RESOURCES

LAO

65 YEARS OF SERVICE

2006-07 Analysis

Major Issues

Resources

☑ **CALFED Needs Overhauling**

- Four recent independent reviews of the CALFED Bay-Delta Program came to similar conclusions that the current governance structure is not working well, state priorities for CALFED are not clear, and meaningful performance measures for the program are lacking. However, the Governor's CALFED budget proposal is "business as usual."
- We recommend the enactment of legislation addressing the governance problems, setting expenditure priorities, establishing performance measures that tie to the budget process, and defining the beneficiary pays funding principle (see page B-17).

☑ **Fish and Game Swimming in Fiscal Problems**

- The budget fails to address the structural deficit in the Fish and Game Preservation Fund (FGPF) and the administration has failed to provide requested information necessary for legislative evaluation of the budget proposal and oversight of the department.
- We provide a solution to the FGPF fiscal problems and recommend that the Legislature withhold appropriating funding to the department until the critical reports are submitted. We also recommend that the Legislature conduct oversight hearings on the department's fiscal problems and performance in carrying out its multiple program responsibilities (see page B-65).

☑ **Many Issues to Consider When Evaluating Bond Proposals**

- Of the $11.1 billion of resources bonds approved by the voters since 1996, less than $1 billion is projected to be available for new projects after the budget year. As part of his ten-year Strategic Growth Plan, the Governor proposes over $9 billion of new resources-related bonds, mostly for flood protection and water management.

- In structuring bond measures, we recommend that the Legislature (1) retain oversight of bond expenditures through budget act appropriations, (2) decide whether private entities should be eligible for funding, (3) set limits on administrative costs, and (4) ensure that bond programs are coordinated with similar existing programs (see page B-29).

☑ **Climate Change and Hydrogen Highway Initiatives Need Legislative Roadmap**

- The budget proposes (1) $7.2 million to implement the Governor's Climate Change Initiative and (2) $6.5 million for the Governor's Hydrogen Highway Initiative.

- We recommend that the Legislature provide statutory direction for a state climate change policy that addresses a number of issues, including greenhouse gas emission reduction targets, the appropriate mix of regulatory and voluntary strategies, and lead agency designation. We recommend the Legislature deny the request to continue funding for the Hydrogen Highway Initiative until results from current expenditures are evaluated and the Legislature signs off on its policy to move forward (see pages B-38 and B-89).

☑ **Reorganizing the State's Energy-Related Activities Needs Jump Start**

- We examine a number of concerns raised about the state's existing energy organizational structure and evaluate the Governor's energy reorganization proposal, contained in legislation introduced last summer. At the heart of the Governor's proposal is the creation of a Department of Energy, with a cabinet-level head, which would be the lead energy policy-making body within the administration.

- We think that the time is ripe for the state to reorganize its multiple energy entities into a more accountable and efficient structure—a better organization to address the energy challenges that lie ahead. While we agree with many aspects of the Governor's proposal, we differ on others. (See "Part V" of *The 2006-07 Budget: Perspectives and Issues.*)

Table of Contents

Resources

OVERVIEW

Resources

The budget proposes significantly lower state expenditures (from all funds) for resources and environmental protection programs in 2006-07 compared to the estimated current-year level. Most of this reduction reflects a decrease in available bond funds. The budget also proposes somewhat higher General Fund expenditures for the budget year, reflecting increases mainly concentrated in four resources departments. Although the Governor has proposed a $3 billion flood protection and water management bond measure to be submitted for voter approval in 2006, as well as resources-related provisions in other bond measures, the budget does not reflect any expenditures from these bonds.

EXPENDITURE PROPOSALS AND TRENDS

Expenditures for resources and environmental protection programs from the General Fund, various special funds, and bond funds are proposed to total $4.6 billion in 2006-07, which is 3.7 percent of all state-funded expenditures proposed for the budget year. This level is a decrease of about $1.8 billion, or 28 percent, below estimated expenditures for the current year.

Decrease Largely Reflects Reduction in Bond Expenditures. The proposed reduction in state-funded expenditures for resources and environmental protection programs mostly reflects a $1.7 billion decrease in bond fund expenditures for water, land conservation, and other resources-related projects. (As discussed below, the decrease in bond-funded expenditures is partially offset by an increase in expenditures from the General Fund.) Between 1996 and 2002, the state's voters have approved $11.1 billion of resources bonds. Less than $1 billion of this total remains available for appropriation in the budget year. Although not included in the Governor's budget expenditure proposal for environmental and protection programs in 2006-07, the Governor has proposed over $9.4 billion of new resources-related bonds as part of his $222 billion, ten-year Strategic Growth Plan to address the state's infrastructure needs. These new bonds include a $3 billion bond for flood protection and water management projects proposed to be submitted for voter approval in 2006. We discuss the status of current bond funds as well as the Governor's proposed bond measures in greater detail in the *Resources Bonds* write-up in the Crosscutting Issues section of this chapter.

Spending From General Fund Up, Special Funds Down. On the other hand, the budget reflects an increase in General Fund expenditures for various purposes. The increases from the General Fund are largely concentrated in the Department of Water Resources (DWR), California Department of Forestry and Fire Protection (CDFFP), Department of Fish and Game (DFG), and the California Conservations Corps (CCC). In total, the budget proposes General Fund expenditures for resources and environmental protection programs in 2006-07 that are $135 million, or 9 percent, higher than the current-year level.

The budget proposes special fund expenditures that are $187 million, or 7 percent, below the current-year level. Most of this decrease in special fund expenditures reflects a reduction in capital expenditures in the Department of Parks and Recreation (DPR) for Off-Highway Vehicle parks and in renewable energy incentive payments administered by the Energy Resources Conservation and Development Commission.

Funding Sources. The largest proportion of state funding for resources and environmental protection programs—about $2.6 billion (or 56 percent)—will come from various special funds. These special funds include the Environmental License Plate Fund, Fish and Game Preservation Fund, funds generated by beverage container recycling deposits and fees, an "insurance fund" for the cleanup of leaking underground storage tanks, and a relatively new electronic waste recycling fee. Of the remaining expenditures, $1.6 billion will come from the General Fund (34 percent of total expenditures) and about $465 million will come from bond funds (10 percent of total expenditures).

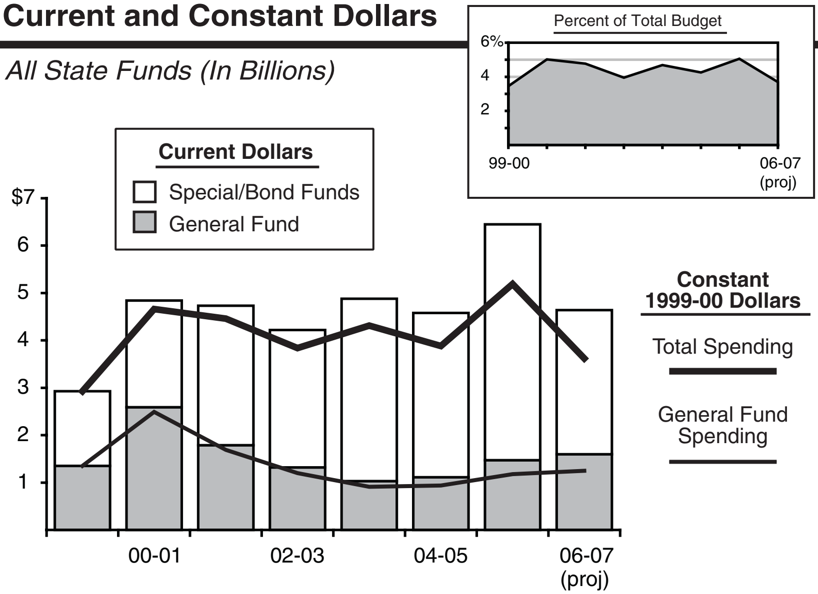
Expenditure Trends. Figure 1 shows that state expenditures for resources and environmental protection programs increased by about $1.7 billion since 1999-00, representing an average annual increase of about 7 percent. The increase between 1999-00 and 2006-07 mostly reflects an increase in special fund and bond expenditures. On the other hand, the budget proposes General Fund expenditures for 2006-07 at roughly the same level as 1999-00 spending—an increase of $250 million.

When adjusted for inflation, total state expenditures for resources and environmental protection programs increased at an average annual rate of about 3 percent. When adjusted for inflation, General Fund expenditures proposed for 2006-07 are actually lower than the 1999-00 level, reflecting an average annual decrease of about 1 percent. General Fund expenditures for resources and environmental protection programs peaked in 2000-01, declined from 2001-02 through 2004-05 due to the state's weakened fiscal condition, but ticked up in 2005-06 and 2006-07.

Figure 1

Resources and Environmental Protection Expenditures Current and Constant Dollars

All State Funds (In Billions)



SPENDING BY MAJOR PROGRAM

Cost Drivers for Resources Programs. For a number of resources departments, expenditure levels are driven mainly by the availability of bond funds for purposes of fulfilling their statutory missions. This would include departments whose main activity is the acquisition of land for restoration and conservation purposes as well as departments who administer grant and loan programs for various resources activities.

For other departments that rely heavily on fees, their expenditure levels are affected by the amount of fees collected.

Some resources departments own and operate public facilities, such as state parks and boating facilities. The number and nature of such facilities drive operations and maintenance expenditures for these departments.

In addition, the state's resources programs include a number of regulatory programs. The cost drivers for these programs include the number and complexity of regulatory standards that are required to be enforced and the related composition of the regulatory universe.

Finally, some resources activities have a public safety purpose, and the cost drivers include emergency response costs that can vary substantially from year to year. These activities include CDFFP's emergency fire suppression activities and the emergency flood response actions of DWR.

