

Senator Bob Wieckowski, Chair
Senator Brian Dahle
Senator Mike McGuire
Senator Henry I. Stern



Tuesday, February 23, 2021
8:00 a.m.
State Capitol - Room 3191

Consultant: Joanne Roy

PART A

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VOTE-ONLY

3930 DEPARTMENT OF PESTICIDE REGULATION (DPR)

Issue 1: California Pesticide Electronic Submission Tracking (CalPEST) Project

Governor's Proposal. The Governor's budget requests \$5 million DPR Fund in 2021-22 to support the vendor procurement and initial analysis, design, and development of the California Pesticide Electronic Submission Tracking (CalPEST) project. CalPEST is a fully integrated information and document management system designed to substantially improve the current pesticide product registration process for pesticide product and device companies. DPR estimates the CalPEST project will cost \$22.706 million. DPR is seeking funding for 2021-22 to do only the following activities:

- Procure a new System Integrator Vendor.
- Begin the design, development, and release of the Minimum Viable Product.
- Procure a dedicated Project Manager.
- Procure new Independent Verification and Validation services.
- Use limited-term help to assist the state project team.

This proposal is intended to allow DPR to contract for the development of the CalPEST project, which is intended to allow for online electronic submission, payment tracking, review, and approval of registration applications, supporting documentation, and renewal of currently registered pesticide products.

The current estimated cost of the CalPEST project necessitates an increase in registration fees. DPR intends to review the level of registration fees at the conclusion of the CalPEST project to ensure that the fees are appropriately supporting the ongoing work of the registration program.

The implementation of the CalPEST system and temporary increase in registration fees are intended to provide several benefits, including:

- Faster processing time.
- Real-time access to registered pesticide labels for the public.
- Improved efficiency for state and local officials.
- Electronic payment.
- Reduction of paper use and storage costs.

Background. Pesticide products and certain structural pest control devices are required to be registered by DPR before the product can be sold, distributed, or used in the state. The registration process is currently paper-based and managed manually, with some supporting technology. DPR has been working to implement an electronic registration system for several years. The challenges of DPR's paper-based, manually-intensive registration process have been further exacerbated by the COVID-19 pandemic, as DPR staff are required to telework to the greatest extent possible, yet must physically work in the office on a regular basis to collect and process new documents and transfer completed work to the next step in the process. DPR's registration program is fully supported by registration fees, which are assessed annually during pesticide renewal and throughout the year when new product or amendment applications are submitted.

Staff Recommendation. Approve as budgeted.

Issue 2: Chlorpyrifos Quarterly Reports (SB 86)

Governor's Proposal. The Governor's budget requests \$339,000 DPR Fund in 2021-22 and 2022-23 to produce required reports regarding granular chlorpyrifos use, monitoring and exposure, as required by SB 86 (Durazo), Chapter 299, Statutes of 2020. Contract funds will be used to identify and analyze potential reasons for any increase or decrease in the use of granular chlorpyrifos in a given quarter, as compared to the same quarter of the previous year. DPR will evaluate ongoing resources needs of SB 86 during this two-year time period.

Background. SB 86 requires DPR to prepare and submit quarterly reports about granular chlorpyrifos use, monitoring, and exposure during a quarter. These reports will require DPR's Pesticide Use Reporting (PUR) Program to collect, reconcile, correct, analyze pesticide use data, as well as weather, crop, and other data that could explain the changes in use, on a quarterly basis.

SB 86 also requires DPR to provide an analysis of potential reasons for any increase or decrease in the use of granular formulations of chlorpyrifos, a description of how DPR monitors exposure to the use of chlorpyrifos in granular formations, and any information relating to exposures that occurred in the quarter.

Staff Recommendation. Approve as budgeted.

8570 CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE (CDFA)**Issue 3: Blythe Border Protection Station Relocation**

Governor's Proposal. The Governor's budget requests \$3.981 million General Fund (GF) for an augmentation to the acquisition phase (\$1.869 million) and funding for the preliminary plans phase (\$2.112 million) of the Blythe Border Protection Station Relocation project located in Riverside County. Total estimated project costs are \$63.595 million.

The project includes the relocation of the existing Blythe Border Protection Station (BPS) on approximately 25 acres west of the current location and will include: an office building with restrooms, a private vehicle inspection canopy with six private vehicle lanes, a truck inspection building and canopy with three commercial vehicle lanes, nine inspection booths with air conditioning, facility lighting, an emergency generator, California Department of Transportation (CalTrans) approved signs, and frangible cartridge type safety barriers (seven each). The existing BPS is intended to be demolished, and the roadway patched and restricted. Construction is scheduled to begin in August 2026 and be completed in May 2028.

Background. There are significant infrastructure concerns with the current BPS. The current location of this BPS is on Interstate 10, approximately one-quarter mile inside the California/Arizona state line. The two states are separated by the Colorado River. The bridge across the river is shaped in such a manner that when there is enough traffic to create a queue, line of sight become limited and vehicles back up on the bridge. These queues are a public safety hazard and California Highway Patrol routinely tells BPS staff to cease inspections and let vehicles pass in order to eliminate the queue on the bridge. Also, the BPS was built in 1958 and is inadequate for modern traffic levels. The BPS was designed to accommodate 600,000 vehicles annually. Traffic measured 4.738 million in 2019, almost eight times the traffic volume the stations was designed to accommodate. The utilities and technology infrastructure are antiquated and inefficient, which greatly decrease the ability to inspect and process agricultural shipments and the traveling public. Lastly, the facility is not compliant with the Americans with Disabilities Act requirements.

Staff Recommendation. Approve as budgeted.

Issue 4: California Farm to School Incubator Program

Governor's Proposal. The Governor's budget requests \$10 million GF in 2021-22 for the Office of Farm to Fork's (F2F's) California Farm to School Incubator Grant Program for grants to schools to establish programs that coordinate local and California grown food procurement and utilization in school meals. The funding is also intended to support food and agriculture education in classrooms and cafeterias through experiential learning opportunities in school gardens, on farms, and other culinary and agricultural pathways. The proposal includes Budget Bill language to make this funding available for encumbrance or expenditure for two years.

By continuing funding for the California Farm to School Incubator Program, CDFA-F2F intends to increase the amount of school districts engaged in Farm to School programming — leading to increased adoption of farm to school, practices, greater impact for California's highest need communities.

Background. Farm to school programs are a way to improve the health and well-being of children who rely on school meals. In California, over one billion school meals are served annually (including breakfast, lunch, afterschool snacks, and dinner) — often providing students with the only food they receive all day. Ensuring that these meals are nutritious, locally produced, and integrated into the educational experience of a student is important to establishing healthy eating habits that children can carry into adulthood.

The California Farm to School Incubator Grant Program awards competitive grants to support innovative local and regional farm to school projects. There are two funding tracks: Track one is the California Farm to School Innovation grant, which funds local education authorities (LEAs) to create integrated farm to school programs that coordinate educational opportunities between cafeteria, classroom, and community, while incentivizing procurement of California-produced whole or minimally processed foods. The second track is the Farm to School Regional Partnership Grant, which funds innovative farm to school partnerships to expand existing farm to school initiatives and increase collaboration and coordination between producers and the schools they serve, providing funding for infrastructure, transportation, coordination, planning, or other necessary program components. These projects are intended to increase local procurement and collaboration between regional farm to school partners.

In the 2020-21 budget, CDFA-F2F received \$1.504 million in ongoing funding to establish six positions and provide baseline and expansion support for the California Farm to School Network as well as \$8.496 million in one-time funding for grants.

Staff Recommendation. Approve as budgeted.

