



January 12, 2018

2018-19 Proposed State Budget

The predominant theme of the Governor’s Budget was the projected \$6.1 Billion surplus and what to do with it. The total proposed budget is \$190 billion, with \$130 billion of that coming from the General Fund (general taxes) and \$60 billion from Special Funds (fees). Compare this to the Governor’s first budget in 2010-11 where the total budget was \$120 billion, with \$89 billion coming from GF and \$32 billion from SF. So, in 8 years, the total budget has seen a 59% increase, and Special Funds have seen nearly a 100% increase.

The surplus is primarily due to increased tax receipts and the Governor warned that we have not had a recession in a decade, are due for one soon and, thus, the budget should maximize the rainy-day fund. The Democratic Leadership would like to see less go into the rainy-day fund and more go to fund programs such as universal preschool and increased health care services. The Republican leadership has called for money to be returned to tax payers. Some notable highlights from the Governor’s budget are:

California Natural Resources Agency (CNRA)

The Department of Fish and Wildlife (DFW) has had a significant structural imbalance in its Fish and Game Preservation Fund. That fund is the largest single fund source in DFW’s budget and pays for a significant portion of DFW’s activities including, law enforcement, lands management, wildlife conservation, fisheries management, and the Fish and Game Commission’s activities. The Governor’s budget proposes an additional \$50.6 million of ongoing funding to address the structural imbalance. These funds would come from the General Fund, the Motor Vehicle Account, and the Tire Recycling Management Fund and would be used to increase funds for DFW to meet its mandates. Additionally, the Assembly released a Blueprint for a Responsible Budget last month that included mention of its plans to address the structural imbalance in DFW’s budget. Farm Bureau will be watching this issue closely as the legislature begins its budget hearings over the next few months.

The Department of Conservation’s (DOC) proposed budget anticipates voter approval of the Parks Bond (established by SB 5, Kevin DeLeon, D-Los Angeles, 2017) that will be on the June 5th primary election ballot. It requests \$1.19 million from the California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Fund to be used to offer competitive planning grants and contracts to prepare land trusts for conservation work associated with existing and future farmland and rangeland protection funding. Should the Parks Bond be approved, an additional \$20 million will be available to DOC for protection, restoration, or enhancement of working lands and riparian corridors through conservation easements or other actions, through the Resource Conservation District Assistance Program and the California Farmland Conservancy Program.

Department of Water Resources (DWR) Contingent upon SB 5 passage, \$61.8 million will be appropriated to DWR for SGMA Implementation. These funds will be used to support groundwater sustainability agencies through three key efforts: (1) providing technical assistance to aid in the development and evaluation of their

plans, (2) supplementing existing planning grants to support a groundwater sustainability agency's responsibility to define a path to achieve sustainable groundwater management, and (3) providing grants directly supporting implementation of groundwater projects.

Cal Fire will receive an additional \$42.4 million to expand the state's firefighting capabilities and \$200 million of Cap and Trade funds to support healthy and fire resilient forests. The specifics of how the additional \$200 million will be spent has not yet been publicly announced.

California Environmental Protection Agency (CAL-EPA)

State Water Resources Control Board (SWRCB). The Budget proposes to incorporate the provision of SB 623 (Bill Monning D- Carmel) and advance \$4.7 million (\$1.4 million of which will go to CDFA) to establish the Safe and Affordable Drinking Water Fund for the State Water Resources Control Board to assist disadvantage communities in paying for short and long-term access to safe and affordable drinking water. The fund will provide grants, loans and services to eligible communities. The State Water Resources Control Board and the Department of Food and Agriculture are directed to take the initial steps of implementing this new program, including (1) developing and implementing fee collection systems, (2) assessing the level of funding necessary to assist communities with delivering safe and affordable drinking water and (3) developing a map of high-risk drinking water aquifers. Lastly, the Budget allocates \$63 million from SB 5 to the State Water Board to provide grants to disadvantaged communities public water systems for infrastructure improvements for drinking water and wastewater treatment projects.

In addition, \$84 million from SB 5 for the SWRCB to support regional groundwater treatment and remediation activities that prevent or reduce contamination of groundwater that serves as a source of drinking water, including \$10 million for technical assistance for drought and groundwater investment

The Governor's budget summary discusses numerous programs related to climate change, but the budget does not include an expenditure plan for Cap and Trade funds. The Governor is planning to release the specifics of the Cap and Trade expenditure plan when he gives his State of the State address on January 25th.

California Department of Food and Agriculture (CDFA)

The budget also included a number of funding proposals at the California Department of Food and Agriculture. SB 27 (Jerry Hill, D- San Mateo, statutes of 2015) which restricted the use of antibiotics in livestock became effective January 1, 2018. This budget proposed to fully fund the program by providing \$2.7 million of GF dollars for administration and enforcement.

Huanglongbing continues to proliferate in the Los Angeles urban area and the Governor is proposing to appropriate an additional \$2.5 million of General Fund to the Citrus Pest and Disease Prevention Program to enhance its eradication efforts.