Cost Drivers for Environmental Protection Programs. A core activity of departments and boards under the California Environmental Protection Agency (Cal-EPA) is the administration of regulatory programs that implement federal and state environmental quality standards. These regulatory programs generally involve permitting, inspection, and enforcement activities. The main cost drivers for environmental protection programs are the number and complexity of environmental standards that are required to be enforced, which dictate the universe of parties regulated by the departments and therefore the regulatory workload.

In addition, a number of Cal-EPA departments administer grant and loan programs. The expenditure level for grant and loan programs, and the staffing requirements to implement them, are driven largely by the availability of bond funds or fee-based special funds to support them.

Budget's Spending Proposals. Figure 2 shows spending for major *resources* programs—that is, those programs within the jurisdiction of the Secretary for Resources and the Resources Agency.

Figure 3 (see page 12) shows similar information for major *environmental protection* programs—those programs within the jurisdiction of the Secretary for Environmental Protection and Cal-EPA.

Spending for Resources Programs. Figure 2 shows the General Fund will provide the majority of CDFFP's total expenditures, accounting for 56 percent ($591.3 million) of the department's 2006-07 expenditures. The General Fund will account for less in the support of other resources departments. For instance, for the Department of Conservation, the General Fund will constitute less than 1 percent ($4.2 million) of its budget-year expenditures. In the case of DFG and DPR, the General Fund will pay about 17 percent ($53.6 million) and 27 percent ($112.8 million) of the respective departments' expenditures. The DWR's expenditure total is skewed by the over $5 billion budgeted under DWR for energy contracts entered into on behalf of investor-owned utilities (IOUs). If these energy-related expenditures are excluded from DWR's total, the General Fund pays for about 17 percent ($247.3 million) of DWR's expenditures.

Figure 2

Resources Budget Summary Selected Funding Sources

(Dollars in Millions)

Department	Actual 2004-05	Estimated 2005-06	Proposed 2006-07	Change From 2005-06	
				Amount	Percent
Resources Secretary					
Bond funds	$34.8	$78.5	$47.0	-$31.5	-40.1%
Other funds	13.2	3.8	3.8	—	—
Totals	**$48.0**	**$82.3**	**$50.8**	**-$31.5**	**-38.3%**
Conservation					
General Fund	$3.9	$4.9	$4.2	-$0.7	-14.3%
Recycling funds	852.7	797.6	827.2	29.6	3.7
Other funds	48.9	84.4	53.8	-30.6	-36.3
Totals	**$905.5**	**$886.9**	**$885.2**	**-$1.7**	**-0.2%**
Forestry and Fire Protection					
General Fund	$505.0	$550.0	$591.3	$41.3	7.5%
Other funds	320.6	346.4	469.7	121.3	35.0
Totals	**$825.6**	**$896.4**	**$1,061.0**	**$164.6**	**18.4%**
Fish and Game					
General Fund	$37.3	$42.5	$53.6	$11.1	26.1%
Fish and Game Fund	90.2	92.9	93.7	0.8	0.9
Environmental License	16.2	15.7	15.6	-0.1	-0.6
Other funds	105.0	224.5	148.5	-76.0	-33.9
Totals	**$248.7**	**$375.6**	**$311.4**	**-$64.2**	**-17.1%**
Parks and Recreation					
General Fund	$87.7	$101.1	$112.8	$11.7	11.6%
Parks and Recreation Fund	117.7	125.8	121.2	-4.6	-3.7
Bond funds	328.5	327.5	30.9	-296.6	-90.6
Other funds	108.3	282.4	146.1	-136.3	-48.3
Totals	**$642.2**	**$836.8**	**$411.0**	**-$425.8**	**-50.9%**
Water Resources					
General Fund	$32.1	$230.2	$247.3	$17.1	7.4%
State Water Project funds	698.2	948.6	923.2	-25.4	-2.7
Bond funds	221.5	274.8	185.5	-89.3	-32.5
Electric Power Fund	6,023.5	5,275.4	5,036.4	-239.0	-4.5
Other funds	36.2	64.1	60.7	-3.4	-5.3
Totals	**$7,011.5**	**$6,793.1**	**$6,453.1**	**-$340.0**	**-5.0%**

Figure 3

Environmental Protection Budget Summary Selected Funding Sources

(Dollars in Millions)

Department/Board	Actual 2004-05	Estimated 2005-06	Proposed 2006-07	Change From 2005-06	
				Amount	Percent
Air Resources					
General Fund	$2.2	$2.2	$2.3	$0.1	4.5%
Motor Vehicle Account	73.2	100.5	98.5	-2.0	-2.0
Air Pollution Control Fund	61.7	136.1	132.0	-4.1	-3.0
Other funds	27.1	31.7	32.5	0.8	2.5
Totals	**$164.2**	**$270.5**	**$265.3**	**-$5.2**	**-1.9%**
Waste Management					
Integrated Waste Account	$42.1	$47.6	$49.4	$1.8	3.8%
Electronic Recycling Account	15.6	72.2	67.6	-4.6	-6.4
Other funds	53.7	80.5	73.2	-7.3	-9.1
Totals	**$111.4**	**$200.3**	**$190.2**	**-$10.1**	**-5.0%**
Pesticide Regulation					
Pesticide Regulation Fund	$51.6	$57.3	$58.7	$1.4	2.4%
Other funds	3.0	3.4	3.4	—	—
Totals	**$54.6**	**$60.7**	**$62.1**	**$1.4**	**2.3%**
Water Resources Control					
General Fund	$31.9	$29.7	$28.8	-$0.9	-3.0%
Underground Tank Cleanup	241.5	276.0	272.2	-3.8	-1.4
Bond funds	199.2	484.2	69.1	-415.1	-85.7
Waste Discharge Fund	57.6	58.7	69.6	10.9	18.6
Other funds	232.5	191.7	192.6	0.9	0.5
Totals	**$762.7**	**$1,040.3**	**$632.3**	**-$408.0**	**-39.2%**
Toxic Substances Control					
General Fund	$21.6	$26.5	$22.7	-$3.8	-14.3%
Hazardous Waste Control	44.4	51.5	49.7	-1.8	-3.5
Toxic Substances Control	37.5	43.5	39.5	-4.0	-9.2
Other funds	46.1	62.7	56.8	-5.9	-9.4
Totals	**$149.6**	**$184.2**	**$168.7**	**-$15.5**	**-8.4%**
Environmental Health Hazard Assessment					
General Fund	$7.3	$8.3	$8.4	$0.1	1.2%
Other funds	6.1	7.4	8.0	0.6	8.1
Totals	**$13.4**	**$15.7**	**$16.4**	**$0.7**	**4.5%**

Figure 2 also shows that compared to current-year expenditures, the budget proposes an overall spending reduction in many resources departments. Specifically, for the Secretary, DFG, and DPR, the reduction mostly reflects a reduction in available bond funds. Although not shown in the figure, entities affected by a decrease in available bond funds include other land acquisition agencies, which include the Wildlife Conservation Board and the state's several land conservancies.

The budget's proposed reduction in total spending in DWR (5 percent) largely reflects a $239 million reduction in expenditures from the Electric Power Fund, due mainly to decreased finance costs on energy contracts entered into on behalf of IOUs. This decrease reflects a refinancing at lower interest rates of the ratepayer-supported bonds that pay for these contracts.

Finally, the budget proposes a significant increase in expenditures for CDFFP in 2006-07. This reflects increases of $37 million (General Fund) for employee compensation and an increase of $121 million in capital outlay expenditures (funded mainly from lease-revenue bonds).

Spending for Environmental Protection Programs. As Figure 3 shows, the budget proposes relatively stable spending for most environmental protection programs. The one area with a significant proposed overall reduction is the State Water Resources Control Board, mostly reflecting a decrease in available bond funds for water projects. The reduction in spending in the Department of Toxic Substances Control (8.4 percent) largely reflects expenditure reductions (mainly achieved through operational efficiencies) to bring the Toxic Substances Control Account into balance and the elimination of one-time site cleanup expenses that occurred in the current year.

MAJOR BUDGET CHANGES

Figure 4 (see next page) presents the major budget changes in resources and environmental protection programs.

As shown in Figure 4, the budget proposes several General Fund and special fund increases throughout resources and environmental protection departments. Of particular note are various special fund increases in the Air Resources Board that are components of various environmental initiatives of the Governor. These include $6.5 million as matching funds for hydrogen fueling stations and fuel cell buses in public transit fleets under the Governor's Hydrogen Highway Initiative; $5.2 million (special funds) to implement greenhouse gas reduction strategies under the Governor's Climate Change Initiative (in addition to $2 million in other Cal-EPA and Resources Agency departments); and $4 million (special funds) for enforcement activities as part of the Governor's Environmental Enforcement Initiative (in addition to $2.2 million in other Cal-EPA departments).

Figure 4

Resources and Environmental Protection Programs Proposed Major Changes for 2006-07

Air Resources

+ $6.5 million (Motor Vehicle Account) to continue the Governor's Hydrogen Highway Initiative
+ $5.2 million (special funds) to implement greenhouse gas emission reduction strategies
+ $4 million (special funds) for enforcement, including enforcement of heavy-duty diesel regulations

California Conservations Corps

+ $8 million (General Fund) as a funding shift to bring the Collins-Dugan Reimbursement Account into balance

Fish and Game

+ $10 million (General Fund) as a funding shift to bring the Fish and Game Preservation Fund into balance

Forestry and Fire Protection

+ $37 million (General Fund) for employee compensation

Water Resources

+ $84.1 million (General Fund) for lining of the All-American Canal
+ $35.7 million (General Fund) for levee maintenance and other flood management state operations and local assistance

The budget also proposes two significant increases from the General Fund to bring two special fund accounts into balance—the fee-funded Fish and Game Preservation Fund in DFG ($10 million funding shift) and the Collins-Dugan Reimbursement Account in CCC ($8 million funding shift). Also of note are General Fund increases of $84.1 million for the lining of the All-American Canal and $35.7 million for levee maintenance and flood management in DWR, and $37 million for employee compensation in CDFFP.

