

MAY 21, 2020

Overview of Governor's May Revision Proposals for Resources and Transportation Programs

PRESENTED TO: Assembly Budget Subcommittee No. 3
On Resources and Transportation
Hon. Richard Bloom, Chair



LEGISLATIVE ANALYST'S OFFICE

Reduction in Proposed Spending Compared to January

State Spending Under Governor's 2020-21 Budget Plans^a (In Millions)			
Agency	January Budget	May Revision	Change
Transportation	\$21,981	\$21,415	-\$566
Natural Resources	6,804	6,906	102
Environmental Protection	3,944	3,928	-16
Public Utilities Commission	1,599	1,608	9
Food and Agriculture	480	457	-23
Totals	\$34,807	\$34,312	-\$495

^a Excludes federal funds and reimbursements.

Net Reduction of About \$500 Million. Changes in total spending reflect combination of decreases in certain revenue estimates and proposed expenditure reductions, offset by some increased spending proposals.

Transportation Funding Decrease of About \$600 Million. Mostly reflects effects of decreased vehicle miles traveled and diesel prices on estimated tax revenues for local transportation programs, particularly State Transit Assistance (-\$272 million) and Local Streets and Roads (-\$231 million).

Natural Resources Funding Increase of \$100 Million. Reflects net effect of various adjustments—including withdrawal of numerous January budget proposals—offset by some proposed increases in the May Revision, particularly from bonds. Also includes \$100 million from the General Fund to backfill expected losses in visitor fees and other revenues for state parks.



General Fund Solutions— Expenditure Reductions

Key General Fund Expenditure Reductions in May Revision

(In Millions)

Department	Issue	Governor's Budget	May Revision	Change	LAO Comments
CNRA	Light Detection and Ranging (LiDAR) data	\$80.0	—	-\$80.0	Withdrawn augmentation. Recommend approval given General Fund condition.
DTSC	Shift expenditures from General Fund to APCF for base costs, bond costs, new board, and other programs	47.0	—	-47.0	APCF can accommodate these fund shifts on one-time basis but has structural deficit.
Parks	Shift deferred maintenance from General Fund to Proposition 68	—	-\$44.3	-44.3	Recommend approval. Bond funds available for projects.
DWR	Tijuana River water quality issues	35.0	—	-35.0	Withdrawn augmentation. Recommend approval given General Fund condition.
CDFW	Trigger cut to Biodiversity Conservation program	—	-33.7	-33.7	Would be partially offset by \$18.9 million proposed HCF transfer from WCB.
CDFA	Reduce Fresno-Merced Innovation Corridor	33.0	2.0	-31.0	Recommend reduction given General Fund condition.
CalFire	Reversion of previously approved capital outlay appropriations (multiple projects)	—	-30.9	-30.9	Withdrawn previous project appropriations. Recommend approval given General Fund condition.
DWR	Implement Sustainable Groundwater Management Act	30.0	—	-30.0	Withdrawn augmentation. Recommend approval given General Fund condition.
CalFire	Withdrawal of capital outlay proposals	38.5	8.7	-29.8	Withdrawn augmentations. Recommend approval given General Fund condition.
SWRCB	General Fund expenditure shift to APCF	24.0	—	-24.0	APCF can accommodate fund shifts on one-time basis but has structural deficit.
Parks	Outdoor Environmental Education Grant program	20.0	—	-20.0	Withdrawn proposal. Reasonable given General Fund condition.
CDFW	Biodiversity Conservation program augmentation	20.0	—	-20.0	Withdrawn augmentation. Recommend approval given General Fund condition.
CDFA	State Water Efficiency and Enhancement Program grants	20.0	—	-20.0	Withdrawn augmentation. Recommend approval given General Fund condition.
CalFire	Mobile equipment replacement	19.0	—	-19.0	Withdrawn augmentation. Recommend approval given General Fund condition.
DTSC	Fund shift for Stringfellow Superfund site	—	-17.3	-17.3	APCF can accommodate fund shifts on one-time basis but has structural deficit.
Parks	New state park	20.0	5.0	-15.0	Reject May Revision amount. Unclear what site would be purchased and likely will commit state to future capital improvement and operating costs.
CDFA	Withdrawal of two border protection station replacements projects	13.4	—	-13.4	Withdrawn augmentations. Recommend approval given General Fund condition.
Transportation	Reversion of legislative priority projects approved in current year (multiple projects)	—	-11.3	-11.3	Withdrawn appropriations. Weigh against other legislative priorities. (Savings estimated based on information from Caltrans.)
CalFire	Direct mission support	10.8	—	-10.8	Withdrawn augmentation. Recommend approval given General Fund condition.