Issue 5: Extension of Encumbrance and Liquidation Deadlines for Office of Environmental Farming and Innovation

Governor's Proposal. The Governor's budget requests an extension on the expenditure, encumbrance, and liquidation deadlines for several Climate Smart Agriculture programs and Pesticide Economic Analysis and Research Grant Program within CDFA's Office of Environmental Farming and Innovation (OEFI).

The extension of the liquidation deadlines is requested to address the economic impacts of COVID-19 that have affected grant awardees' ability to purchase the required supplies and implement the incentivized management practices on farms and ranches in a timely manner, as well as scientific oversight that was delayed as a result of the pandemic.

Staff Recommendation. Approve as budgeted.

Issue 6: Needles Border Protection Station Relocation

Governor's Proposal. The Governor's budget requests \$10.371 million GF one-time for the acquisition and preliminary plans phases of the Needles Border Protection Station (BPS) Relocation project located in San Bernardino County. The station currently has inadequate capacity to meet increased traffic flows. Total estimated project costs are \$74.299 million.

The project is for the design and construction of a BPS along Interstate 40. The new BPS will include: two office buildings with restrooms (one building for autos and one for trucks), separate ventilated

canopied areas for auto and trucks, nine inspection booths with air conditioning, site utilities, site work, CalTrans-approved signs, and frangible cartridge type safety barriers (seven each). Construction is scheduled to begin in February 2028 and be completed in November 2029.

Background. The Needles BPS is a critical infrastructure deficiency for the state. Constructed on Interstate 40 in 1966, vehicle traffic at the BPS has annually increased and now exceeds the capacity the BPS was designed to accommodate. Three routes now exist that make it easy to bypass the BPS, enabling vehicles to avoid agricultural inspection. In addition, the current facility cannot handle the large volume of truck traffic, creating a public safety hazard when long queues develop.

Staff Recommendation. Approve as budgeted.

Issue 7: Pet Lover's Specialized License Plate Grant Program (SB 673)

Governor's Proposal. The Governor's budget requests \$650,000 Specialized License Plate Fund (SLPF) annually beginning in 2021-22 through 2023-24 to continue the Pet Lovers Specialized License Plate Program, which provides grants to qualifying spay and neuter facilities for low-cost or no-cost animal sterilization services. Of the amount requested, \$162,000 will fund the administrative costs of the program and \$488,000 will provide an estimated 14 grants to qualifying spay and neuter facilities.

Included in the requested administrative costs for the program is \$55,000 annually for participation in the Department of Motor Vehicles' (DMV) License Plate Insert program to increase participation and revenues in the Pet Lovers Specialized License Plate Program. Participation in this program will allow the Pet Lover's license plate to be included in the DMV insert residents receive their California driver license renewal notice.

Background. The Pet Lovers Specialized Licensed Plate Program was established in 2013 to provide grants to qualifying spay and neuter facilities for low-cost or no-cost animal sterilization services. The Budget Act of 2018 included \$440,000 SLPF authority and 0.5 position on a three-year limited-term basis to implement SB 673 (Newman), Chapter 813, Statutes of 2017, which transferred administration of the program from Veterinary Medical Board to CDFA.

CDFA currently awards \$330,000 in grants per year. This proposal would increase the grants to \$488,000, which is intended to allow CDFA to utilize the existing revenues in the SLPF to award four additional spay and neuter facilities with grants to provide low-cost and no-cost animal sterilization services.

A recent audit by the California State Auditor's Office recommended: implementing a more robust review process, improving coordination amongst other governmental agencies, increasing marketing efforts to promote the program, and managing the increased number of awards.

Staff Recommendation. Approve as budgeted.

Issue 8: Produce Safety Program Continuation Funding

Governor's Proposal. The Governor's budget requests \$8.665 million in Federal Funds authority in 2021-22 and \$8.428 million in Federal Funds authority in 2022-23 and \$7.922 million in 2023-24 and ongoing as well as 24 new positions to support the mission critical enhancement of the Produce Safety Program (PSP).

The requested authority and positions are intended to allow CDFA to develop a more robust inspection program for the enforcement of the Food Safety Modernization Act (FSMA), Public Safety Rule (PSR) in California; develop an integrated, relational farm inventory database; and to further CDFA's efforts to reduce food-borne illness and support a safe food supply in accordance with CDFA's Strategic Plan.

Background. The FSMA affects every aspect of the US food system and established federal science-based minimum standards for the safe growing, harvesting, packing, and holding of fruits and vegetables grown for human consumption. FSMA enables the US Food and Drug Administration (FDA) to better protect public health by strengthening the food safety system by allowing FDA to focus more on preventing food safety issues rather than reacting to problems after they occur.

California has approximately 20,000 farms subject to PSR and produces over 400 different commodities. The top producing commodities in the state for 2018 include strawberries, tomatoes, oranges, pistachios, and leafy greens. Roughly 75 percent of the nation's lettuce and leafy greens are grown in California.

The PSP was created to address the planning of produce safety enhancements needed to bring California farms into compliance with FSMA's PSR. Reporting requirements to FDA include conducting a jurisdictional self-assessment regarding commodities covered under the PSR as well as determining available resources, including infrastructure, organizational structure, staffing, and financial resources; evaluating current legislative or regulatory authority; providing resources for, and investing in, the program's infrastructure; and, developing strategic multi-year plan to administer a new PSP.

Recently, the FDA has requested that CDFA enhance the PSP in order to create a more robust inspection program, conduct inspections on a minimum of 10 percent of farms covered under the PSR, provide education and outreach to produce farmers, develop and validate our farm inventory database and provide assistance in the food-borne outbreak crisis. The implementation of this program under federal funding is essential to the state's produce industry, as the PSR is a federal mandate. By devoting funds to enhance technical, inspection, and administrative personnel and develop a new integrated farm inventory database management system, CDFA intends to augment the PSP to improve food safety.

Under the current food safety structure, the PSPS is unable to meet the programmatic burden of the PSR. Additional funding and positions are needed in order to meet strict specifications under FDA's funding opportunity announcement. CDFA began PSR enforcement activities in 2019 and assisted multiple food-borne outbreak investigations. Outbreak response pulled many staff away from inspection and compliance activities. To date, PSP inspectors have made over 700 calls to farmers, conducted 214 PSR inspections, and provided support for food-borne outbreak investigations totaling approximately 68 days.

Staff Recommendation. Approve as budgeted.

Issue 9: Turlock North Valley Animal Health Laboratory Replacement

Governor's Proposal. The Governor's budget requests \$88.565 million Public Buildings Construction Fund for the design-build phase of the Turlock North Valley Animal Health Laboratory Replacement project to build a new full-service California Animal Health and Food Safety Laboratory System (CAHFS) laboratory in the northern San Joaquin Valley to replace the existing obsolete CAHFS Turlock laboratory. Total estimated project costs are \$95.407 million.

The proposed facility includes mammalian and avian necropsy/pathology, bacteriology, histology, immunology, molecular biology, biotechnology, food safety, and serology testing services. The proposed laboratory includes necropsy facilities, laboratory space, laboratory support services, administrative offices, and common areas. The design-build phase is scheduled to begin in July 2021 and expected to be completed in June 2024.

Background. CAHFS operates within CDFA as the backbone of California's early warning system to safeguard public health from food born pathogens, toxins, and diseases common to animals and humans. CAHFS also protects the health of livestock and poultry populations by providing broad-based surveillance for all catastrophic animal diseases not currently found in the United States. Infectious diseases are constantly shifting and evolving. It is CAHFS's responsibility to continually evaluate and update its testing procedures to ensure adequate detection and surveillance.