CROSSCUTTING ISSUES

Resources

REFORMING THE CALFED BAY-DELTA PROGRAM

The CALFED Bay-Delta Program (CALFED), a consortium of 12 state and 13 federal agencies, was created to address a number of interrelated water problems in the state's Bay-Delta region. Responding to legislative concerns about the program's overall performance, the Governor directed a number of independent management, fiscal, and program reviews of CALFED be conducted. These reviews identified several problems with CALFED's current organizational structure and found that the program lacks clear goals and priorities to guide its decision making, hindering its ability to move forward. In the sections that follow, we provide a history of CALFED, summarize the Governor's budget proposal, highlight the findings of the program reviews, and make a number of recommendations for legislative next steps to improve CALFED.

Background

What Is CALFED? Pursuant to a federal-state accord signed in 1994, CALFED was administratively created as a consortium of state and federal agencies that have regulatory authority over water and resource management responsibilities in the Bay-Delta region. The CALFED program now encompasses 12 state and 13 federal agencies, overseen by a relatively new state agency—the California Bay-Delta Authority (CBDA)—created by statute in 2002. The objectives of the program are to:

- Provide good water quality for all uses.
- Improve fish and wildlife habitat.
- Reduce the gap between water supplies and projected demand.
- Reduce the risks from deteriorating levees.

After five years of planning, CALFED began to implement programs and construct projects in 2000. The program's implementation—which is anticipated to last 30 years—is guided by the "Record of Decision" (ROD). The ROD represents the approval of the final environmental review documents for the CALFED "plan" by the lead CALFED agencies. Among other things, the ROD lays out the roles and responsibilities of each participating agency, sets goals for the program and the types of projects to be pursued, and sets milestones for achieving program outputs and outcomes. The ROD also addresses how CALFED should be financed, providing that "a fundamental philosophy of the CALFED Program is that costs should, to the extent possible, be paid by the beneficiaries of the program actions." The ROD, however, provides few details as to how this principle would be implemented.

A Brief History of CALFED Governance. The program's organizational structure evolved administratively in the mid-1990s, and was not spelled out in state statute. The initial organizational structure was very loosely configured. Early on, the program was housed within the Department of Water Resources (DWR), with an Executive Director. For a number of years, the staffing and funding arrangements for the program were complicated, with staff coming largely from employees loaned to DWR and temporary hires. In the late 1990s, the Legislature for the first time approved funding explicitly for CALFED program staff. At that time, CALFED staff (around 50 positions) was focused mainly on planning, although there was some implementation of projects taking place in the various state agencies participating in the program, including DWR, the Department of Fish and Game and the Secretary for Resources.

After the signing of the ROD, the program shifted from being a relatively small program focused on planning to a much larger program focused on implementation. Since the ROD in many respects is a plan at a very general level, the implementation phase of the program requires decisions to be made regarding the type, location, timing, and financing of specific projects. A number of important policy decisions are also made, both in terms of developing project criteria as well as setting expenditure priorities within and among the program's several activity areas. It was in this context that the Legislature statutorily established a governance structure for CALFED in 2002.

Chapter 812, Statutes of 2002 (SB 1653, Costa), created a new state agency in the Resources Agency—CBDA—to oversee the overall CALFED program, as well as to directly implement the CALFED science program. Chapter 812 assigns responsibility for implementing the program's other elements (such as water quality, ecosystem restoration, and water storage) among a number of other state agencies. For example, the State Water Resources Control Board is designated as the implementing agency for the water quality element.

The CBDA's 24-member board, led by a Governor-appointed chair, includes 12 representatives from state and federal agencies, 7 public members (5 appointed by the Governor, and 2 by the Legislature), 4 nonvoting members of the Legislature, and 1 representative from a public advisory committee. Additionally, CBDA has a Governor-appointed Director, who currently oversees a staff of about 70 positions.

Under Chapter 812, CBDA is charged generally with coordinating the activities of the various implementing agencies. While CBDA reviews and approves the annual work plans and expenditure plans of the implementing agencies, CALFED governance legislation explicitly provides that "nothing [in the legislation] limits or interferes with the final decision making authority of the implementing agencies."

Legislative Direction Regarding CALFED Financing. Neither Chapter 812 nor any other legislation lays out a comprehensive framework for how CALFED should be financed over the long term. However, the Legislature on a number of occasions has stated its intent regarding CALFED financing. These include budget control language in the *1999-00* and *2000-01 Budget Acts* stating that beneficiaries of surface water storage projects that proceed to construction should reimburse all prior planning expenditures made from the General Fund. Similarly, in the *Supplemental Report of the 2002 Budget Act*, the Legislature directed CALFED to draft a financing plan for potential surface storage facilities consistent with the "beneficiary pays" principle. Finally, the *2003-04 Budget Act* includes a statement of legislative intent that CBDA submit a broad-based user fee proposal for inclusion in the *2004-05 Governor's Budget*, consistent with the beneficiary pays principle specified in the ROD. However, such a fee proposal was not submitted to the Legislature.

State Funds Have Contributed Most to CALFED. Although the ROD envisioned CALFED being financed over time by roughly equal contributions of federal, state, and local/user funding, the state has been the major funding source for the program's first six years, providing about $4.2 billion, or close to 50 percent, of funding. Figure 1 (see next page) shows the imbalance of the contributions from these three funding sources.

Figure 1

CALFED Funding, by Source

2000-01 Through 2005-06
(In Millions)

Year	State Funds	Federal Funds	Local/User Funds[a]	Total Funding
2000-01	$337.2	$67.7	$308.9	$713.8
2001-02	354.7	85.5	455.8	896.0
2002-03	309.8	50.9	166.0	526.7
2003-04	423.3	56.7	251.3	731.3
2004-05	283.8	34.5	476.0	794.3
2005-06	324.0	75.3	142.4	541.7
Totals	**$2,032.8**	**$370.6**	**$1,800.4**	**$4,203.8**
Funding as Percent of Total	48.4%	8.8%	42.8%	100%

[a] Includes revenues from Central Valley Project Improvement Act Restoration Fund (funded by water users), State Water Project contractor revenues, and local matching funds mainly for water recycling grants. There is additional local funding of an unknown amount that supports CALFED objectives, but it is not currently tracked by the California Bay-Delta Authority unless it is in the form of matching funds.

Almost all of the state funds supporting CALFED have been taxpayer-supported "general-purpose" funds, namely monies from the General Fund and bond funds. Apart from a relatively small contribution from the State Water Project and Central Valley Project contractor revenues, no user fees have supported the program. The local funding support for the program, while significant, largely reflects a local match for state bond funds, mainly for water use efficiency projects.

CALFED's Funding Challenges. The CALFED program is facing a number of funding challenges. First, there is significant competition for the funding sources that the program has traditionally relied on—namely the General Fund and state bond funds. Second, the program's funding requirements are likely to increase as major projects that have been in the study stage for a number of years move toward funding. Third, the most recent long-term CALFED finance plan submitted to the Legislature projects a funding shortfall, absent new revenue sources, of several billions of dollars. While CBDA is currently revising its finance plan and projections of funding requirements over the longer term, as discussed below, the unmet funding requirements are likely to remain substantial.

Legislative Concerns and the Governor's Commitment To Improve CALFED

Responding to legislative concerns, the Governor directed that (1) there be independent management, fiscal, and program reviews of CALFED, (2) CALFED refocus its efforts on solving water-related conflicts in the Delta region, and (3) a finance plan be developed that is consistent with the "beneficiary pays" funding principle.

Legislative Concerns. At policy and budget committee hearings last year, the Legislature raised a number of concerns about CALFED. These related to the program's failure to develop a viable long-term finance plan (as directed by the Legislature), the program's lack of focus and priorities, and the program's lack of a performance orientation.

As far as financing issues are concerned, CBDA submitted to the Legislature in January 2005 a finance plan that provided a funding framework for CALFED through 2013-14, based on a ten-year funding target of $8.1 billion. Much concern was raised in the Legislature that this funding target was unrealistic, given that it assumed high levels of highly uncertain federal funding (21 percent of the total funding was assumed from this source) and unspecified sources of new state funds (19 percent of total funding was assumed from these sources). In fact, almost 80 percent of the $8.1 billion funding target was proposed to be met from new sources of revenue that would need to be identified.

Furthermore, while the finance plan included the concept of new fee revenues from water users, it did not include specific proposals for these new fees. Therefore, the finance plan provided little substance on how the beneficiary pays principle would actually be implemented, in spite of legislative intent that the program proceed in this direction. In an effort to provide policy guidance to CALFED on this issue, SB 113 (Machado) was introduced last session to statutorily define "public benefit" and "private benefit" so as to provide objective guidance as to when public funding and fee-based water user funding, respectively, are appropriate for financing CALFED.

Given that the revenue assumptions in the finance plan appeared unrealistic, the Legislature was concerned that the plan's projected expenditures would exceed revenues. In such circumstances, it would be necessary for the program to be "right sized" to better match expenditures and revenues.

In deciding where reductions might be made in a program to align expenditures with revenues, decision makers would normally be guided by the program's expenditure priorities. However, in evaluating this issue at legislative hearings on CALFED, it became clear to the Legislature that

CALFED was not operating from a set of clear priorities. It also appeared that the program had strayed from its original focus of resolving conflicts among water-related interests in the Delta, by expanding into what looked like a statewide water management program, resulting in substantial overlap with the mission and responsibilities of DWR.

Finally, at the legislative hearings, the Legislature expressed concern about CALFED's lack of a performance orientation and the difficulty in articulating the outcomes achieved from the program's expenditures.

As a result of the above concerns, the Legislature reduced the Governor's 2005-06 budget proposal by almost 50 percent. This action was taken to provide CALFED with a placeholder base budget until a workable long-term finance plan and a zero-based budget justifying the program's expenditures were developed to guide future-year budget decisions.