CNRA = California Natural Resources Agency; DTSC = Department of Toxic Substance Control; APCF = Air Pollution Control Fund; DWR = Department of Water Resources; CDFW = California Department of Fish and Wildlife; HCF = Habitat Conservation Fund; WCB = Wildlife Conservation Board; CDFA = California Department of Food and Agriculture; CalFire = California Department of Forestry and Fire Protection; SWRCB = State Water Resources Control Board; and Caltrans = California Department of Transportation.

General Fund Solutions— Special Fund Loans and Transfers

Proposed Transfers and Loans From Special Funds to General Fund		
<i>(In Millions)</i>		
Department	Fund	2020-21 Amount
Transfers		
Transportation	State Highway Account, State Transportation Fund	\$130.5
Parks	Natural Resources and Parks Preserve	95.3
Transportation	Traffic Congestion Relief Fund	32.0
Subtotal, Transfers		<u>(\$257.8)</u>
Loans		
SWRCB	Underground Storage Tank Cleanup Fund	\$500.0
CPUC	Universal Lifeline Telephone Service Trust Fund	300.0
CPUC	California High-Cost Fund-B Administrative Committee Fund	60.0
CPUC	California Advanced Services Fund	60.0
SLC	School Land Bank Fund	32.0
CDFW	Oil Spill Response Trust Fund	30.0
CEC	Alternative and Renewable Fuel and Vehicle Technology Fund	25.0
SWRCB	Site Cleanup Subaccount	25.0
Transportation	Local Airport Loan Account	21.8
CEC	Renewable Resource Trust Fund	20.0
CalRecycle	Electronic Waste Recovery and Recycling Account, Integrated Waste Management	20.0
CNRA	Environmental Enhancement and Mitigation Program Fund	17.0
DOC	Hazardous and Idle-Deserted Well Abatement Fund	10.0
DOC	Strong-Motion Instrumentation and Seismic Hazards Mapping Fund	5.4
CEC	Diesel Emission Reduction Fund	4.0
CalRecycle	Solid Waste Disposal Site Cleanup Trust Fund	4.0
CEC	Energy Technologies Research, Development, and Demonstration Account	3.0
CalFire	California Hazardous Liquid Pipeline Safety Fund	3.0
CalFire	Forest Resources Improvement Fund	2.8
Subtotal, Loans		<u>(\$1,143.0)</u>
Total, Transfers and Loans		\$1,400.8
<small>SWRCB = State Water Resources Control Board; CPUC = California Public Utilities Commission; SLC = State Lands Commission; CDFW = California Department of Fish and Wildlife; CEC = California Energy Commission; CalRecycle = California Department of Resources Recycling and Recovery; CNRA = California Natural Resources Agency; DOC = Department of Conservation; and CalFire = California Department of Forestry and Fire Protection.</small>		



General Fund Augmentations

Significant General Fund Augmentations in Governor's Budget Plan

(In Millions)

Department	Issue	2019-20	2020-21	LAO Comments
Parks	Backfill of fees and other revenues	\$50.0	\$100.0	Backfill likely necessary due to anticipated revenue reductions. Exact amount needed is unknown.
CDFA	Support for fairgrounds	40.3	—	No concerns with augmentation which likely is necessary given certain operating costs and anticipated revenue reductions. Recommend reporting language regarding fiscal health of fairs.
CalFire	Relief staffing	—	85.6	Significant augmentation. Will want to weigh against other General Fund priorities. Could consider options to reduce budget-year or out-year costs.
DWR	American River Common Features project	—	46.0	No concerns. This project leverages significant amount of federal funds.
DWR	New River Improvement project	—	18.0	Approach is somewhat inconsistent with other proposals in that it maintains General Fund for the new project. Could consider approving only the \$10 million in bond funds proposed.
CDFA	Farm to School Program	—	10.0	No concerns, though will want to weigh against other General Fund priorities. Program supports providing food to schools.
CDFW	"Cutting Green Tape" and land management expansions	—	6.2	Was proposed in January using shifted HCF funds rather than new General Fund. Unclear rationale for expanding programs while also cutting baseline services.

CDFA = California Department of Food and Agriculture; CalFire = California Department of Forestry and Fire Protection; DWR = Department of Water Resources; CDFW = California Department of Fish and Wildlife; and HCF = Habitat Conservation Fund.



Issues for Legislative Consideration— General Fund Proposals

Proposed Expenditure Reductions Generally Reasonable. Most General Fund expenditure reductions maintain existing service levels by withdrawing proposals for new projects and program expansions, as well as shifting some costs to special funds. This is a reasonable response to the projected General Fund condition.