The existing laboratory facility in Turlock, which opened in 1958, has serious infrastructure deficiencies and prevents CAHFS from fully meeting the testing needs required to safeguard humans and animal health from animal and food-borne diseases in the northern San Joaquin Valley or provide comprehensive services to the large concentration of livestock and poultry producers in the area. Infrastructure deficiencies include space constraints that prevent critical testing on non-avian species and the building's age and design, which impede use of modern testing methods that may jeopardize accuracy and result in the inability to maintain adequate biocontainment protocols.

The 2017 Budget Act included the acquisition phase for this project as a design-bid-build project. The 2019 Budget Act included a change in the project delivery method to the design-build process and appropriated \$3.946 million for the performance criteria phase of the project.

Staff Comment. The 2019 BCP for this project estimated the design-build cost to be approximately \$56 million. This BCP proposes over \$88 million for the same phase. Among the factors that increase the costs from the 2019 BCP, are the following:

- Site location. Previous estimates did not include new access road and utility runs.
- Increase in AHFSS square footage.
- Additional site amenities.
- Budget Package cost estimate did not account for necropsy equipment.
- Budget Package cost estimate did not account for cremator.
- Budget Package cost estimate did not account for telecom infrastructure.
- Current estimate square footage costs trending at a 50 percent higher cost than budget package estimates.

Of the factors listed above, the most significant reason for the increase in cost was the change in estimated square footage costs.

Staff Recommendation. Approve as budgeted.

DISCUSSION

0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT (GO-BIZ)

Issue 10: Climate Smart Agriculture — Climate Catalyst Fund

Governor's Proposal. The Governor's budget requests one-time funding in 2021-22 of \$50 million GF one-time, to provide low-interest loans and credit support advancing the state's climate-smart agriculture objectives, via the California Infrastructure and Economic Development Bank, Climate Catalyst Fund. Climate Smart Agriculture loan projects funded by the Climate Catalyst Fund will include methane reduction projects; equipment replacement to improve efficiency and emissions; water efficiency; healthy soils; circular economies; on-farm bio energy; energy efficiency for food processing; and renewable energy systems and energy storage for agricultural operations.

Also, budget bill language is being proposed to allow not more than five percent of the requested funding be used to support administrative costs.

Background. *Climate Catalyst Fund.* The Climate Catalyst revolving loan fund was established in 2020 to help finance climate-related projects. (A revolving loan fund means that the fund is replenished as borrowers repay their loans, and the program may continue making loans indefinitely without continued support.) The 2020-21 Budget Act did not capitalize the Climate Catalyst program.

When the Climate Catalyst Fund was proposed, last year, the Legislative Analyst's Office (LAO) found that the proposal was inherently risky as it focuses on projects that do not qualify for other loans or grants that might fail. The LAO warned that the Administration may not be able to spot the best projects to fund — If loan recipients cannot repay the loan, that could drain the program. If, on the other hand, the state funds safer projects already eligible for conventional loans or grants, it would not help California cut greenhouse gas emission any more than it already has. The loan recipients need to be able to repay the loan, so the projects cannot be too risky. On the other hand, if the project is very safe, then they can probably obtain funding from a conventional lender. The LAO also suggested starting smaller, with a pilot project which would allow the Administration to demonstrate the need for the fund and provide some certainty or clarity on the types of projects that will be getting loans — and then demonstrate that those projects do in fact need the loan.

According to the Administration:

The overall goal of the Climate Catalyst Fund, and applied in the agricultural sector, is to support financially viable projects that the private market is not yet supporting. This "market gap" exists due to a structural challenge in the shape of the market that keeps private lenders from engaging in every instance. These are not inherently uneconomic projects — rather, in view of these perceived challenges, the rates at which commercial lenders will participate are simply too high to be affordable to the borrower.

Low-interest loans in a revolving fund enable greater leverage of private investment and encourage lending to borrowers who are presently challenged with access to capital. Climate solutions in the agricultural sector are particularly in need of this focused intervention, as investors are less familiar with these technologies and practices than they are, for example, with established technologies like

wind and solar. The revolving structure of the Climate Catalyst Fund delivers further benefit to the state, by continuously re-lending funds to new projects as existing loans are re-paid.

Low-interest loans further benefit borrowers by letting them retain more revenue for their businesses and communities. By supporting small businesses in the agricultural sector that traditional lenders will not serve, Catalyst promotes inclusion in the climate solutions economy. The presence of this low-cost debt, particularly in conjunction with smart, risk-reducing grant dollars from other agencies (a key design feature of the Climate Catalyst program), can encourage private lenders to co-lend, creating the private market leverage the state's funding programs need to achieve scale.

On a separate, but related note, the Administration has a different proposal to provide \$49 million GF, including \$47 million in 2020-21 to capitalize the Climate Catalyst Fund and \$2 million in 2021-22 for the Ibank to develop a market strategy as part of its \$1 billion Wildfire and Forest Resilience Strategy. The funds would be used to provide low interest rate loans to private-sector projects, such as building materials manufacturing and energy generation, that use the wood that remains from fuel reduction projects. The \$2 million for Ibank would fund one new permanent position and professional services to develop a market for woody biomass.

The legislation establishing the Climate Catalyst Fund (Government Code Section 63048.95) included language that required that the fund was only to receive non-state (private entities and governmental entities other than the state) funds. The Administration has proposed budget trailer legislation to amend statute so that the fund may receive state funds. The proposed trailer bill language also provides that all moneys, except for money received from federal sources, in the Climate Catalyst Revolving Loan Fund are continuously appropriated without regard to fiscal years for the support of the bank and shall be made available for expenditure for purposes of the fund. All moneys received from federal sources to the fund are available for expenditure upon appropriation of the Legislature.

LAO Comments. *Strategic Growth Council Advises Legislature on Investment Categories.* Government Code Section 63048.93(d) requires the Strategic Growth Council, in consultation with the Labor and Workforce Development Agency to annually advise the Legislature of potential categories of climate catalyst projects that would focus on the state's key climate mitigation and resilience priorities. The Strategic Growth Council met on December 17, 2020 to approve the following investment category recommendations:

- Zero-Emissions Vehicles and Infrastructure
- Market Approaches to Reduce Wildfire Risk
- Facilitate Implementation of Executive Order N-19-19 (regarding to government efforts to reduce greenhouse gas emissions and mitigate the impacts of climate change while building a sustainable, inclusive economy)
- Opportunities Presented by Federal Stimulus

Climate Catalyst Implementation Plan. In addition to this \$50 million proposal, Governor also requested \$47 million from the General Fund in 2020-21 to provide Climate Catalyst loans for projects that use forest biomass to help develop the market for wood products as part of the wildfire package. Additional funding may be provided from the sale of a revenue bond for zero-emission vehicles and related infrastructure. Once Ibank has received funding it will, presumably, begin to advertise the program, receive applications, and begin to make loans. The Administration has provided no details about how it will administer this program nor any specific objectives for the Climate Catalyst Fund.

A Pilot Program May Be Appropriate. LAO noted last year that it agrees with the Administration that a public loan fund could be an appropriate way to increase the amount of public and private investment for climate mitigation and adaptation projects. However, LAO noted that the Administration needed to first demonstrate that a sufficient number of appropriate projects existed. The LAO suggested that a limited pilot program could be an appropriate approach to gauging the demand for such loans. This proposal could be considered to be such a pilot project.

Justification for Agricultural Projects Exists, But Is Weak. The LAO acknowledges that the agriculture sector is a significant source of greenhouse gas emissions and that cost-effective private solutions to mitigate these sources exist. Access to low-cost loans may help to investments that would reduce these emissions. However, the LAO also notes that it is unclear how well this proposal fits in the state's overall climate strategy. For example, it is unclear why the Governor advanced this specific proposal when the Strategic Growth Council did not identify agricultural projects as a priority investment category. The Administration's proposal also lacks key details regarding how the Climate Catalyst Fund will be implemented.