Governor's Commitment to Improve CALFED. As part of his May Revision of the 2005-06 budget, the Governor proposed a number of actions in order to make program improvements to CALFED. Specifically, the Governor proposed that there be:

- An independent management and fiscal review of CALFED. (Below we discuss the findings from three resulting sets of reviews.)
- A refocusing of CALFED on solving conflicts among the various water-related interests (water quality, water supply, flood protection, and environmental) in the Delta—the main purpose for which CALFED was created. (These conflicts arise because of the interrelationships of the water interests—for example, construction of a water storage facility or flood control facility could negatively impact fish habitat.)
- A plan that focuses on solving the highest priority Delta issues and includes funding from water users, the state, and other sources consistent with the beneficiary pays funding principle.

The intent conveyed at the May Revision was that a "refocused" finance plan, reflecting a clear statement of program priorities, would be incorporated in the Governor's 2006-07 budget proposal.

Governor's Budget Proposal: Business as Usual for Now

The budget proposes $249.9 million of state funds for CALFED in 2006-07. The budget does not reflect any changes to CALFED's organizational structure or other reforms.

Budget Proposal Does Not Reflect a Revised Finance Plan or Other Reforms. The Governor's budget proposal for CALFED does not reflect any significant changes to how CALFED is financed or governed. While CBDA submitted a ten-year action plan to the Governor in December that recommends changes to the program's governance, fiscal management, and expenditure priorities, the Governor had not submitted his approved plan to the Legislature as of the time this analysis was prepared.

Expenditure Summary. Figure 2 (see next page) shows the breakdown of CALFED expenditures in the current year and as proposed for 2006-07, among the program's 12 elements.

Current-Year Expenditures. As shown in the figure, the budget estimates CALFED-related expenditures from state funds of $324 million in 2005-06. Of this amount, $11.5 million is from the General Fund, with the balance mainly from Proposition 50 bond funds ($232.7 million), Proposition 204 bond funds ($29 million) and State Water Project funds ($29.7 million).

For the current year, the largest state expenditures are for the ecosystem restoration ($162.1 million), science ($34.7 million), and water conveyance ($34.4 million) programs.

Budget Proposes $249.9 Million of State Funds for 2006-07. As shown in Figure 2, the budget proposes $249.9 million of state funds for various departments to carry out CALFED in 2006-07, a decrease of $74.1 million, or about 23 percent, from the current year. Most of the decrease reflects a reduction in bond funds available for a number of CALFED programs. Of the proposed expenditures, $26.4 million is proposed from the General Fund, with the balance mainly from Proposition 50 bond funds ($105.8 million), Proposition 13 bond funds ($73.8 million), and State Water Project funds ($39 million). The proposed expenditures from the General Fund reflect an increase of about $15 million, or 130 percent, above current-year General Fund expenditures. All of this General Fund increase is for the levees program, and is part of the package of flood management augmentations proposed in the budget.

As Figure 2 indicates, CALFED expenditures are spread among eight agencies. The largest expenditures are found in DWR ($210.3 million) and the Department of Fish and Game ($19.2 million). The largest state expenditures are proposed for water conveyance ($66.6 million), water use efficiency ($62.1 million), and ecosystem restoration ($32.3 million).

Figure 2

CALFED Expenditures—State Funds Only

(In Millions)

Expenditures by Program Element	2005-06	Proposed 2006-07
Ecosystem restoration	$162.1	$32.3
Environmental Water Account	9.0	9.0
Water use efficiency	28.6	62.1
Water transfers	—	—
Watershed management	11.8	8.7
Drinking water quality	1.0	19.4
Levees	19.2	18.5
Water storage	8.8	8.6
Water conveyance	34.4	66.6
Science	34.7	10.5
Water supply reliability[a]	6.9	6.8
CALFED program management	7.5	7.4
Totals	**$324.0**	**$249.9**
Expenditures by Department		
Water Resources	$125.0	$210.3
State Water Resources Control Board	1.6	19.2
California Bay-Delta Authority	126.5	14.3
Fish and Game	67.2	5.4
Conservation	3.3	0.3
Forestry and Fire Protection	0.2	0.2
San Francisco Bay Conservation	0.1	0.1
Health Services	0.1	0.1
Totals	**$324.0**	**$249.9**
Expenditures by Fund Source		
Proposition 50	$232.7	$105.8
Proposition 13	18.9	73.8
Proposition 204	29.0	1.6
General Fund	11.5	26.4
State Water Project funds	29.7	39.0
Other state funds	2.2	3.3
Totals	**$324.0**	**$249.9**

[a] Could include conveyance, water storage, water use efficiency, water transfers, and Environmental Water Account expenditures.

CALFED Under the Audit Microscope

Four independent reviews of CALFED were conducted this past summer and fall. These reviews found common agreement that the current governance structure is not working well, state priorities for CALFED are not clear, and meaningful performance measures for the program are lacking.

Independent Management, Fiscal, and Program Reviews. As mentioned above, the Governor directed that a number of independent reviews of CALFED be conducted. Four separate reviews were conducted over the summer and fall as follows:

- Little Hoover Commission—review of CALFED governance.
- Department of Finance, Office of State Audits and Evaluations—fiscal review of CALFED expenditures since inception and CALFED's expenditure tracking mechanisms.
- Department of Finance, Performance Review Unit—program review of the implementation status of CALFED programs.
- The KPMG (a private consultancy firm)—interview and survey of CALFED stakeholders.

Summary of Review Findings. We have reviewed the four reports and discuss the major findings and recommendations from them below. There appears to be common agreement on the following three points:

- The current CALFED governance structure is not working well and is impeding the program's effectiveness. Responsibilities among CALFED implementing agencies are not clear and no one is in charge.
- The state's priorities for CALFED are not clear.
- Meaningful performance measures to track the program's progress and hold the program accountable for outcomes are lacking.

Governance Structure Problematic. The Little Hoover Commission summed up the CALFED organizational structure as "convoluted," with two major problems: the lack of clear assignment of authority among the many participating entities and fuzzy lines of accountability. Regarding the first problem, the Commission noted that CBDA is an authority without authority, in that the CBDA board has no actual authority over the implementing agencies, making it very difficult for CBDA to fulfill the management function it has been given. Additionally, within the implementing agencies, it is not clear who is in charge of CALFED implementation.

Regarding the second problem of accountability, the Commission found that there were many positions of authority within the program, including the CBDA executive director, the CBDA board, the heads of the many implementing departments, and the Secretary for Resources. The bottom line of the Commission's findings is that the program as currently structured lacks a leader to move the program forward and who can be held accountable to the Governor and Legislature for the program's performance.

The Commission's recommendation is to rely on the structure of the traditional government hierarchy to focus CALFED's leadership and provide a direct line of accountability to the Governor. Specifically, the Commission recommended that CALFED be led on the state side by the Secretary for Resources who, along with the U.S. Secretary of Interior, would co-chair a policy group made up of the leadership of the major state and federal CALFED implementing agencies. The policy group would be responsible for CALFED's program management and policy development functions, while the public involvement function would be handled separately by an advisory entity created to advise the policy group, Legislature, and the Governor. Under the Commission's recommended structure, there is a leader (Secretary for Resources) who can direct actions of the state implementing agencies and who is directly accountable to the Governor.

Disagreement on Priorities. A major finding of the reviews is that CALFED is not being guided currently by clear, specific goals that reflect the state's priorities for the program. While the ROD and the CALFED governance legislation include objectives for the program, these are stated very broadly, thereby leaving decisions to be made in the future about the specific means to pursue them. Accordingly, major decisions with potentially substantial policy and fiscal implications need to be made, but the program's progress is being held up because agreement is lacking on what should be CALFED's priorities and preferred implementation strategies. The Little Hoover Commission was of the view that it is the role of the Legislature to establish the state's goals, priorities, and preferred implementation strategies for the program.

Lack of Accountability for Performance. All of the reviews highlighted the difficulty in articulating what "outcomes" the state has achieved from spending over $4 billion of state funds since the program's inception. While current law requires CBDA to track and evaluate program performance, it does not specify any performance measures. As a result, while there is reporting to the Legislature on dollars spent or the status of particular projects, the reporting is of such a general nature that it does not allow answers to questions such as, "To what extent has water quality improved in the Delta as a result of CALFED?" or "To what extent have conflicts in the Delta been avoided or mitigated as a result of CALFED?"

Reforming CALFED: Where Do We Go From Here?

To improve CALFED, we recommend that the Legislature take a number of actions. These include enacting legislation to address the governance problems, setting expenditure priorities, establishing performance measures that tie to the budget process, and defining the beneficiary pays funding principle statutorily. We raise particular concerns about a draft proposal for a "voluntary" funding contribution from water users.

We recommend the following actions as legislative next steps in an effort to improve CALFED.

Addressing the Governance Problem. We agree with the Little Hoover Commission's assessment that the diffused leadership under the current CALFED governance structure is problematic, making it difficult to manage the program and to hold anyone accountable for the program's performance. We recommend the enactment of legislation establishing a revised governance structure, and we think that the Little Hoover Commission's recommended structure is a model worthy of consideration. In particular, we think that focusing authority and responsibility for CALFED policy making and program management within the administration in a single individual with a direct line of accountability to the Governor would go a long way in addressing the problems with the current structure.

Setting Expenditure Priorities. We concur with the findings of the various program reviews that the lack of clear, specific goals and priorities to guide CALFED is stalling the program's ability to make decisions and move forward. Also, it is difficult to hold entities accountable for outcomes if the expected outcomes have themselves not been articulated. However, we think that the issue of priorities should also be considered from a budgetary perspective. Given significant uncertainty surrounding potential new funding, we think it is particularly timely for the Legislature set *expenditure* priorities for the program. As discussed previously, these priorities are necessary to guide actions to align the program's expenditures with available resources. The statement of these priorities could be contained in policy legislation that would guide future funding allocations for CALFED.

