little demand in recent years. The program provides loans to qualifying public and private entities to pay for improvements to marinas.
  - **Aquatic Invasive Species Program (\$2 Million).** The proposal would recognize ongoing state operations savings that this \$12.5 million program has experienced from staff vacancies in recent years. The program undertakes activities to control invasive plants and species, such as water hyacinth and quagga and zebra mussels.
  - **Quagga and Zebra Mussel Infestation Grants Program (\$750,000).** The proposal would reduce this \$3.8 million program by an amount that reflects funds not fully utilized in recent years. The program provides grants to reservoir operators to develop prevention plans for avoiding mussel infestations.



# Harbors and Watercraft Revolving Fund Stabilization

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- **Provide Temporary General Fund (\$10 Million).** The proposal would provide General Fund transfers of \$10 million to the HWRF in both 2021-22 and 2022-23 to help cover costs.

**Funds Department of Motor Vehicles (DMV) to Administer Fee Change.** The proposal assumes a one-time cost of \$3.3 million in 2021-22 for DMV to adjust its systems for the proposed registration fee changes. Parks incorporated this cost into its anticipated expenditures for the HWRF in 2021-22 and would fund it out of the increased fee revenues.

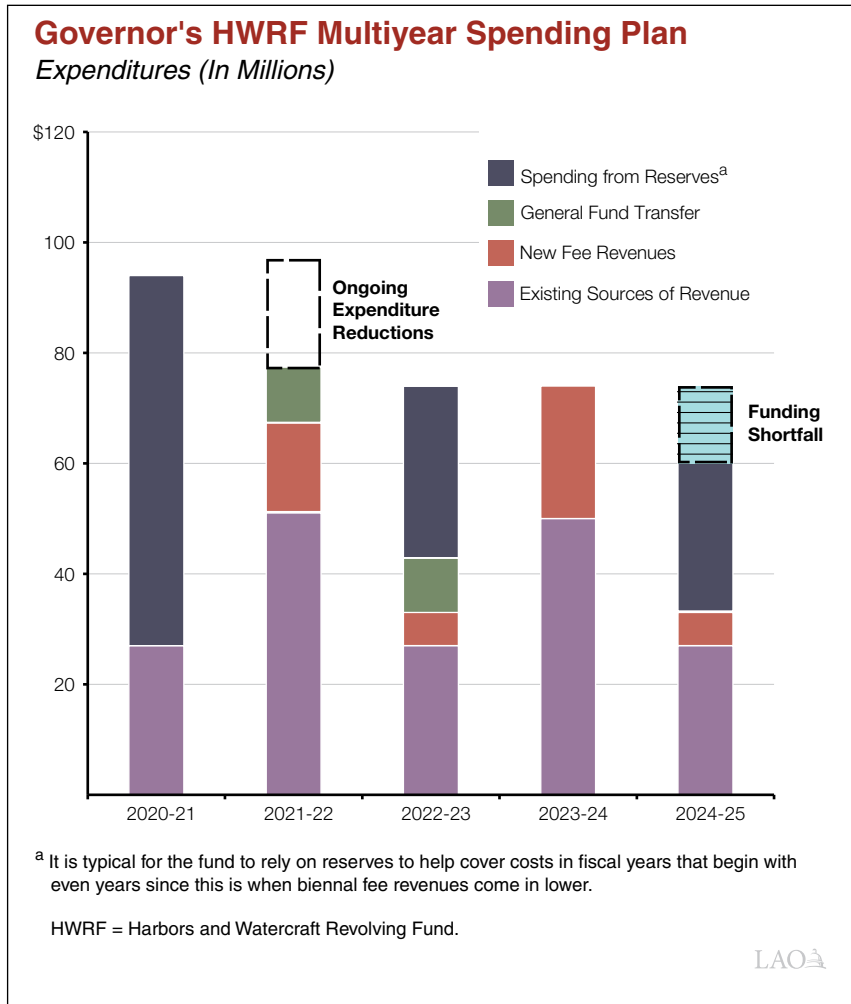
**Administration States It Will Pursue Additional Revenue Solutions in Future Years.** In part due to the General Fund being proposed for just two years, Parks projects that under the Governor’s proposal the HWRF would again face a funding shortfall beginning in 2024-25 (as shown in the figure on the next page). The department states that it will work with stakeholders over the next couple of years to develop another funding proposal—likely a different fee structure—to present for the Legislature’s consideration.





# Harbors and Watercraft Revolving Fund Stabilization

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## Assessment

**Action Needed to Address Shortfall This Year.** As the HWRF does not have sufficient funding to meet anticipated expenditures this year, the Governor’s proposal addresses an important issue. While the Governor’s approach does not represent the only available option for addressing the problem, the Legislature will need to adopt some set of solutions to confront this shortfall in 2021-22 if it wants to avoid major programmatic disruptions.



# Harbors and Watercraft Revolving Fund Stabilization

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- **Balanced Approach Makes Sense.** We find merit in the Governor’s approach of addressing the funding shortfall by making both revenue *and* expenditure changes. Relying exclusively on raising revenues could create cost difficulties for boat owners, while solving the problem solely through expenditure reductions would have significant negative impacts on the programs the HWRF supports.

**Reasonable to Raise Vessel Registration Fees.** These fees support programs that benefit boaters. As such, raising vessel registration fees to generate additional revenues to support these programs makes sense.