Expand Reporting Requirements. Current law requires IBank to annually report information about the Climate Catalyst loans in its portfolio. This reporting requirement will help the Legislature to assess the extent to which the program benefiting businesses, reducing greenhouse gas emissions, and potentially creating jobs. The current reporting requirements do not address LAO's concern that the low-interest loans could crowd-out private lenders in this market. The LAO previously recommended that the Legislature require IBank to also report more detailed financial information about each project so that the state may assess the financial risk and the extent to which private capital is participating in financing these projects.

Staff Recommendation. Hold open.

8570 CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE (CDFA)

Issue 11: Fairgrounds Operational Support and Deferred Maintenance

Governor's Proposal. The Governor's budget requests \$60 million GF one-time in 2021-22 to provide fairground operational support and address fair deferred maintenance needs. Of this amount, \$50 million is for operational support of state affiliated fairs and an assessment of fairgrounds located on state-owned land to determine their potential for alternate use/development. CDFA intends to use up to \$3 million to conduct a specialized facility assessment of fairgrounds located on state-owned land to help State Affiliated Fairs determine their potential for alternate uses and/or development. The \$50 million in operational support was created based on projected needs for a 12-month period.

The proposal includes \$10 million is to address deferred maintenance needs with a priority on fairgrounds that are used to support emergency operations. Over \$176 million in deferred maintenance for fairgrounds in the Network of California Fairs was identified in the most recent assessment. The \$10 million proposed is to cover a little over 5 percent of the needs in deferred maintenance. The funds will be distributed to projects with the highest score. Critical safety and health-related projects will receive higher scores than non-critical projects. Factors in scoring included in considerations such as number of emergency activation, water conservation, and power upgrades.

Background. The Network of California Fairs consists of 79 fairs that operate under a variety of governance structures, including six county-operated fairs, 16 nonprofit operated county fairs, two citrus fairs, 54 statutorily-created state institutions known as District Agricultural Associations (DAAs) (two are currently inactive), and the California State Fair (an independent state agency). Of the 52 active DAAs, 41 operate on state-owned land, eight operated on leased land, and three do not have permanent fairgrounds. Most of the properties were donated to the state or county to create the fair and to safeguard properties for the local community.

Beyond the annual fair event, fairgrounds operate 365 days per year hosting thousands of events from large trade shows to small family celebrations. Fairgrounds are perceived primarily as sites for annual fairs and other well-known seasonal venues as entertainment events and competitions including horse racing, car racing, concerts, rodeos, and other such activities.

In 2020, the impact of the COVID-19 pandemic adversely affected the ability of fairgrounds to generate revenue. At the same time, many fairgrounds continued as a component of the state's emergency network, serving as base camps and shelter during fires, COVID-19 testing sites, and food bank distribution sites.

The Administration is in the process of evaluating alternative business and governance structures to enable fairs to operate more efficiently, meet local community needs, and serve public health and safety roles in the state's emergency response system.

LAO Comments. *Network of California Fairs.* Fairs are not run by CDFA. However, the department provides fiscal and policy oversight for the state's network of fairs — 78 fairs statewide — and allocates some state funding to the fairs annually.

Fairs Host Variety of Events. Fairs are most known for their annual fair, but they also operate year round hosting smaller events like trade shows, concerts, and private events.

Fairs Are Part of Emergency Response Network. Many fairs play an important role in the state's emergency response network by serving as evacuation and recovery support centers.

Fairs Receive Some State Funding. In most years, the fairs generate roughly \$400 million in annual revenues. The fairs receive \$2.6 million annually from the General Fund. Additionally, AB 1499 (Gray), Chapter 798, Statutes of 2017, provides fairs with a percentage of state sales tax revenues that are generated from activities on fairgrounds, roughly \$19 million in 2019-20.

Fairs Operate Under a Variety of Governance Structures. The network of fairs includes 52 district agricultural associations (DAA), 23 county fairs, 2 citrus fruit fairs, and the California Exposition and State Fair (Cal Expo).

State-Affiliated Fairs. DAAs are state entities with Governor-appointed boards (41 operate on state-owned land), and Cal Expo is an independent state agency with a board appointed by the Governor and the Legislature. DAAs and Cal Expo are collectively known as state-affiliated fairs.

County and Citrus Fairs. In contrast, county fairs are either directly operated by counties or nonprofit organizations, and both citrus fruit fairs are operated by nonprofit organizations.

Current-Year Appropriation to Assist State-Affiliated Fairs Due to Pandemic. The COVID-19 public health pandemic has prevented fairs from conducting their normal revenue-generating activities, such as hosting annual fairs and other events that involve large gatherings of people. The 2020-21 budget package included a supplemental appropriation of \$40.3 million from the General Fund to support state-affiliated fairs in light of the fiscal impacts of the pandemic.

Support for State-Layoff Costs. At the time the budget was adopted in June 2020, the Administration indicated that the supplemental funding was for state-affiliated fairs that did not have sufficient funds or reserves to cover employee compensation costs during the layoff process as fairs had to downsize staffing levels.

Operational Support. In January 2021, the Administration notified the Legislature that roughly \$20 million in of the original allocation was not needed for layoff-related costs and instead would be used for general operational support for state-affiliated fairs in the current year in light of the pandemic.

Providing Operational Support Is Reasonable, But Amount Needed Is Uncertain. Fairs largely have been unable to conduct their normal revenue-generating activities due to the pandemic. Given that revenues for the fairs are highly dependent on hosting large events, it is reasonable to provide operational support for ongoing cost, such as salaries for essential employees and related administrative costs.

Estimates Might Change as Pandemic Evolves. The amount of funding requested by the department is based on financial projections of costs assuming that fairs will not be able to conduct normal operations in the budget year. While this is a possibility, there is still much uncertainty about when and under what conditions revenue-generating operations will be able to resume. For instance, the state might update its social distancing guidelines as more people are vaccinated, which might allow fairs to resume some of their normal operations during 2021-22.

Structure of Proposal Limits Legislative Oversight. As currently structured, the proposal would not provide an opportunity for the Legislature to know how funding is ultimately distributed — particularly the need-based distribution which will be based on decisions that the Administration will make throughout the year as additional financial information on the fairs becomes available. Having such

information would provide the Legislature with additional opportunities for oversight of how the funding is to be targeted.

Funding for Deferred Maintenance is Reasonable. A recent department assessment of fairgrounds indicated that there is \$176 million in deferred maintenance needs across the state. Given the substantial need, it is reasonable to provide one-time funding of \$10 million to support deferred maintenance at fairgrounds. Spending on deferred maintenance could prevent the state from paying even larger facility repair or replacement costs in the future. Moreover, the LAO thinks prioritizing maintenance at fairs used to support emergency operations, such as during wildfires and COVID-19 testing, is reasonable to support public safety and public health functions.

State Assessment of State-Owned Fairgrounds Could Provide Future Benefits. An assessment of fairgrounds that operate on state-owned land could be beneficial for a couple of reasons. First, an assessment might result in the state identifying opportunities to better maximize existing land, which could lead to development opportunities that benefit the local communities that fairs serve. Second, such development could provide opportunities to increase and diversify the revenue streams for fairs.

LAO Recommendations. Delay Decision on Operational Support and Assessment Until May Revision. Given the current uncertainty around the extent to which fairs will be able to conduct normal operations in the budget year, the LAO recommends the Legislature could use additional information available at that time regarding the status of the pandemic and vaccinations to inform its decision on the appropriate amount of funding to provide.

Require Legislative Notification Prior to Distribution of Funds. According to the Administration, the amount provided to state-affiliated fairs based on needs would be distributed on a quarterly basis. The LAO recommends the Legislature adopt budget bill language requiring the Department of Finance to provide a 30-day notification to the Joint Legislative Budget Committee prior to the release of these funds. This notification should include details on (1) the amount provided to each state-affiliated fair, (2) the method the Administration used to allocate funding, and (3) any remaining balance and the department's expected use of that balance.

