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Framework for Approaching the Natural Resources and Environmental Protection Budget

PRESENTED TO:

Senate Committee on Budget and Fiscal Review
No. 2 on Resources, Environmental Protection and
Energy
Hon. Eloise Gomez Reyes, Chair



LEGISLATIVE ANALYST'S OFFICE

State Budget Condition Is Precarious

- Stock market poses serious risk to revenues.
- Multiyear budget deficits are alarming.
- The Governor's budget does not materially address these challenges.
- Addressing structural deficits will be very challenging.



LAO Overarching Comments on Environment Budget

- Administration clearly used a judicious approach in crafting its 2026-27 environment budget proposals.
- Even proposals with strong justifications come with trade-offs.
- Special fund proposals may have unique considerations, however the bar for new spending should be high regardless of fund source.
- A strong rationale exists for taking near-term steps to prepare budget contingencies.



Recommended Framework for Approaching Environment Budget Decisions

Apply a Very High Bar When Approving New Proposals

- Prioritize proposals that meet critical health and safety concerns or other time-sensitive objectives.

Reject Proposals That Fail to Meet This High Bar

Consider Modifying Proposals to Reduce Pressure on the General Fund

- Explore options for alternative funding sources.
- Consider funding priority proposals at a lower level.

Take Steps to Address the Budget Condition

- Evaluate whether recent augmentations and agreements still represent the state's highest priorities.
- Begin the process of identifying potential additional budget solutions.
- Avoid adopting policies that will create additional out-year budget pressures.

Ensure Remaining Expenditures Focus on the Most Important Activities

- Consider revisiting the mix of remaining funding to ensure it supports the state's highest priorities.



LAO Overarching Comments on Governor's Proposition 4 Proposals

Governor's Proposition 4 Proposal: 2026-27 Spending Plan

(In Millions)

Category	Bond Total	2025-26	2026-27 Proposed	Remaining Balance ^a
Safe Drinking Water, Drought, Flood, and Water Resilience	\$3,800	\$1,199	\$792	\$1,809
Wildfire and Forest Resilience	1,500	598 ^b	314	588
Coastal Resilience	1,200	279	107	814
Biodiversity and Nature-Based Climate Solutions	1,200	390	199	611
Clean Energy	850	275	326	249
Park Creation and Outdoor Access	700	466	35	199
Extreme Heat Mitigation	450	110	241	99
Climate Smart Agriculture	300	153	89	58
Totals	\$10,000	\$3,470	\$2,103	\$4,427

^a Amounts displayed are reduced by the estimated statewide bond costs, which the administration estimates will be \$75 million in total for all chapters of the bond. The remaining balance also includes program delivery and state operations costs, some of which are scheduled for appropriation in future fiscal years.

^b \$181 million of this amount was provided through Chapter 2 of 2025 (AB 100, Gabriel) and was available for administering departments to expend beginning in April 2025.

Note: Numbers may not add up due to rounding.

- Overall, proposed plan seems reasonable and consistent with bond requirements.
- In response to legislative feedback, largely avoids proposing a multiyear plan.
- Previously approved funding remains largely unspent thus far, as many programs are working through the emergency rulemaking process.
- For new programs and activities, the Legislature could consider clarifying spending guidance in statute.
- Proposed budget control section language seems reasonable, but we recommend the Legislature consider adding reporting language.
- Some Proposition 4 programs relate to other Governor's budget proposals; we recommend Legislature consider them in tandem.