- **Fees Have Not Increased in Many Years.** Holding fees flat for so many years—since 2005—has benefited boat owners, but has also meant that HWRF revenues have not kept pace with inflation or with increasing program costs like addressing the growing prevalence of aquatic invasive species.
- **Legislature Could Set Fee Increases at Different Levels.** The Governor’s proposal to add a flat \$50 to existing biennial fees is simple and transparent. However, the administration has not provided a rationale for why this is the “right” amount of fee increase. For example, the proposal is not directly aligned with increases in programmatic costs or comparable changes in registration fees for other types of vehicles. As such, the Legislature could consider increasing fee levels by a higher or lower amount depending upon how much revenue it seeks to generate.
- **Legislature Could Also Pursue Alternative Approach to Generating Revenues.** The Legislature could adopt a more sophisticated vessel registration fee structure, such as one that charges different amounts depending on the length of the boat. Moreover, the Legislature could explore charging fees on other parties who do not typically pay revenues into the HWRF, such as nonmotorized boat owners (who also benefit from the programs the fund supports) and large, commercial ships (that contribute to the spread of aquatic invasive species). Additionally, the Legislature could consider directing additional gas tax revenues from the Motor Vehicle Fuel Account to the HWRF.



# Harbors and Watercraft Revolving Fund Stabilization

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**Proposed Expenditure Reductions Are Well Targeted.** We believe the Governor has chosen an appropriate package of HWRF-funded programs to reduce on an ongoing basis.

- **Most Proposed Reductions Likely Would Not Have Significant Programmatic Impacts.** According to Parks, the majority of the programs targeted for reduction have been experiencing savings in most years. This is primarily because of diminishing numbers of applicants for the loan and grant programs, as well as salary savings from vacancies in the aquatic invasive species program. As such, most of the reductions would simply reflect a “truing up” of actual expenditures over the past few years. (Absent making these reductions, these programmatic savings would otherwise materialize in the HWRF’s fund balance a year or two after funds were budgeted.)
- **Beach Restoration Program Not Best Fit for Boat Fee.** The one reduction that likely would have a more significant programmatic effect is the proposal to stop transferring roughly \$6 million annually for beach replenishment grants. However, the nexus between who benefits from that program—public beachgoers, homeowners, and local communities—and who pays into the HWRF—boat owners—is not particularly strong. As such, the Governor’s proposal is reasonable. (Should the Legislature have concerns about the programmatic impacts of reducing funding for beach restoration activities, it may want to consider identifying alternative funding sources for that program.)

**Legislature Could Also Seek to Make Additional Expenditure Reductions.** While the Governor’s proposals seem well targeted, the Legislature could also consider making additional reductions to HWRF expenditures to help address its funding imbalance. For example, the Legislature could investigate whether some existing expenditures could be shifted to other funding sources, such as whether other state departments—such as the State Lands Commission or the California Department of Fish and Wildlife—may collect fees that could support some of Parks’ aquatic invasive species projects.



# Harbors and Watercraft Revolving Fund Stabilization

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**Does Not Permanently Address Structural Imbalance.** The Governor's proposal would address the pending insolvency of the HWRF, but only for the short term. Because the proposal relies on temporary support from the General Fund, the funding shortfall will rematerialize. Parks estimates that the fund will run short on funding in 2024-25.

- **Proposal Could Require Another Fee Increase in a Few Years.** Parks indicates that it likely will present the Legislature with a new fee proposal to address the reemerging funding shortfall in future years. Should the Legislature adopt the Governor's significant increase to registration fees in 2021-22, revisiting fees for another increase just a few years later could be difficult for both stakeholders and the Legislature. This approach likely also would necessitate two rounds of updates to the DMV's systems, which would not be the most cost-effective approach.

## Recommendations

**Address Structural Imbalance in HWRF.** Whatever solution the Legislature adopts to address the shortfall in this fund, we recommend it encompass a few key components. Specifically, we recommend an approach that (1) addresses the problem in the budget year, (2) includes both revenue increases and expenditure reductions, (3) raises registration fees that have been stagnant for over 15 years and not kept pace with program costs, (4) minimizes programmatic impacts on existing activities, and (5) puts the fund on a path towards long-term stability. The Governor's proposal meets most of these criteria and therefore is a reasonable starting point, however it does not provide a permanent solution to the fund's structural problems. As such, we recommend the Legislature consider adopting additional solutions to address the remaining shortfall—even if it opts to have those solutions trigger on in future years when needed.



# Harbors and Watercraft Revolving Fund Stabilization

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***Legislature May Want to Consider Adopting Permanent Solution.*** In lieu of approving the Governor’s proposed short-term solution and needing to revisit the HWRF shortfall—and fee increases—again in a few years, the Legislature may want to consider instead adopting an approach that would permanently address the HWRF imbalance. Two options that would accomplish this goal include:

- ***Design and Implement Ongoing Solution Beginning in 2021-22.*** The Legislature could adopt expenditure reductions and an alternative fee increase that would raise additional revenue to bring the HWRF into sustainability on an ongoing basis beginning in 2021-22. This would negate the need for both short-term General Fund augmentations and revisiting the fees in a few years. However, designing such an approach will be somewhat complicated—particularly if the Legislature opts to restructure the current fee and apply charges to other entities—and could be difficult to accomplish over the next few months before the budget must be enacted.
- ***Adopt Governor’s Proposal With a “Trigger.”*** Another approach would be to adopt (1) the Governor’s proposal to address the structural deficit over the next few years and (2) trailer bill legislation for additional fee increases—and potentially also expenditure reductions—that would trigger on in 2024-25 when the fund is projected to become insolvent. This would ensure that a longer-term solution is in place while also providing additional time for the department and stakeholders to work on an alternative proposal. This is similar to the Governor’s proposal in that it would necessitate limited-term General Fund appropriations and two different changes to registration fees. The comparative advantage of this approach, however, is that it ensures that a permanent solution is in place should the department’s efforts to develop a good alternative—or the Legislature’s desire to take another action on a subsequent fee increase—prove infeasible.