Approve Funding for Deferred Maintenance. Given the amount of deferred maintenance needs across fairgrounds and the role they play in the state's emergency response network, the LAO recommends the Legislature approve the requested \$10 million for this purpose.

Staff Recommendation. Hold open.

Issue 12: Impact Assessment and Alignment of Regulatory Reporting Requirements for Agriculture

Governor's Proposal. The Governor's budget requests a total of \$6 million GF one-time for regulatory alignment and efficiencies, including:

- 1) \$4 million GF in 2020-21, in collaboration with the California Environmental Protection Agency (CalEPA), to conduct a comprehensive evaluation of cross-cutting regulatory activities across state agencies that enforce potentially redundant compliance requirements for the agricultural community. The evaluation is intended to be a catalyst for exploring regulatory efficiencies and process improvements to align CDFA and CalEPA regulatory compliance, substantially reduce paperwork required for the farmers and ranchers, while maintaining environmental and public health protections.
- 2) \$2 million GF in 2021-22 to conduct an assessment of the scope, feasibility, and level of effort required to create and implement a single licensing and payment portal to eliminate potentially repetitive data input and streamline interactions between agricultural businesses and CDFA.

Background. California agriculture is a \$50 billion industry that generates at least \$100 billion in related economic activity. There are nearly 70,000 agricultural operations across the state that employ 481,000 workers. Over a third of the country's vegetables and two-thirds of the country's fruits and nuts are grown in the state.

The COVID-19 Pandemic has significantly impacted agricultural businesses throughout the state as supply chains were severely disrupted and costs to protect the safety of their workforce increased sharply.

Streamlining efforts are intended to help address specific challenges felt by small-scale, mid-scale, and socially disadvantaged farmers and ranchers in recovering from the pandemic. Approximately 20 percent of California farmers are socially disadvantaged according to the USDA Census of Agriculture. Small farm business owners disproportionately feel the administrative burdens of regulatory compliance, licensing, and payment. They are more likely to face challenges navigating regulatory programs designed to fit larger farm operations or operations with a single crop and are less likely to have dedicated staff to handle regulatory reporting and compliance.

LAO Comments. *CDFA and Other Agencies Regulate Agricultural Industry.* CDFA is the state's primary agency responsible for regulating agricultural products, practices, licenses, and permits. There are also other agencies within the California Environmental Protection Agency (CalEPA) that play a role in regulating the agricultural industry. For instance, DPR oversees the use of agricultural pesticides, and the State Water Resources Control Board regulates the diversion of surface water, such as for irrigation.

Identifying Duplication Could Be Reasonable, But Concerns With Proposal. Identifying and resolving duplicative reporting requirements could be a worthwhile effort for the state to the extent it resulted in the reduction of unnecessary administrative burdens on the agricultural industry and costs to the state.

CDFA Has Not Yet Provided a Compelling Justification for Assessment. While an assessment could be reasonable, the department has not yet provided a clear explanation of the scope of the problem it intends to address. For example, CDFA has not provided the LAO with even an initial list of potentially duplicative reporting requirements that it intends to assess. Consequently, the LAO cannot be certain that there is a significant problem being experienced by the agricultural industry, or that providing

additional funding for the assessment will be effective in creating long-term cost reductions or efficiencies.

No Compelling Rationale for Early Action. It is unclear why expediting appropriations for the assessment of reporting requirements is essential for the department, given that no immediate improvements will be made in the near term. According to the department's timeline, the assessment would take about 18 months to complete.

Assessment of Online Licensing and Payment Portal Is Reasonable. The department has indicated that its current online portal does not allow the regulated industry to pay for various permits and licenses at the same time, which is viewed as overly burdensome to the agricultural industry. Assessing the feasibility of improving the department's current portal would allow it to better understand what next steps should be taken to make this service more efficient and convenient, as well as what the costs would be to make improvements. The department would need to come back to the Legislature for future appropriations to fund subsequent phases of any such project.

Proposes General Fund for Activities That Largely Benefit the Agricultural Sector. The LAO finds that both proposed assessments largely benefit the agricultural sector, which raises questions on whether the General Fund is the most appropriate funding source, or if it might be more appropriate to use fee revenues to support these efforts. According to the Administration, it proposed using General Fund because both proposals are one-time costs that are best suited to be funded through the General Fund. The LAO does not find this to be a compelling rationale because the proposals do not provide a broad enough public benefit to necessitate General Fund resources.

LAO Recommendations. Reject \$4 Million for Assessment of Duplicative Reporting Requirements. CDFR has not provided the LAO with a compelling list of duplicative reporting requirements that it intends to assess. Therefore, the LAO recommends that the Legislature reject the \$4 million being requested for this purpose from the General Fund.

Report at Budget Hearings on Possible Other Funding Sources for Assessment of Online Portal. The LAO recommends the Legislature require the department to report at budget hearings on what special funds could be used to support the online portal assessment in lieu of using General Fund.

Staff Recommendation. Hold open.

Issue 13: State Water Efficiency and Enhancement Program (SWEEP)

Governor's Proposal. The Governor's budget requests \$20 million GF in 2020-21 and \$20 million GF in 2021-22 to award, administer, and monitor State Water Efficiency and Enhancement Program (SWEEP) grants with a focus on depleted groundwater basins. Of this amount, up to five percent will be available for technical assistance as required by AB 2377 (Irwin), Chapter 868, Statutes of 2018. This technical assistance will be prioritized for socially disadvantaged farmers and ranchers, and to farms that are less than 500 acres. This proposal includes budget bill language to make the funding available for encumbrance or expenditure for two years.

This one-time funding is intended to address groundwater sustainability by focusing SWEEP on improving conditions in depleted groundwater basins.

Background. SWEEP is an incentive program that helps farms to reduce irrigation water use and reduce greenhouse gas (GHG) emissions from agricultural pumping. The program also addresses other high priority environmental issues such as groundwater sustainability and water quality protection. The program was designed to obtain quantitative water savings and GHG reductions from irrigation water pumping on farms. SWEEP provides incentives for several project types, which are often combined, to result in water savings and GHG reductions. Project components include:

- Weather, soil or plant-based sensors for irrigation scheduling to guide agricultural operators in applying water when the crop needs it.
- Micro-irrigation or drip systems to support water application to the plant root zone.
- Fuel conversion on pumps from fossil fuels to electricity and renewable energy sources.
- Improved energy efficiency for pumps.
- Lower pressure irrigation systems that reduce energy use.
- Use of variable frequency drives to reduce energy use and match pump flow to load requirements.
- Reduced pumping to save energy and reduce GHG emissions.

According to the LAO, CDFA has awarded \$81.1 million in SWEEP grants to date, of which \$65 million has been funded from the Greenhouse Gas (GHG) Reduction Fund. A total of over 800 projects have been supported with the funding.

LAO Comments. *Proposal Addresses Several State Priorities.* Through previous legislation, the state has indicated that reducing GHG emissions and managing water resources are key priorities. SWEEP can contribute to both priorities by providing incentives to install more efficient irrigation systems. According to the department, projects funded from SWEEP cumulatively reduce annual GHG emissions by 80,000 metric tons and annual water consumption by 37.5 billion gallons.

No Compelling Rationale for Early Action. It is unclear why expediting half of the proposed appropriations several months earlier is essential, given that grants are not expected to be awarded until February 2022. Additionally, allocating the proposed funding in two grant solicitations of \$20 million would add administrative complexity for the department and applicants.

