

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 10/20)

Fiscal Year 2021-22	Business Unit 3790	Department Parks and Recreation	Priority No. Click or tap here to enter text.
Budget Request Name 3790-096-BCP-2021-GB		Program 2850 and 2855019	Subprogram Click or tap here to enter text.

Budget Request Description
 Fiscal Stability for Boating Programs

Budget Request Summary

The Department of Parks and Recreation, Division of Boating and Waterways, proposes various adjustments to the Harbors and Watercraft Revolving Fund to stabilize the fund. These adjustments will reflect a net authority decrease in the amount of \$13,949,000 ongoing. Additionally, two \$10,000,000 transfers from the General Fund are proposed to help sustain the HWRF while the changes to the fund are implemented.

Requires Legislation <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed Vehicle Code sections 9853, 9860, and 9863	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO Click or tap here to enter text.	Date Click or tap to enter a date.

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. Click or tap here to enter text. **Project Approval Document:** Click or tap here to enter text.

Approval Date: Click or tap to enter a date.

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Click or tap here to enter text.	Date Click or tap to enter a date.	Reviewed By Click or tap here to enter text.	Date Click or tap to enter a date.
Department Director Click or tap here to enter text.	Date Click or tap to enter a date.	Agency Secretary Click or tap here to enter text.	Date Click or tap to enter a date.

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

APBM Original Signed by Sally Lukenbill	Date submitted to the Legislature 1/8/2021
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A. Budget Request Summary

The Department of Parks and Recreation (Department), Division of Boating and Waterways (DBW) proposes various adjustments to the Harbors and Watercraft Revolving Fund (HWRF) to stabilize the fund. These adjustments will reflect a net authority decrease in the amount of \$13,949,000 ongoing. Additionally, two \$10,000,000 transfers from the General Fund, the first in Fiscal Year 2021-22 and the second in 2022-23, are proposed to help sustain the HWRF while the changes to the fund are implemented.

DBW proposes reducing baseline appropriations to its state operations by \$1,962,000 and local assistance funding by \$11,987,000. These reductions recognize historical levels of expenditure and capture savings that normally revert. At proposed appropriation levels, it is necessary to increase the vessel registration fee to \$35 per year. At \$35 per year, revenues will increase an average of \$22,000,000 per year. Trailer bill language will be needed to implement a fee change.

B. Background/History

The HWRF is the primary fund source for boating programs and has a \$52,000,000 structural deficit. The fund has faced increasing cost pressures, such as legislative expansion of programs and increasing employee compensation costs, without additional revenue sources. Vessel registration fees and motor vehicle fuel tax revenues attributable to boating are the primary revenue sources for the HWRF. The registration fee in California has only been raised once in over 40 years. The fee was \$5 until 2005 when it was raised to its current level of \$10 per year. Revenues from vessel registration have remained relatively constant while expenditures from the HWRF have increased, especially in the last 10 years. The lack of a regular fee increase has caused the current imbalance of the fund.

C. State Level Consideration

An increase in the vessel registration fee will require modifications to the Department of Motor Vehicles (DMV) systems, as the DMV is the agency that collects the vessel fee on behalf of DBW. The estimated cost to make these modifications is \$3,250,000.

D. Justification

The structural imbalance of the HWRF has reached a critical point and there needs to be a realignment of revenue and expenditures in the fund. A \$10,000,000 transfer from the General Fund is proposed in 2021-22 and 2022-23 (\$20,000,000 total) to help relieve the fund pressures while changes to stabilize the fund are being implemented. Since 2012-13, \$10,000,000 is transferred to the Davis-Dolwig Account annually. This is one example of the expanded statutory obligation that has increased pressure on the HWRF (Water Code Section 11913.1 (c) and (d)). The transfers from General Fund will offset this amount for two years.

DBW is proposing to reduce state operations by \$1,962,000 by maintaining a 5 percent vacancy rate and making various program adjustments to the aquatic invasive species (AIS) program. DBW does not expect impact to the AIS program because there is reimbursement available from the Department of Water Resources that could help offset expenditures in the Delta that overlap with DBW. Further, this adjustment would recognize historical levels of expenditure and capture savings that normally revert. This reduction is in addition to the 5 percent operating expenses and equipment reduction that will be implemented per the Administration's direction for the Department and other departments that utilize the HWRF.

DBW is also proposing an \$11,987,000 reduction to its local assistance appropriation baseline. This reduction will be attributed to ceasing the public and private marina loan program (\$5,500,000), a reduction to the Quagga and Zebra Mussel Infestation Grants Program

Analysis of Problem

(\$750,000), and a reduction to the Boat Launching Facility Grants (\$5,737,000). This reduction maintains funding for grants that provide access to California's waterways, but recognizes the lower expenditure levels seen over the last several years and is right sizing the grants programs. In addition, considering that revenue from loan repayments will be unavailable in future years as the number of loans made in recent years have greatly diminished, the vessel registration fee may need to be increased in the out years to supplement this change. DBW proposes suspending new funds from HWRF to the Public Beach Restoration Fund grant program until HWRF has stabilized or another source is identified.

The current vessel registration fee is \$10 per year and has not been increased since 2005. In order to meet proposed appropriation levels by the DBW and other state agencies, an increase to the vessel registration fee is necessary. The current fee of \$10 per year combined with other revenue sources yields approximately \$70,000,000 over a two-year period. At proposed appropriation levels, it is necessary to increase the vessel registration fee to \$35 per year (\$70 biennially). At \$35 per year, vessel registration revenues will increase by an average of approximately \$22,000,000. In order to facilitate the vessel registration increase, the DBW proposes that DMV retain the existing fee structure and implement a flat fee increase to raise the vessel registration fee. DMV is also decoupling the quagga zebra fee from vessel registration based on an interpretation of federal requirements that prompted a recent regulation change on our end. . This will require work by DMV staff to update their system and will cost the Department approximately \$3,250,000.