Establishing Performance Measures Tied to Budget Process. We think the state benefits when statute specifies a small, select group of performance measures and expected outcomes from a program. Accordingly, the Legislature should consider establishing such measures for CALFED. We think that CALFED naturally lends itself to performance measures that are both meaningful and measurable. For example, we would include a measure of the extent to which CALFED expenditures have improved water quality and the level of flood protection on this list.

We note that the Little Hoover Commission recommended that the Legislature create an incentive for performance measures by limiting state funding and expenditure authority for CALFED to programs with performance measures. We recommend making the link with the budget much stronger. Specifically, we recommend that the legislation establishing performance measures also require that any CALFED budget proposal submitted to the Legislature detail how the budget change would impact performance measures.

Approving a Financing Framework. As we discussed in *The 2005-06 Budget: Perspectives and Issues* (see page 240), we recommend the enactment of legislation that adopts the beneficiary pays principle for funding CALFED and provides specific guidance regarding its application. As discussed, this recommendation was adopted in SB 113 (Machado), introduced last session. As we mentioned last year, if this funding principle is not defined, there is a substantial risk that stakeholder gridlock would result when CALFED attempts to apply it on its own. This risk is more evident than ever today, given that a number of years have passed since the Legislature first directed the administration to develop a CALFED user fee proposal for its consideration.

Finally, we have particular concern with a proposal for water user contributions contained in CBDA's draft ten-year action plan that is under consideration by the Governor. The proposal involves CALFED agencies negotiating agreements with water users who would voluntarily contribute monies to CALFED based on their perception of the benefits that they receive from the program. We do not think that this "behind closed doors" approach is a good way of making policy related to CALFED financing. Additionally, the proposal appears more in line with a "willingness to pay," as opposed to a true beneficiary pays, funding principle as previously articulated by the Legislature.

RESOURCES BONDS

The state uses a number of bond funds to support the departments, conservancies, boards, and programs under the Resources and California Environmental Protection Agencies that regulate and manage the state's natural resources. Of the $4.6 billion in state-funded expenditures for resources and environmental protection programs proposed for 2006-07, about $500 million (10 percent) is proposed to come from bond funds. This amount is about $1.7 billion less than estimated bond expenditures in the current year, reflecting a decrease in available bond funds. Although not reflected in the Governor's budget expenditure proposal, the Governor has proposed a number of new resources-related bonds as part of his ten-year Strategic Growth Plan. In the sections that follow, we provide a status report on the fund condition of various existing resources bond funds, describe the Governor's proposal for new bonds, and discuss issues for legislative consideration as the Legislature evaluates proposals for new bonds.

RESOURCES BOND FUND CONDITIONS

The budget proposes expenditures in 2006-07 of $496 million from the five resources bonds approved by the voters since 1996. The proposed expenditures would leave a balance of about $950 million for new projects beyond the budget year. Essentially all bond funds for park projects have been appropriated, with the funds remaining being mainly for water projects, land acquisition and restoration, and the CALFED Bay-Delta Program.

As Figure 1 (see next page) shows, the budget proposes expenditures totaling $496 million in 2006-07 from five resources bonds approved by the voters between 1996 and 2002. These bonds include Proposition 204 approved in 1996, Propositions 12 and 13 approved in 2000, and Propositions 40 and 50 approved in 2002. While Propositions 204 and 13 are generally referred to as water bonds, and Proposition 12 as a park bond, Propositions 40 and 50 are more accurately described as resources bonds, since they provide funding for a mix of water, park, and land acquisition and restoration purposes.

Figure 1

Resources Bond Fund Conditions By Bond Measure

2006-07 (In Millions)

	Total Authorization In Bond	Resources Available	Proposed Expenditures	Balances
Proposition 204[a]	$995	$250	$3	$274
Proposition 12[b]	2,100	52	33	19
Proposition 13[c]	1,970	423	95	328
Proposition 40[d]	2,600	49	43	6
Proposition 50[e]	3,440	675	322	353
Totals	**$11,105**	**$1,449**	**$496**	**$953**

a Safe, Clean, Reliable Water Supply Fund, 1996.
b Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund, 2000.
c Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Fund, 2000.
d California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund, 2002.
e Water Security, Clean Drinking Water, Coastal and Beach Protection Fund, 2002.

As shown in Figure 1, most of the bond funds from Propositions 12 and 40 will have been appropriated at the end of the budget year. The budget projects a balance remaining of about $950 million from the five bonds for new projects beyond the budget year.

Figure 2 shows proposed expenditures and remaining fund balances in the five resources bonds, broken down by broad program category. We discuss each of these program categories in further detail below.

Parks and Recreation. Propositions 12 and 40 together allocated about $2.3 billion for state and local park projects and for historical and cultural resources preservation. The budget proposes expenditures of $23 million for these purposes in 2006-07, essentially leaving no balance for new projects.

Water Quality. Propositions 204, 13, 40, and 50 together allocated about $2 billion for various water quality purposes. These include funding for wastewater treatment, watershed protection, clean beaches, and safe drinking water infrastructure upgrades. The budget proposes expenditures of $136 million for these purposes in 2006-07, with a balance of $205 million remaining for new projects.

Figure 2

Resources Bond Fund Conditions[a] By Programmatic Area

2006-07
(In Millions)

	Resources Available	Proposed Expenditures	Balances
Parks and Recreation	$25	$23	$2
State parks	(16)	(16)	(—)
Local parks	(5)	(5)	(—)
Historical and cultural resources	(4)	(2)	(2)
Water quality	341	136	205
Water management	384	71	313
Land acquisition and restoration	226	138	88
CALFED Bay-Delta Program	473	128	345
Air quality	—	—	—
Totals	**$1,449**	**$496**	**$953**

[a] Includes Propositions 204, 12, 13, 40, and 50.

Water Management. Propositions 204, 13, and 50 together allocated about $1.7 billion for various water management purposes, including water supply, flood control, desalination, water recycling, water conservation, and water system security. The budget proposes expenditures of $71 million for these purposes in 2006-07 leaving a balance of $313 million remaining for new projects.

Land Acquisition and Restoration. Propositions 204, 12, 40, and 50 together allocated about $3.2 billion for a broad array of land acquisition and restoration projects. These allocations include funding to the several state conservancies and the Wildlife Conservation Board, as well as for ecosystem restoration, agricultural land preservation, urban forestry, and river parkway programs. The budget proposes expenditures of $138 million for these purposes in the budget year, with a balance of $88 million remaining for new projects.

CALFED Bay-Delta Program. The CALFED Bay-Delta Program is a consortium of over 20 state and federal agencies that was created to address a number of interrelated water problems in the state's Bay-Delta region. These problems relate to water quality, water supply, fish and wildlife habitat, and flood protection. Although each of the five bond measures allocated funds that were used for purposes that are consistent with the

CALFED Bay-Delta Program's objectives and work plan, only Propositions 204, 13, and 50 allocated funds explicitly for this program. From these specific allocations, the budget proposes expenditures of $128 million in 2006-07, leaving a balance of $345 million.

Air Quality. Finally, Proposition 40 allocated $50 million for grants to reduce air emissions from diesel-fueled equipment operating within state and local parks. This allocation has been depleted.

Over $9 Billion in New Resources-Related Bonds Proposed

As part of his Strategic Growth Plan, the Governor proposes new bonds, to be placed before the voters in 2006 and 2010, that would provide a total of $9.4 billion for various resources-related purposes. Of this total, $9 billion is for flood protection and water management projects and programs that would be funded in two proposed water bond measures. The balance of resources bond funds is contained in other bond measures, including $216 billion for state park improvements and $215 million for the repair or replacement of emergency response facilities of the California Department of Forestry and Fire Protection.

Proposed New Resources Bonds. As part of his ten-year Strategic Growth Plan, the Governor proposes two bond measures (to be placed before the voters in 2006 and 2010, respectively), from which all of the funds would be used for resources purposes. These bond measures—totaling $9 billion—would be used to fund a variety of flood protection and water management projects and programs. Assembly Bill 1839 (Laird) and SB 1166 (Aanestad) contain these bond measures. The allocation of the $9 billion among projects and programs to be funded by these measures is summarized in Figure 3.

Resources-Related Components of Other Proposed Bonds. In addition to the $9 billion of resources bonds discussed above, the Governor proposes other new bonds, components of which would be for resources-related purposes. These components include:

- ***State Park Capital Improvements—$216 Million.*** As part of the Governor's proposed 2006 critical infrastructure facility (including courts) bond, $216 million is for state park capital improvements, including improvements to sewage systems and other water quality infrastructure. Assembly Bill 1831 (Jones) and SB 1163 (Ackerman) contain this bond.

Figure 3

Governor's Proposed Flood/Water Bonds— Allocation of Funds

(In Millions)

	Bond Acts	
	2006	**2010**
Flood Control		
Repair of levees in state system	$210	$300
Improvements/additions to levees in state system	200	200
Delta levees	210	700
State share of locally sponsored, federally authorized flood control projects	250	200
Floodplain mapping	90	—
Floodway corridor development within state system	40	100
Flood control subtotals	($1,000)	($1,500)
Water Management		
Integrated regional water management grants	$1,000	$2,000
Water quality improvements	250	500
Water storage	250	1,000
Science and technology	300	500
Resource stewardship and ecosystem restoration	200	500
Water management subtotals	($2,000)	($4,500)
Totals	**$3,000**	**$6,000**

- ***Firefighting Emergency Response Facility Improvements—$215 Million.*** As part of the Governor's proposed 2006 public safety bond, $215 million is for the replacement or relocation of facilities that support the emergency fire response activities of the California Department of Forestry and Fire Protection. Assembly Bill 1833 (Arambula) contains this bond.

BOND ISSUES FOR LEGISLATIVE CONSIDERATION

We discuss below issues for legislative consideration when evaluating the Governor's, as well as other, proposals for new resources bonds.

Retaining Legislative Oversight of Bond Expenditures

The Legislature's oversight of bond expenditures is substantially weakened if bond funds are "continuously appropriated" and thus outside of the budget process. Unless there is a well-justified programmatic reason for doing so, we recommend that the expenditure of bond funds be subject to legislative appropriation in the annual budget act.