LAO Recommendation. *Adopt Full \$40 million in the 2021-22 Budget.* The LAO. Recommends that the Legislature approve the proposed funding, but to minimize the administrative complexity by appropriating all of the funds in the budget year.

Staff Comments. According to this BCP, under projected outcomes — for the current year (2020-21), the number of estimated number of applications received, processed, projects awarded, pre-project consultations, and scope of works and grant agreements all are “0.” In comparison, projected outcomes in the budget year (2021-22) and BY+1 (2022-23), the estimates are in the hundreds in each category.

If the early action of this proposal is approved, the department anticipates getting out the SWEEP solicitation to receive applications starting in June so there would be work that takes place in the current year. Although work would be done in the current year to release the solicitation, the applications would be reviewed and awarded in 2021-22 and 2022-23. It takes approximately three months between funding being authorized and solicitations being released to applicants. Current funding is intended to allow projects to be implemented in the fall, approximately three months earlier than if funding was in BY only.

Staff Recommendation. Hold open.

Issue 14: Technical Assistance Program for Underserved Farmers

Governor’s Proposal. The Governor’s budget requests \$3.35 million GF in 2020-21 and \$3.35 million in 2021-22 with a two-year encumbrance period to fund a technical assistance and micro-grant program for small, mid-sized, and underserved farmers in California.

The technical assistance program includes funding for a temporary Small Farm Specialist within CDFA and a contract with University of California Agriculture and Natural Resources (UC ANR) to provide direct assistance to small, mid-sized, and socially disadvantaged and underserved farmers in seven regions around the state.

The program is intended to assist farmers with business planning, navigating regulatory compliance, and accessing state and federal funds to aid economic recovery. The grant program will be administered by CDFA and consist of grants for non-profit organizations to provide application technical assistance to small, mid-sized, and socially disadvantaged farmers and ranchers, as well as micro-grant program to assist small, mid-sized, and underserved farmers in accessing state and federal funding resources, including matching and leveraging state and federal funds, such as the state small business economic recovery grant funds and USDA micro loan program.

Background. Small-scale, mid-scale, and socially disadvantaged farmers face multiple challenges as business owners. Approximately 20 percent of California’s farmers are socially disadvantaged according the USDA Census of Agriculture. This growing number of small farm business owners have unique challenges are are likely to be under-resourced, have limited access to capital, face language and educational barriers to marketing their crops, and often to not have long-term, stable access to land. These farmers face challenges finding markets for their crops, navigating regulatory programs designed to fit larger farm operations, and applying for conservation and financial programs for operations.

Since 1979, UC ANR Small Farm Program has assisted small, diversified and socially disadvantaged farmers through technical assistance, outreach, and research. In some parts of the state, these advisors are the only entity supporting small farmers and regulatory compliance, access to assistance and incentive programs, marketing, and research-based information on small acreage crop production. Small farms advisor provide culturally relevant, bilingual, one-on-one technical assistance that is critical to long-term success for socially disadvantaged farmers. Currently, there are only three small farm advisors throughout the state.

LAO Comments. *Most Farms in California Are Small and Midsized.* According to the US Department of Agriculture (USDA), roughly 85 percent of farms in California are considered small or midsized. While most farms fall into these two categories, small and midsized farms account for only 12 percent of the state’s total market value of agricultural production. These groups are defined by the following:

- *Ownership.* Under the USDA definition, to qualify as a small or midsized farm, the majority of the business must be owned by the operator and related individuals.
- *Revenues.* Small farms are those with a gross cash farm income — annual income before expenses — of less than \$350,000, while midsize farms are those with a gross cash income between \$350,000 and \$1 million.

California Farm Equity Act of 2017. SB 1348 (Aguiar-Curry), Chapter 620, Statutes of 2017, increased support for farmers who are socially disadvantaged — defined as a farmer who belongs to a group that

has been subjected to racial, ethnic, or gender discrimination.

- *Disadvantaged Farmers in California.* CDFA estimates that socially disadvantaged farmers make up roughly 20 percent of the state's 124,000 total farmers.
- *Disadvantaged Farmers Not Familiar With Available Resources.* In a recent report, CDFA found that many socially disadvantaged farmers are not familiar with available resources such as grants and technical assistance.

University Program Provides Technical Assistance to Small Farmers. The University of California Division of Agriculture and Natural Resources (UC ANR) operates a statewide network of local cooperative extension sites and centers that are dedicated to conducting research, outreach, and education. Within this network is the Small Farm Program, which has one staff at each of four locations that provide technical assistance to small and socially disadvantaged farmers, including assistance with grant funding and licensing.

Proposal Aligns With Past Legislative Priorities. The Legislature has indicated that supporting disadvantaged farmers is a priority through past legislation. This proposal aligns with this by providing grants that are directly targeted to disadvantaged farmers and by augmenting the existing technical assistance network that supports them.

Key Details Remain Unclarified for Grant Programs. In the LAO's review, the proposal does not clarify several pieces of information that would assist the Legislature in its evaluation.

- *Some Federal Overlap.* The recent federal relief package provides funding — a total of \$75 million nationwide — for a USDA competitive grant program that also funds organizations that provide technical assistance to disadvantaged farmers. This may make some parts of the Governor's proposal duplicative with federal efforts.
- *Funding Between Grant Programs.* This proposal does not indicate how funding will be split between the two new grant programs being proposed. The Legislature may want to better align spending with its own priorities.
- *Definition of Small Farmers.* The proposal does not indicate how CDFA will define small and midsized farmers for its proposed grant program that would provide direct assistance for these farmers. Using the USDA's definition would encompass a large portion of farmers in the state, which would make funding more difficult to target.

No Compelling Rationale for Proposed Early Action of \$3.4 Million. In the LAO's view, early action might be warranted if the Administration demonstrates that early approval would ensure that high-priority projects or services are implemented more quickly to meet an urgent need. However, it is unclear why expediting appropriations several months earlier is essential for these programs given that neither will be used to support services immediately. According to the Administration's timeline, grants would not be awarded until October 2021. Additionally, contract funding for UC ANR is to expand services, which would take several months to implement.

LAO Recommendations. *Report at Budget Hearings on How Grants Will Be Distributed.* The LAO does not raise any concerns with the intent of the proposal. However, the LAO recommends the Legislature require the department to report at budget hearings on (1) how this proposal complements federal grants that were recently augmented under the federal relief package, (2) how it will define small and midsized farmers, and (3) how it will split funding between the two new grant programs being proposed.

Approve Any Funding in the 2021-22 Budget. If the Legislature were to approve any funding under this proposal, the LAO recommends that it appropriate this amount in the budget year. Early action is likely not warranted given that funding will not be used to support immediate services in the current year.

Staff Recommendation. Hold open.

3930 DEPARTMENT OF PESTICIDE REGULATION (DPR)**8570 CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE (CDFA)****Issue 15: Transition to Safer, Sustainable Pest Management**

Governor's Proposal. The Governor's budget requests \$16.75 million (\$8.25 million GF and \$8.5 million DPR Fund) and 44 positions in 2021-22 for DPR, and \$11.75 million GF in 2021-22 for CDFA as part of a comprehensive proposal to support the state's transition to safer, sustainable pest management. Additional DPR proposes to replace the current flat-fee mill assessment on pesticide sales with a risk-based tiered mill assessment, where higher toxicity pesticides are assessed a higher fee. Once fully phased in by 2024-25, the tiered mill assessment is anticipated to generate approximately \$45 million in additional revenue annually to the DPR Fund. The additional revenue is intended to fund various DPR and CDFA programs and will increase support to the County Agricultural Commissioners (CACs) for local pesticide use enforcement activities to accelerate the state's transition away from harmful pesticides.