The level of the proposed fee increase does not permanently solve the imbalance of the fund but will provide sufficient stability to avoid a negative fund balance for the next several years and the Department will seek input from stakeholders on exploring long-term revenue strategies. To date, the Department has developed a work group to discuss the future of the fund and workload involved with vessel registration and the quagga zebra sticker. One major strategy being considered is moving to a tiered vessel registration fee that will be based on vessel length. Discussions also include the possibility of moving fee collection responsibilities from DMV to DBW, exploring non-motorized vessel fees, and expanding the quagga zebra fee to more broadly cover costs associated with the AIS program. DMV has expressed that substantial system modifications will be necessary to implement changes beyond a simple registration increase and that these changes would likely take one to two years to fully implement.

E. Outcomes and Accountability

Numerous controls, processes and procedures are in place to ensure that contractual agreements are met and deliverables are provided. Current programmatic controls for the Department utilize FISCAL expenditure and revenue data to monitor and track by the Department's staff, supervisors and managers. The result of this proposal will be to more closely align revenues and expenditures, while maintaining core boating programs and minimizing the size of the fee increases as additional options for revenues to support these programs are explored.

F. Analysis of All Feasible Alternatives

Alternative 1: Approve this request. This will allow the Department to stabilize the fund reflecting a net authority decrease in the amount of \$13,949,000. These reductions recognize historical levels of expenditure and capture savings that normally revert. At proposed appropriation levels, it is necessary to increase the vessel registration fee to \$35 per year. At \$35 per year, revenues will increase an average of \$22,000,000 per year. Trailer Bill language will be needed to implement a fee change. Further, a \$20,000,000 transfer from the General

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Fund is requested, (\$10,000,000 in FY 2021-22 and 2022-23) to help sustain the HWRF while these various adjustments are being implemented.

Alternative 2: Deny this request. If this request is denied, the HWRF will continue to be structurally imbalanced and would not have enough cash to support the current baseline authority. This would prevent the Department from administering critical programs and paying bills.

G. Implementation Plan

The Department is already in discussions with DMV so the Department can implement this proposal beginning on July 1, 2021, and/or upon approval of the 2021-22 Budget Act.

H. Supplemental Information

None

I. Recommendation

The Department requests approval of Alternative 1: This will allow the Department to stabilize the fund reflecting a net authority decrease in the amount of \$13,949,000. These reductions recognize historical levels of expenditure and capture savings that normally revert. At proposed appropriation levels, it is necessary to increase the vessel registration fee to \$35 per year. At \$35 per year, revenues will increase an average of \$22,000,000 per year. Trailer Bill language will be needed to implement a fee change. Further, a \$20,000,000 transfer from the General Fund is requested, (\$10,000,000 in 2021-22 and 2022-23) to help sustain the HWRF while these various adjustments are being implemented.

BCP Fiscal Detail Sheet

BCP Title: Fiscal Stability for Boating Programs

BR Name: 3790-096-BCP-2021-GB

Budget Request Summary

Personal Services

Personal Services	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
Salaries and Wages Earnings - Permanent	0	-962	-962	-962	-962	-962
Total Salaries and Wages	\$0	\$-962	\$-962	\$-962	\$-962	\$-962
Total Personal Services	\$0	\$-962	\$-962	\$-962	\$-962	\$-962

Operating Expenses and Equipment

Operating Expenses and Equipment	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
5324 - Facilities Operation	0	-1,000	-1,000	-1,000	-1,000	-1,000
54XX - Special Items of Expense	0	-11,987	-11,987	-11,987	-11,987	-11,987
Total Operating Expenses and Equipment	\$0	\$-12,987	\$-12,987	\$-12,987	\$-12,987	\$-12,987

Total Budget Request

Total Budget Request	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
Total Budget Request	\$0	\$-13,949	\$-13,949	\$-13,949	\$-13,949	\$-13,949

Fund Summary

Fund Source

Fund Source	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
State Operations - 0001 - General Fund	0	10,000	10,000	0	0	0
State Operations - 0516 - Harbors and Watercraft Revolving Fund	0	-11,962	-11,962	-1,962	-1,962	-1,962
Total State Operations Expenditures	\$0	\$-1,962	\$-1,962	\$-1,962	\$-1,962	\$-1,962
Local Assistance - 0516 - Harbors and Watercraft Revolving Fund	0	-11,987	-11,987	-11,987	-11,987	-11,987
Total Local Assistance Expenditures	\$0	\$-11,987	\$-11,987	\$-11,987	\$-11,987	\$-11,987
Total All Funds	\$0	\$-13,949	\$-13,949	\$-13,949	\$-13,949	\$-13,949

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Program Summary

Program Funding

Program Funding	FY21 Current Year	FY21 Budget Year	FY21 BY+1	FY21 BY+2	FY21 BY+3	FY21 BY+4
2850010 - Division of Boating and Waterways	0	-1,962	-1,962	-1,962	-1,962	-1,962
2855019 - Boating Facilities	0	-11,987	-11,987	-11,987	-11,987	-11,987
Total All Programs	\$0	\$-13,949	\$-13,949	\$-13,949	\$-13,949	\$-13,949