Continuous Appropriations Versus Budget Act Appropriations. When bond funds are continuously appropriated, the Legislature loses much of its ability to oversee bond fund expenditures, as this oversight is generally exercised in its review and approval of the annual budget. Without its oversight role in the budget process, it becomes difficult for the Legislature to ensure that the bond funds are proposed to be spent consistent with both the bond measure and legislative priorities.

As a general rule, we recommend that bond funds be appropriated by the Legislature in order to retain effective legislative oversight over bond expenditures. However, in a limited set of circumstances, a continuous appropriations authority may be appropriate. These circumstances would include cases where the bond measure itself is relatively specific as to how bond funds are to be spent, such that little policy discretion is left to the administering agency.

We note that the Governor's flood protection and water management bond measures, as initially proposed, include a large amount of bond funds that are subject to continuous appropriations. Of particular concern is that most of the continuous appropriations authority is provided to new programs for which funding eligibility guidelines and administrative processes will need to be put in place and major policy decisions would be made solely by the administration. These are the very circumstances in which it would be important for the Legislature to retain its oversight of bond expenditures in the budget process.

Funding Eligibility of Private Entities

The question of whether private entities should be eligible to receive bond funds raises several legal, tax, and policy issues for legislative consideration. We recommend that the Legislature explicitly declare its policy position on this matter in any future resources bond measure.

Past Bond Measures Vary on Funding Eligibility of Private Entities, and Are Sometimes Silent. Most prior resources bond measures have explicitly restricted grant and loan funds to public agencies and nonprofit organizations. A notable exception to this is the Proposition 50 resources bond, approved by the voters in 2002, that is in most cases silent on the issue of public versus private eligibility. Rather, that measure typically provides funds for "water systems" or "water projects," without making a distinction between public and private ownership. In contrast, the Governor's proposed bonds explicitly provide that private investor-owned utilities and incorporated mutual water companies are eligible to receive water management grant funding from the bonds.

Legal, Tax, and Policy Issues. As we discussed in a prior report, the issue of whether private entities are eligible to receive bond funds raises several legal, tax, and policy issues. (Please see our report, *Proposition 50 Resources Bond: Funding Eligibility of Private Water Companies* [May 2004]). As we discuss in our report, the legal and tax-related issues appear not to present significant barriers to allowing the allocation of grant and loan funds to private companies, provided a bond measure does not explicitly preclude such eligibility. Accordingly, the major issue for legislative consideration is a policy one. In addressing this issue in the context of a proposed bond measure, we think that the Legislature should ask whether excluding private companies from funding eligibility furthers or constrains the intended public purpose of the bond measure. For example, one of the stated public purposes of the Governor's proposed water bonds is to provide a safe and clean water supply to meet the needs of all of the state's residents and businesses. To this end, the bonds allocate funds for safe drinking water infrastructure upgrades. Since roughly one-quarter of Californians receive their water from privately owned water systems, the inclusion of private companies as eligible recipients of the bond funds for safe drinking water (as proposed by the Governor) would further one of the public purposes of the bonds. At the same time, however, it would provide a public subsidy to a private enterprise, which earns profits from its business activities. We note, however, that the California Public Utilities Commission has established rules that would prevent the benefit of state funded grants to private companies from being passed on to company shareholders in the form of higher profits.

Legislature Should Declare Its Policy Position. We think that there is a benefit from having a state policy on the issue of allocating bond funds to private companies and that this policy should be guided by legislative direction. Accordingly, we recommend that the Legislature evaluate this policy and explicitly declare its position on the matter in any future bond measure.

Ensuring Administrative Costs Are Reasonable

The Legislature can taken action to ensure administrative costs to implement bond programs are kept to a reasonable level by providing parameters for administrative costs in the bond measure.

Use of Bond Funds for Program Administrative Costs. Generally, program administrative costs related to bond-funded programs are for general administrative purposes, such as accounting and processing grant applications. These costs include staff salaries, benefits, equipment, and other operating expenses. To the extent that various administrative costs are charged to bond proceeds, there will be less bond funding available for specific projects and programs.

When prior bond measures have addressed the issue of administrative costs, it has generally been in the context of grant programs and property acquisitions. In such cases, the bond measure places a cap on administrative costs, typically 5 percent of the appropriation for grant programs or the purchase price of individual property acquisition projects. However, the most recent resources bonds—Propositions 40 and 50—do not provide any parameters for administrative costs beyond providing that they must be paid from the bond proceeds. Similarly, the Governor's flood protection and water management bonds, as proposed, do not provide any limits on bond-funded administrative costs.

Recommend Legislative Definition and Oversight of Administrative Costs Charged to Bonds. Given the potentially substantial impact of program administrative costs on the amount of bond funds available for projects, we think it is important that the Legislature exercise effective oversight of these costs. In order to do this, we recommend that any future bond measure provide a reasonable limit on, and definition of, administrative costs funded from bond proceeds. As recommended in our report, *Enhancing Implementation and Oversight: Proposition 40 Resources Bond* (May 7, 2002), we think that a cap of up to 5 percent of appropriations for grant programs is reasonable.

Coordinating Bond Measures With Existing Programs

In the interest of program effectiveness and efficiency, funding allocated under bond measures should be coordinated with existing programs to the extent possible.

Need to Fit Bond Programs Within Existing Programs With Similar Purposes. Finally, we think that it is important that in cases where a bond measure allocates funds for a programmatic purpose that is being already carried out by another existing program, the bond measure should explicitly address how the programs will be consolidated or at least coordinated.

To the extent that a bond program can fit within an existing program that has already paid its "start-up costs," as opposed to creating a brand new administrative infrastructure to spend the bond proceeds, there are opportunities for efficiencies. Additionally, if the bond measure does not address this issue, programs with similar goals could find themselves working at cross purposes, thereby impeding program effectiveness.

In analyzing the Governor's bond proposals, we found a number of cases where it was unclear how programs funded by the bonds fit within existing programs with similar purposes. As one example, the Governor's proposed flood protection and water management bond provides substantial funding to the Department of Water Resources (DWR) for the purpose of ecosystem restoration. Not only is ecosystem restoration mainly the responsibility of other departments (most notably, the Department of Fish and Game), there is no mention in the bond proposal of how the bond expenditures for this purpose would be coordinated with those of other departments. If the Legislature decides to provide funding for ecosystem restoration, we would recommend deleting the funding allocation to DWR and instead providing it to the appropriate department(s) responsible for this program area.

GOVERNOR'S CLIMATE CHANGE INITIATIVE

The budget proposes funding across several state agencies to begin implementation of the Governor's Climate Change Initiative, which focuses on reducing greenhouse gas (GHG) emissions. In this analysis, we describe the Governor's proposal, consider the state's existing GHG reduction efforts, and make recommendations to assist the Legislature in evaluating the policy choices inherent in the Governor's proposal.

Governor's GHG Reduction Targets

In June 2005, the Governor issued an executive order that established ambitious greenhouse gas emission reduction targets for the state. In response, a multiagency Climate Action Team was formed to develop strategies to meet the Governor's targets. The budget proposes $7.2 million and 23.4 positions across several state agencies to begin implementation of Climate Action Team recommendations.

California's Emissions of GHGs. Greenhouse gases trap solar heat within the earth's atmosphere, thereby warming the earth's temperature. While both natural phenomenon (mainly water evaporation) and human activities (such as the burning of fossil fuels) produce GHGs, increasing concern has been placed on concentrations of GHGs resulting from human activities and their relation to the increase in mean global temperatures over the past century.

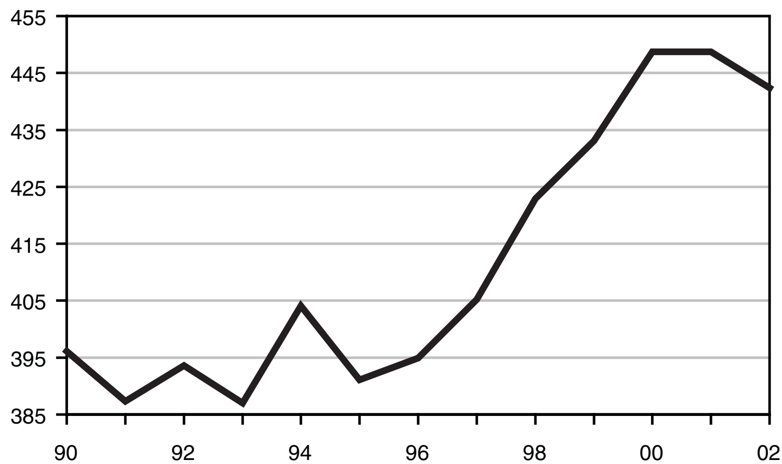
On a per-person basis, California emits fewer GHGs than most other states. Nonetheless, California, as a populous state, is a significant emitter of GHGs. For example, the state is the second largest emitter of GHGs in the United States and one of the largest emitters of GHGs in the world, when compared to other countries' emissions. While many human activities contribute to California's GHG emissions, the largest sources in recent years, in order of magnitude by sector, have been transportation, industry (including industrial burning of coal and petroleum, cement and lime production, and mineral extraction), electricity production, agriculture, and forestry. Figure 1 shows estimates by the California Energy Commission, based on federal data, of California's annual human-produced GHG emissions since

1990. (Data are not readily available prior to this period.) From our review of commission reports, it appears that the acceleration in the amount of GHG emissions since 1995, as shown in Figure 1, is largely attributable to an increase in economic activity in the state during that period.

Figure 1

California's Annual Greenhouse Gas Emissions[a]

Millions of Metric Tons



[a]Source: California Energy Commission, based on federal data.