The tiered mill assessment is proposed to be based on a product's "signal word" as determined by the US Environmental Protection Agency (US EPA) and is proposed to be phased in over four years, using phased down GF to support during this transition. When the tiered mill is fully implemented, products without any signal word or a "Caution" signal word will be assessed 26 mills; products with a "Warning" signal word will be assessed 40 mills; and products with "Danger" and "Poison/Danger" signal words will be assessed at 45 mills. The additional revenues are intended to fund the following efforts:

- Enhanced implementation of integrated pest management (IPM) practices.
 - DPR's IPM program (\$8.25 million and 15 positions).
 - CDFA's IPM research, education, and extension grant programs (\$3.75 million ongoing).
 - CDFA, through cooperative agreements with the California State University Agricultural Research Institute (CSU ARI) and University of California Agriculture and Natural Resources (UC ANR), to expand research, education, and extension capacity for IPM (\$8 million ongoing).
- Strengthened DPR enforcement activities (\$3 million DPR Fund and 18 positions in 2021-22 ongoing).
- Increased support to CACs for local pesticide use enforcement activities from 7.6 mills to 10 mills (estimated to be an approximately \$9.5 million increase).
- Enhanced Pesticide Air Monitoring Network (AMN) (\$4 million DPR Fund and seven positions in 2021-22 ongoing).
- Increased community engagement by DPR, including with communities identified by the Community Air Protection Program (as authorized by AB 617 (C.Garcia), Chapter 136, Statutes of 2017, (\$1.5 million DPR Fund and four positions beginning in 2021-22 and \$1.5 million DPR Fund and seven positions in 2022-23 ongoing).
- Sufficient revenues to rep are the DPR Fund's structural fund imbalance and provide a prudent reserve.

Background. DPR’s mission is to protect human health and the environment by regulating pesticide sale and use and by fostering reduced-risk pest management. DPR currently supports its work through a flat-fee mill assessment.

The following table shows the amount of mill assessment revenues generated by signal word from 2015-16 to 2019-20.

Fiscal Year	Total Mill Collected	Mill Collected from None/Caution	Mill Collected from Warning	Mill Collected from Danger, and Danger/Poison
15/16	\$73,677,279	\$46,416,686	\$10,314,819	\$16,945,774
16/17	78,876,191	49,692,000	11,042,667	18,141,524
17/18	77,670,174	48,932,209	10,873,824	17,864,140
18/19	80,243,637	50,553,491	11,234,109	18,456,037
19/20	83,641,239	52,693,980	11,709,773	19,237,485

Source: Department of Finance

The overall trends are fairly consistent from year to year based on available data: none/caution account for 63 percent of sales; warning accounts for 14 percent; and danger and danger/poison account for 23 percent.

In 2020, DPR had 7,669 products registered with none-caution signal words, 1,703 products with warning signal words, and 4,144 products with danger and poison/danger signal words.

Pesticide Mill Assessment and the DPR Fund. The mill assessment was established in 1971 to create an industry-funded structure that would support the activities of a pesticide regulatory program. A mill is 1/10 of one cent and is assessed on every dollar of pesticide sold in the state. The mill assessment was last increased in 2004 and is currently capped by statute at 21 mills (\$0.021/dollar) on the sales of all registered pesticides, regardless of their toxicity. While DPR has several other funding sources, the mill assessment accounts for 80 percent of the DPR Fund revenues. Over the last several years, there has been significant growth in the scope of DPR’s programs and activities without any comparable change in funding.

Enforcement and Air Monitoring Programs. DPR oversees a multi-tiered enforcement program. US EPA enacts laws establishing baseline pesticide requirements that are enforced at the state and county levels through cooperative agreements. DPR maintains a pesticide Air Monitoring Network to identify pollutants and support measures to mitigate human health exposures. The current network provides air monitoring data for 31 pesticides and several breakdown products in three communities that represent the areas of highest agricultural use of some of the most potentially hazardous pesticides.

Community Engagement. In 2019-20, DPR participated in community events, health fairs, and pesticide safety events, sharing information related to public and worker safety laws. Also, DPR hosted workshops and attended meetings with local groups to build partnerships, seek input, and respond to concerns involving pesticide use. DPR and the California Air Resources Board have collaborated to monitor pesticide concentrations.

LAO Comments. Overview of Pesticides. Various Products Are Considered Pesticides. Under state and federal law, a pesticide is any substance intended to control, destroy, repel, or otherwise mitigate a pest, such as insects, bacteria, weeds, and rodents.

- Agricultural Pesticides. Pesticides include insecticides, herbicides, and other agricultural and garden chemicals.
- Non-Agricultural Pesticides. Pesticides also include many industrial and home cleaning products like pool cleaners and disinfectants. (A product is not considered a pesticide if it is meant to be used in or on a person.)

Pesticides Provide Benefits. Pesticides play an important role in protecting people and their environment. For instance, the agricultural sector uses pesticides to control pests that can destroy or damage crops.

However, Certain Pesticides Have Some Negative Effects. The use of certain pesticides can have negative effects, such as killing nontarget species, water contamination, and short-term adverse health effects. Additionally, research has grown in recent years linking the use of certain pesticides to long-term adverse health effects. For instance, individuals who occupationally use certain pesticides have been found to have a higher risk of developing Parkinson's disease.

Integrated Pest Management (IPM). *IPM Encourages Use of Other Pest Control Practices.* IPM is designed to reduce — though not necessarily eliminate — the use of pesticides through a combination of techniques, such as using beneficial organisms to eliminate pest populations. IPM promotes the judicious use of pesticides when other methods do not work and when monitoring indicates that pest levels have risen to the point where pesticides are needed.

Various State Entities Promote IPM. The state has funded several grants and programs through various state entities to promote IPM research and outreach.

- DPR. DPR administers several IPM grants, such as the Pest Management Research Grant Program, which funds research to develop practices that reduce the use of pesticides of high regulatory concern. The department also has several IPM programs, such as the School IPM Program that promotes the adoption of IPM practices at schools and child care centers.
- CDFG. CDFG also administers several IPM grants, such as the Biologically Integrated Farming Systems Grant Program, which funds on-farm demonstrations and evaluations of IPM practices.
- Academic Institutions. The University of California Division of Agriculture and Natural Resources (UC ANR) and the California State University Agricultural Research Institute (CSU ARI) conduct IPM research and outreach, such as conducting field trials, training pest control managers, and working with farmers to implement the use of nonchemical pest control methods.

Pesticide Regulations and State Funding. *Federal, State, and Local Roles in Pesticide Regulation.* Various government entities play a role in regulating pesticide sale and use.

- Federal. The US Environmental Protection Agency (US EPA) is responsible for setting minimum pesticide use standards; registering pesticides at the federal level that have been determined to not harm people, nontarget species, or the environment; and sets pesticide labeling requirements that indicate how to handle and safely use products.
- State. DPR is responsible for (1) evaluating and registering pesticides at the state level, (2) licensing individuals and businesses that apply pesticides, (3) evaluating health impacts of pesticides, (4) monitoring the environmental impacts of pesticides in air and water, (5)

monitoring pesticide residues on produce, and (6) enforcing state and federal laws related to pesticides.

- Local. County Agricultural Commissioners (CAC) are responsible for enforcing pesticide laws and regulations in concert with DPR. The state is responsible for overseeing enforcement efforts by CACs.

Federal Labeling Includes Acute Toxicity Warnings. US EPA requires most registered pesticides to have a “signal word” on its product label. The signal word indicates a product’s relative acute toxicity to humans and ranges from (1) Caution, (2) Warning, (3) Danger, and (4) Danger/Poison. Some pesticides do not have a signal word due to their very low acute toxicity.

DPR Air Monitoring Stations. In 2011, DPR started the Air Monitoring Network (AMN) to sample ambient air for pesticides year round and to assess chronic exposures. (Prior to starting AMN, this was largely done on a seasonal basis.) DPR currently has three monitoring stations that are funded on an ongoing basis from special funds.