Other highlights include:

- \$1.853 million from the General Fund for the Bee Safe Program to increase pollinator foraging habitat, reduce pesticide exposure, and enforce existing hive registration laws
- \$529,000 from the General Fund to the Office of Pesticide Consultation and Analysis to fund alternative to pesticides research for products with a restricted use and to identify new biocontrols.
- \$716,000, provided by the federal government, to implement and enforce the Federal Food Safety Modernization Act (FSMA).
- \$671,000 from the Agriculture Fund (fees) for improvement of the State Organic Program
- \$265,000 from the Agriculture Fund (fees) for improvement of the Certified Farmers Market Program, specifically coordination and training regarding its database.

Legislation

2018 is the last year of the 2017-18 biennial session so bills introduced last year must make it out of their House of origin by the end of January. So, if a Senator introduced a bill last year, he or she must get it passed out of committee and off the floor of the Senate by the end of January or the bill will die. Legislators now have until February 16 to introduce new legislation. All bills introduced this year and last must make it out of both houses this year or die.

Environment

[AB 1419](#) (Bill Quirk, D-Hayward) is a piece of legislation introduced last year and proposed to expand the authority for the Director of the Department of Pesticide Regulation to pursue enforcement cases and granting them increased fine authority from \$5,000 to \$25,000, per violation. A more limited authority was previously in statute but expired and DPR says they want to reestablish the law especially in cases where a grower might operate in several counties or there is a serious human or environmental health impact. Farm Bureau and other agricultural associations expressed our concerns about the expanded authority and significant penalty increase known to the author and DPR. We recently testified in opposition in the Assembly Environmental Safety and Toxic Material Committee and were successful in getting the authority of the Director circumscribed to specific circumstances. AB 1419 was approved on a bipartisan 5-0 vote with two abstentions. The author and DPR have committed to working with the agricultural stakeholders to see if our continued concerns can be addressed. AB 1419 will be heard next week in the Assembly Appropriations Committee.

Labor

[AB 281](#) (Rudy Salas, D-Bakersfield), as amended, extends the “right to cure” period from 33 to 65 calendar days essentially granting employers more time fix certain violations of the labor code. AB 281 was scheduled for consideration by the Assembly Labor & Employment Committee on January 11, but was pulled from consideration by the author due to insufficient support for the bill on the committee. Farm Bureau supports this measure.

Taxation

[SB 726](#) (Scott Wiener, D-San Francisco) originally proposed a special election for California voters to consider an initiative to repeal Proposition 6 (approved June 8, 1982) which prohibited California from imposing a “death tax,” and would have authorized the Franchise Tax Board to impose an estate, gift, and generation-skipping transfer tax for any estate valued at or above \$5.49 million as of January 1, 2019. Farm Bureau, along with a consortium of other agricultural and tax organizations vehemently opposed the bill. SB 726, however, was recently “gutted and amended” to now require any new sales and use tax exemptions offered after January 1, 2019, to also include clear goals and performance indicators. The bill passed Senate Revenue and Taxation Committee and is slated to be heard on the Senate Floor at an undesignated date. Farm Bureau is watching this bill closely to ensure it does not impact existing sales and use tax exemptions available to farmers and ranchers.

[SB 227](#) (Kevin DeLeon, D-Los Angeles) was recently amended in response to federal tax reform efforts. This bill would propose to establish the California Excellence Fund in the State’s General Fund to accept personal income or corporation tax charitable donations and offer a credit equal to the amount of the contribution to taxpayers. These provisions would, in theory, allow Californian taxpayers to deduct funds contributed to the California Excellence Fund under the federal charitable donation credit limits to counterbalance the impacts of the reduced State and Local Tax (SALT) deduction cap to \$10,000 per year established by [HR 1](#) (the Federal Tax Cuts and Jobs Act). While this scheme may provide tax relief to Californians, the State’s authority to allow for

these deductions as “charitable” is unclear and may be prohibited if the Internal Revenue Service denies the federal deductions or Congress clarifies the law. With an urgency clause, this bill will require a 2/3 vote approval from the Legislature. The bill will be heard in Senate Appropriations Committee on January 16th.

[AB 274](#) (Cristina Garcia, D-Bell Gardens) and its companion measure [ACA 2](#), would have removed the exemption from sales and use tax (SUT) for candy, confectionery and processed snacks. Historically, sales of food for human consumption are generally exempt from SUT, unless products are served as meals consumed onsite, sold in a heated condition, or sold at a venue that charges admission. In 1991, with the State facing significant budget deficits, the Administration removed the SUT exemption for candy, snack food and bottled water. A year later, in response, the voters supported Proposition 163 to prohibit state and local governments from imposing SUT on these products. This measure would have repealed this prohibition. The bills were heard in Assembly Revenue and Taxation Committee and were strongly opposed by a myriad of taxpayer associations, food manufacturers and grocers and individual corporations. Their opposition proved successful as both measures failed passage.