Governor's Executive Order. On June 1, 2005, the Governor issued an executive order that established the following GHG reduction targets for the state, as a guide for state action to address the economic, social, and health impacts of global warming:

- By 2010—Reduce GHG emissions to year 2000 levels.
- By 2020—Reduce GHG emissions to year 1990 levels.
- By 2050—Reduce GHG emissions to 80 percent below year 1990 levels.

In response to the executive order, the Secretary for Environmental Protection formed the Climate Action Team (CAT) made up of representatives of the state's environmental protection, agricultural, transportation, housing, and utility agencies. The CAT then developed strategies in support of the order, which it published in December 2005 as a draft report to the Governor and the Legislature. The draft CAT report recommended four actions “essential” to meeting the Governor’s GHG emission reduction goals: (1) require climate change emissions reporting from all emitters of GHGs, starting with the largest emitters (such as electricity generators and cement producers); (2) levy fees on gasoline and diesel sales to reduce demand for these fuels and to fund promotion of alternative, cleaner fuels; (3) coordinate state investment funds, such as public pension systems and the Public Interest Energy Research fund, to reward industry development of emission reduction technologies; and (4) encourage companies to take early action to reduce their climate change emissions in anticipation of subsequent state, federal, or international emissions reduction programs.

Budget Proposal. The budget proposes funding for the Governor’s Climate Change Initiative, a collection of strategies intended to begin implementation of CAT recommendations and the GHG reduction targets identified in the executive order. The budget proposes $7.2 million ($135,000 General Fund, $7 million various special funds) and 23.4 positions across a number of agencies in support of the Climate Change Initiative. Figure 2 lists those agencies included in the Climate Change Initiative, as well as the funding proposed for each agency and the specific strategies assigned to them.

Efforts Underway to Curb GHG Emissions

Many efforts are currently underway to reduce California’s emissions of greenhouse gases, several of which were initiated by the Legislature.

As the draft CAT report notes, there are numerous strategies currently being implemented in the state to address GHG emissions. In many cases, these existing strategies are the result of legislative action. The Legislature declared GHG reduction a policy priority when it enacted Chapter 769, Statutes of 2001 (SB 527, Sher), which declared it to be “in the best interest of the State … to encourage voluntary actions to achieve all economically beneficial reductions of greenhouse gas emissions from California sources.” Figure 3 (see page 42) highlights a number of the state’s existing GHG emission reduction strategies, both voluntary and mandatory, as well as applicable enabling legislation.

The Governor’s Climate Change Initiative contains a number of proposals that are conceptually consistent with legislative policy direction on particular strategies to reduce GHG emissions. For example, a number of strategies included in the budget proposal have been approved by the Legislature: promoting use of cleaner, alternative fuels; regulating emissions from motor vehicles; offering incentives to clean air technology developers; inventorying GHG emissions by source; attaining renewable energy portfolio standards; and setting energy efficiency standards.

Figure 2

Governor's Climate Change Initiative

Air Resources Board—$5.2 Million/14.8 Positions

Regulatory Control Measures. Develop regulatory control measures to encourage use of biofuels and refrigeration technologies; and to reduce or eliminate emissions from the semiconductor industry, stockyards, diesel engines used at ports, and light- and heavy-duty vehicles.

Economic Analysis. Evaluate the economic effects of greenhouse gas (GHG) emission reduction strategies.

Climate Change Research. Identify links between air quality and climate change.

Incentives. Expand the Innovative Clean Air Technologies grant program to include technologies to reduce GHG emissions.

Secretary of Environmental Protection—$900,000/1.9 Positions

Coordinate Efforts; Foster Crosscutting Research. Coordinate statewide efforts to meet the Governor's GHG reduction targets; contract for crosscutting research and public outreach.

Energy Commission—$612,000/3.8 Positions

Evaluate Potential GHG Reductions. Evaluate and verify potential GHG reductions for electricity generation and from other key industries.

GHG Emission Inventory. Update and improve methods and data of the existing statewide GHG inventory.

Economic Research. Design and develop research projects relating to the economics of climate change.

Public Utilities Commission—12 Positions[a]

Renewables Portfolio Standard. Plan for an acceleration of the Renewables Portfolio Standard from the current goal of 20 percent renewable energy by 2017 to: 20 percent by 2010, and 33 percent by 2020.

California Solar Initiative. Add 3,000 megawatts of solar energy by 2017.

Energy Efficiency. Expand utility energy efficiency programs and increase energy efficiency in state buildings; develop and implement a program to support combined generation of heat and electricity in industrial settings.

Policy Development. Analyze carbon policy options for the electricity generation industry.

Integrated Waste Management Board—$466,000/2.9 Positions

Methane Conversion. Increase capture of methane emitted from landfills for use as an alternative fuel.

[a] Redirected positions within the commission.

Figure 3

Selected Existing Greenhouse Gas Emission Reduction Strategies

Agency	Enabling Legislation
Secretary for Resources	
• ***California Climate Action Registry.*** Register voluntary reporting of greenhouse gas (GHG) emissions to establish baselines against which future GHG emission reduction requirements may be applied.	Chapter 1018, Statutes of 2000 (SB 1771, Sher); Amended by Chapter 769, Statutes of 2001 (SB 527, Sher)
Air Resources Board	
• ***GHG Vehicle Emission Standards.*** Require board to regulate GHG emitted by passenger vehicles and light-duty trucks to achieve maximum feasible reductions.	Chapter 200, Statutes of 2002 (AB 1493, Pavley)
• ***Anti-Idling.*** Require board to develop regulations to prevent diesel truck engine idling at ports.	Chapter 1129, Statutes of 2002 (AB 2650, Lowenthal)
Public Utilities Commission	
• ***Renewables Portfolio Standard.*** Require the state's retail sellers of electricity to achieve at least 20 percent of energy sales from renewable sources.	Chapter 516, Statutes of 2002 (SB 1078, Sher)
• ***California Solar Initiative.*** Provide financial incentives to encourage residential and commercial installation of solar energy technology.	
• ***Investor-Owned Utility Energy Efficiency Programs.*** Establishes energy-savings targets for investor-owned utility energy efficiency programs.	
Energy Commission	
• ***Energy Efficiency Standards.*** Issue standards that reduce the energy demands in buildings and household appliances.	Chapter 329, Statutes of 2000 (AB 970, Ducheny)
• ***Tire Replacement and Inflation.*** Ensure that replacement tires sold in the state are at least as energy efficient as the originals, and encourage energy-efficient inflation.	Chapter 654, Statutes of 2003 (AB 844, Nation)
• ***Alternative Fuels.*** Develop and adopt by June 30, 2007, a state plan to increase the use of alternative transportation fuels that, among other things, reduce the emission of GHGs.	Chapter 371, Statutes of 2005 (AB 1007, Pavley)
State Consumer Services/Cal-EPA	
• ***Green Buildings Initiative.*** Site, design, construct, renovate, operate, and maintain state buildings that are models of energy efficiency.	

Despite this level of conceptual consistency, the Governor's initiative differs in some respects from legislative direction in terms of the specifics of how a strategy is to be implemented. For example, in some instances, the Governor's proposal expands an existing GHG reduction program beyond the parameters set by the Legislature. Such is the case with the Governor's proposal to extend to heavy-duty vehicles the GHG emission reduction methods applied under current law only to light-duty vehicles. Also, the Governor's initiative would accelerate the statutory timeline for the renewable energy portfolio standard. As another example, the Governor's initiative proposes to expand the use of biofuels through regulatory control measures, though the Legislature has authorized only the development of a plan to encourage use of such fuels and has not specified a regulatory role.

Legislature Needs to Set Overall Policy Direction

There are a number of major policy choices inherent in the Governor's Climate Change Initiative that should be evaluated by the Legislature. These include setting greenhouse gas emission reduction targets, setting implementation priorities, balancing regulatory and voluntary strategies, and determining state versus local responsibilities. It is also important to ensure that efforts among state agencies are coordinated to prevent duplication and unnecessary costs. We recommend that the Legislature provide its direction for an overall climate change policy for the state in statute.

Despite similarities between legislatively endorsed GHG-reduction strategies and those proposed in the Governor's budget, the Governor's Climate Change Initiative raises a number of major issues for legislative consideration. We discuss below a number of the significant policy choices inherent in the Governor's proposal that we think particularly merit legislative review.

GHG Emission Reduction Targets. Under the Governor's proposal, the GHG emission reduction targets will drive the development, organization, implementation, and evaluation of the state's GHG reduction efforts. Accordingly, there are major policy and fiscal impacts from adopting the targets. The Legislature therefore should evaluate the Governor's proposed GHG reduction targets—reduction of GHG emissions to year 2000 levels by 2010, to year 1990 levels by 2020, and to 80 percent below year 1990 levels by 2050. For example, the Legislature should clarify the basis for the targets, ask whether the targets are too ambitious to be achieved or too low to make a difference, and determine whether the targets strike an appropriate balance between GHG reduction and the Legislature's other policy priorities. How does the administration assess the costs and benefits of its target levels? There is much precedent for the Legislature setting goal-based targets in statute for the implementation of its policies. For example, the Legislature set a target of 50 percent of waste being diverted from landfills by the year 2000. Similarly, the Legislature has set targets for the amount of energy consumed from renewable sources by set dates. The Legislature should consider placing GHG reduction targets in statute, following its evaluation of the issue.

Setting Priorities for Implementation. As mentioned previously, the draft CAT report identifies four actions it considers essential to meeting the Governor's GHG reduction targets. As with the setting of GHG reduction targets, the identification of priority actions will drive California's climate change policy. The Legislature should determine whether the Governor's priorities are consistent with its own priorities.

Balancing Regulatory and Voluntary Strategies. The Governor's budget proposes development and eventual implementation of a mix of regulatory and voluntary measures to realize GHG reductions from numerous sources. The Legislature should evaluate the costs, effectiveness, and efficiency of applying regulatory and voluntary measures to different GHG-emitting sectors, as well as the need for additional statutory incentives or mandates. The Legislature should also consider who should pay for the implementation of these strategies, including the role of public versus private funding. We note that the Air Resources Board (ARB) in particular has a long history of using both regulatory ("command and control") measures and voluntary measures (such as incentive payments for the replacement or retrofit of older, dirty diesel engines in vehicles and equipment) to improve air quality. When evaluating proposed voluntary measures, the Legislature should be provided with evidence that such or similar measures have worked in the past to achieve their desired results and have created outcomes that justify the level of state investment.