- Additional Five Stations Previously Funded. Five additional AMN stations were approved with limited-term funding that ended in 2019-20. The Governor’s 2020-21 budget included a proposal that would have funded these five sites on an ongoing basis with special funds, but the proposal was withdrawn due to budget constraints.

DPR Fund. DPR Is Supported by Its Own Special Fund. The DPR Fund supports roughly 90 percent of the department’s budget. The fund receives 20 percent of its revenues from pesticide-related licensing and registration fees and 80 percent from a mill assessment levied on pesticides.

- Mill Assessment. The mill assessment is applied to agricultural and non-agricultural pesticides at the point of first sale into the state. The assessment is currently at 21 mills, or 2.1 cents per dollar, and was last adjusted in 2004. Of the total mill assessment, 7.6 mills are allocated to CACs for their pesticide compliance and enforcement activities.

DPR’s Major Fund Source Has Structural Imbalance. The growth in expenditures from the DPR Fund has outpaced growth in revenues, creating a structural imbalance in the fund. Absent any changes, the Administration estimates that the fund will go insolvent in 2022-23.

Tiered Mill Assessment. Reasonable to Set Rates Based on Signal Words. Acutely toxic pesticides can harm not only the people directly involved in selecting the pesticides, but also other people, such as farmworkers. In principle, an assessment structure with different rates tied to signal words — as the Governor has proposed — could address this problem. Additionally, the proposed structure is relatively simple and uses information that is readily available to the businesses that pay the mill assessment, so it does not raise major implementation concerns.

- Rate Structure Does Not Address Other Effects of Pesticides. As the LAO understands it, there is not a close link between a pesticide’s acute toxicity to human health and its other adverse effects (such as chronic toxicity or environmental effects). Consequently, the extent to which the proposed rates would address these other problems is unclear.

Proposed Rates Not Large Enough to Send Strong Market Signal. Upon full implementation, the proposal likely would widen price differences between the most toxic and least toxic pesticides by roughly two percent. The LAO has not found evidence that would support precise estimates of the market response to this price change. That said, the price difference is so small that even a proportionally strong

market response would not have large effects on the mix of pesticides used in the state. Discouraging the use of the most toxic types of pesticides likely would require much larger rate differences between tiers.

Four-Year Phase-In Unusually Long. The proposed mill increase is smaller than recent state excise tax increases on tobacco, cannabis, and transportation fuel. These taxes increased in one or two steps, but the Governor's proposal would phase in the mill increase in four steps. Although a slow phase-in would reduce short-term costs for buyers and sellers of pesticides, it would have some notable drawbacks.

- General Fund Support. Relative to a faster phase-in, this aspect of the proposal would increase the General Fund cost in order to fully fund the increased spending proposals.
- Potentially Weaker Market Signal. In addition, phasing in the mill over this longer period could further weaken the market signal sent by the rate increase.

Spending Proposals. Additional Spending Proposals Are Reasonable. The LAO finds that the Governor's proposals for increased spending merit legislative consideration based on estimated workload, potential to increase the use of IPM, and public health benefits.

- IPM Grants and Programs. Providing state funding towards grants and programs that further IPM research, implementation, and outreach has merit in the long run. While these programs will not provide immediate reductions, they can be an important part of the state's long-term goal of reducing pesticide usage.
- AMN. The proposal aligns with past legislative priorities by providing an ongoing source of funding for previously approved AMN stations. AMN provides the state with year-round data on pesticide levels in ambient air in various agricultural communities. Thus, expanding this network has potential of increasing protections and public health in more communities throughout the state.
- Enforcement. Additional funding for enforcement activities is reasonable since it would allow DPR and CACs to conduct more activities related to upholding state and federal pesticide laws and regulations. A workload analysis from the department indicates that the additional funding largely would support monitoring and investigating pesticide use violations and reviewing illegal residue cases.
- Community Engagement. The department has indicated that there has been increased workload associated with community outreach. For instance, the department states that an increasing number of communities have inquired about pesticide emissions and have asked for technical assistance from DPR. Based on a workload analysis from the department, the LAO finds that increasing funding for this effort is reasonable.

Administration's Spending Proposals Leave DPR Fund with Diminished Reserves in 2021-22. Despite additional revenues from the tiered assessment, the DPR Fund is estimated to end the budget year with \$842,000 in reserves — less than one percent of estimated revenues. While the proposal would begin building reserves starting in 2022-23, it leaves little flexibility in the budget year if revenues come in lower than expected or if there are unanticipated expenditure increases.

General Fund Support. Proposed Spending Requires Relatively Large General Fund Support Early On. In contrast to the plan to phase in the tiered mill assessment, the Administration proposes to fully implement all of its new spending proposals in the budget year. This results in a relatively large

imbalance between spending and revenues over the next three years. This is especially true in the budget year, which results in the proposed General Fund augmentation of \$20 million.

LAO Recommendations. *Phase in Revenues More Quickly. Phase in Tiered Mill Assessment Over One or Two Years.* Phasing in the rate increases over four years — combined with the Administration’s increased spending proposals — would result in substantial General Fund costs for each of the next three years. The LAO recommends the Legislature phase in any rate increase in one or two years instead.

- Potential Alternatives to Governor’s Proposal. The figure below illustrates two alternatives in which the state ultimately would levy the same rates as the Administration proposes, but phased in faster. Under these alternatives, a one-year phase-in, while a two-year phase-in would increase the rates in roughly equal parts in 2021-22 and 2022-23.

Fiscal Effects of Alternatives

(In Millions)*

Fiscal Year	New Mill Revenues	New Spending	General Fund Cost
Governor’s Proposal			
2021-22	\$18	\$38	\$20
2022-23	28	38	17
2023-24	35	38	10
2024-25	45	38	—

Alternative 1: One-Year Phase-In

2021-22	\$45	\$38	—
2022-23	45	38	—
2023-24	45	38	—
2024-25	45	38	—

Alternative 2: Two-Year Phase-In

2021-22	\$23	\$18**	—
2022-23	45	38	—
2023-24	45	38	—
2024-25	45	38	—

* All estimates assume no growth in pesticide sales from 2019-20 to 2024-25.

**Reflects spending on programs that the Governor proposes to fund with the DPR Fund in 2021-22.

Consider Key Questions in Design of Tiered Structure. As the Legislature considers a tiered mill assessment, the LAO recommends that it consider these questions:

- Is Signal Word the Best Basis for a Tiered Tax? Levying rates based on signal words is a reasonable way to address the acute toxicity of pesticides. The Legislature may wish to explore the feasibility of alternatives that could address a broader range of pesticide-related concerns,

such as environmental harms and chronic toxicity.

- Should Rates Reflect Revenue Target or Market Signal? The Governor's proposed rate increases would raise enough revenue to fund the proposed spending and to address the structural deficit in the DPR Fund. If, however, the Legislature shares the Governor's interest in using the mill assessment to send a market signal discouraging use of the most toxic pesticides, then it could consider much larger rate differences between tiers. (The rates could be set to raise the same amount of revenue as the Governor's proposal, or a higher or lower amount.)

Phase in Spending to Match Projected Revenues From Increased Mill. Phase in Proposed Spending as Revenues Increase. The LAO finds that the Governor's spending under this proposal is reasonable given that it assists the state in reducing pesticide usage and expands the state's efforts in upholding pesticide laws and regulations. However, the LAO recommends the Legislature align any new spending with the rate at which revenues are generated. This would (1) allow mill revenues to fully fund proposed spending, (2) eliminate the General Fund costs, and (3) potentially provide more immediate relief to the DPR Fund.

Staff Recommendation. Hold open.