Many Proposed General Fund Solutions Are One Time. Special fund loans, transfers, and shifts of costs to special funds provide one-time General Fund benefits. While reasonable to address the 2020-21 budget challenge, these solutions do not provide ongoing General Fund benefits to address what is projected to be a multiyear budget challenge.

May Revision Includes Some Baseline Cuts. The May Revision includes two significant ongoing reductions to Natural Resources programs that would be temporarily “triggered off” if sufficient federal funds are provided in 2020-21.

- ***Department of Fish and Wildlife.*** The Governor proposes a \$33.7 million General Fund baseline reduction, partially offset by a proposed shift of \$18.9 million from the Habitat Conservation Fund (which historically supports the Wildlife Conservation Board). This would result in a reduction of about 12 percent compared to the department’s existing General Fund authority. The administration has not provided a specific plan for how the reduction would be implemented but suggests decisions would be informed by the findings of the Service Based Budget review, including potentially shifting expenses from the General Fund to special funds, holding positions vacant, and delaying the purchase of new equipment.
- ***Department of Parks and Recreation.*** The Governor proposes a \$30 million General Fund reduction beginning in 2021-22. This represents about a 16 percent reduction compared to the department’s baseline General Fund budget. The administration indicates that it will develop an implementation plan over the coming year.



Issues for Legislative Consideration— General Fund Proposals

(Continued)

Certain Augmentations Reasonable, but Reflect Governor’s Priorities. The May Revision includes only a few General Fund augmentations. The additional funding for state parks and fairgrounds appears necessary to backfill expected loss of revenues. Other proposed augmentations would support worthwhile programs and projects. However, the Legislature will want to ensure that the enacted budget plan—including any augmentations—reflects legislative priorities across the budget given limited General Fund revenues.



Significant Special and Bond Fund— Related Proposals

Cap-and-Trade Expenditure Plan. The Governor continues to propose \$965 million in “discretionary” expenditures from cap-and-trade auction revenues in 2020-21. The May Revision also includes budget language to prioritize revenues towards certain programs—forestry and wildfire prevention, local air pollution reduction, safe and affordable drinking water, and agricultural equipment upgrades and replacement—if revenue is lower than budgeted. Given the reduction in economic activity and vehicle miles traveled, it is quite possible that cap-and-trade revenues will be lower than assumed in the May Revision. Consequently, establishing a mechanism to prioritize revenues under lower revenue scenarios is reasonable. There are different mechanisms that could be used, and the Legislature will want to ensure that its preferred programs are prioritized in the final expenditure plan.

Withdrawal of Two Major Climate Proposals. The administration has withdrawn January proposals to (1) send to voters a \$4.8 billion climate bond and (2) provide \$250 million from the General Fund for a new Climate Catalyst Fund.

Reduction in Transportation Revenues. Several factors are leading to projected declines in state revenues for transportation programs.

- **Lower Revenues Will Affect Some Programs Immediately, Others in Future Years.** Lower gasoline excise tax and diesel sales tax revenues will directly result in reduced revenues for local transit and streets and roads programs, which receive funding on a formula basis. According to the administration, other state-funded transportation programs should not be affected in 2020-21 because of the availability of reserves.
- **Accelerates Motor Vehicle Account Insolvency.** The administration projects a decrease in total vehicle registration revenues over the current year and budget year. The May Revision includes several proposals—including cancellation of capital projects—to mitigate some of these losses. However, under revised projections, the fund will be insolvent in 2022-23. As such, we will continue to monitor the revenues and expenditures over the coming year.



Significant Special and Bond Fund— Related Proposals

(Continued)

Retains New Oversight Board and Fee Structure for DTSC. The Governor continues to propose creation of a new oversight board for the Department of Toxic Substances Control (DTSC). The proposed budget plan also includes fee increases in 2021-22 to address ongoing structural deficits in two DTSC special funds, and the new board would set fees in subsequent years.

Accelerates Appropriations from Proposition 68 (2018). The May Revision proposes \$822 million in new appropriations from the natural resources bond approved by voters in 2018. This total is \$308 million greater than what was proposed in January, with most of this increase (\$197 million) for local parks grants.

Implementation of Legislation to Oversee Utility Wildfire Safety Activities. The Governor proposes an increase of \$29.6 million (Public Utilities Commission Utilities Reimbursement Account) for the California Public Utilities Commission to implement recent legislation related to oversight of Wildfire Mitigation Plans undertaken by investor-owned electric utilities.