Lead Responsibilities for GHG Reduction Program. The Governor's budget places coordination of the state's GHG-reduction efforts with the Secretary for Environmental Protection, assigning other state agencies the responsibility to carry out specific GHG-reduction activities. While we think that the choice of the Secretary for Environmental Protection as the lead, coordinating agency for the Climate Change Initiative is one option, the Legislature may want to consider alternatives. For example, it may be administratively practical to consolidate responsibility for the state's GHG-reduction efforts under the ARB, which already has primary statutory responsibility for the state's air quality and the technical expertise from administering air quality programs for many years. Additionally, ARB is allocated the bulk of the funding under the Governor's proposal.

State Versus Local Role in GHG Regulation. The ARB, along with 35 local air pollution control and air quality management districts, protects the state's air quality. Responsibility for regulation of air pollution is generally divided between state and local governments by source of the pollution: local districts regulate *stationary sources* of pollution while ARB regulates *mobile sources* of pollution. Even though stationary pollution sources, subject to the jurisdiction of local air districts, are significant contributors to GHG emissions, the role of local air districts in implementing the Climate Change Initiative is unclear. Therefore, the Legislature should consider the role, if any, the state's local air districts should play in the statewide GHG reduction efforts.

Effect of Initiative in the Context of Other State Activities Affecting GHG Emissions. The GHG reduction strategies proposed in the Governor's budget are not the only state-level activities or policy choices affecting the amount of GHGs emitted in California. First, as mentioned previously, there are numerous efforts currently underway in various environmental protection and other state departments that are designed to reduce GHG emissions. While these current efforts appear to generally align with the Governor's proposal in concept, it is not clear how the day-to-day practical implementation of the strategies in the Governor's proposal will be coordinated and/or consolidated with these existing efforts. Without such coordination or consolidation, there is a risk of duplication, administrative inefficiencies, and weakened program performance.

Second, state-level policy choices made outside of the context of GHG reduction efforts can affect GHG emissions, and this impact can be positive or negative. For example, state actions related to transportation facilities, energy production, and land use can impact the state's GHG emissions. Accordingly, in developing an overall climate change policy for the state, it will be important for the Legislature to consider the totality of the state's activities and policy choices affecting GHG emissions.

Recommend Secretary Advise Legislature on Issues Raised. In order that the Legislature may fully evaluate the GHG emission reduction strategies and policy choices inherent in the Governor's budget proposal, we recommend that the Secretary for Environmental Protection advise the policy committees charged with evaluating the set of issues that we have raised above. Specifically, the Secretary should advise the committees on:

- The feasibility and appropriateness of the Governor's GHG reduction targets.
- Selection of the administration's GHG reduction priorities, particularly the four essential actions identified by the CAT draft report.
- The relationship between Climate Change Initiative strategies and the state's existing GHG reduction activities, as well as any other state activities that may significantly impact GHG emissions, directly or indirectly, positively or negatively.

- The cost and effectiveness of mandatory versus voluntary GHG reduction measures for different emission sources.
- The policy rationale behind assigning oversight and coordination of the Climate Change Initiative to the Secretary rather than another entity, such as ARB.
- The role of local air districts in administering and enforcing the initiative.

We think that the Secretary's reporting on these issues will assist the Legislature in developing an overall climate change policy to guide state action that we recommend be put into statute.

Summary. Figure 4 summarizes the key issues and decisions we think the Legislature should consider in placing its climate change policy preferences into statute.

Figure 4

Establishing Climate Change Policy: Key Issues and Decision Steps for the Legislature

Goals

- Establish performance targets in terms of greenhouse gas (GHG) emissions reductions.

Implementation Actions

- Determine what actions should take priority, considering the costs and the impact of the actions on GHG emissions reductions.
- Set time frame for achieving goals.

Tools

- Determine appropriate mix of regulatory and voluntary strategies.
- Compare cost-effectiveness, and efficiency of the strategies.
- Consider who should pay to implement strategies—including the role of public versus private funding.

Oversight and Operation

- Decide which agency will oversee the state's GHG reduction programs.
- Determine the appropriate role of, and relationship between, state and local agencies.
- Consider how the state's GHG reduction efforts will be coordinated and how they will interact with the state's other programs and activities.

DEPARTMENTAL ISSUES

Resources

DEPARTMENT OF CONSERVATION (3480)

The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of: geology, seismology, and mineral resources; oil, gas, and geothermal resources; agricultural and open-space land; and beverage container recycling.

The department proposes expenditures totaling $885.2 million in 2006-07, which represents a decrease of $1.7 million, or less than 1 percent, below estimated current-year expenditures. About 94 percent of the department's proposed expenditures ($827.3 million) represent costs associated with the Beverage Container Recycling Program.

Addressing the Swelling Recycling Fund Balance

California consumers recycle less than three-quarters of the redeemable beverage containers they purchase each year, with the result that the balance in the Beverage Container Recycling Fund continues to swell. This is because California Redemption Value payments into the fund exceed payments out of the fund at current rates of recycling. We recommend that the department report on options to reduce the fund balance, both by reducing monies that flow into the fund and by increasing monies that flow out of the fund to support activities intended to improve recycling program effectiveness.

Operation of the Beverage Container Recycling Program. The DOC's Division of Recycling (DOR) administers the Beverage Container Recycling Program, commonly referred to as the Bottle Bill program. This program was created 20 years ago by Chapter 1290, Statutes of 1986 (AB 2020, Margolin). The program encourages the voluntary recycling of most beverage containers by guaranteeing a minimum payment (California Redemption Value [CRV]) for each container returned to certified recyclers. Beverages are subject to the CRV (and the flow of payments under the program, discussed below) based on the content of the container, not the container material.

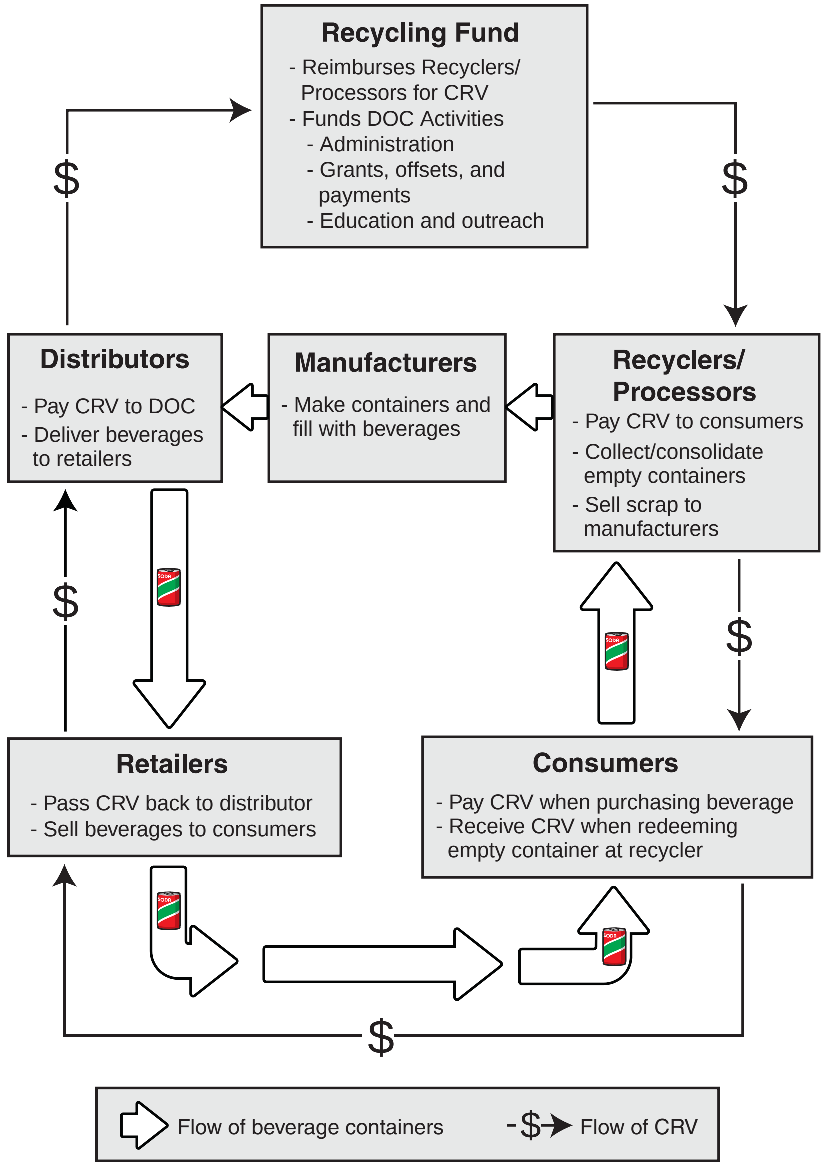
Funding for the program flows through the Beverage Container Recycling Fund (BCRF), which DOR administers. As shown in Figure 1, the program involves the flow of beverage containers and payments between several sets of parties, and generally operates as follows:

- ***Distributors and Retailers.*** For each beverage container subject to the CRV that they sell to retailers, distributors make redemption payments that are deposited into the recycling fund. The cost to distributors of the redemption payments is typically passed on to retailers.
- ***Retailers and Consumers.*** Beverage retailers sell beverages directly to consumers, collecting the CRV from consumers for each applicable beverage container sold.
- ***Consumers and Recyclers.*** Consumers redeem empty recyclable beverage containers with recyclers, from whom they recoup the cost of the CRV they paid at the time of purchase.
- ***Recyclers/Processors and Manufacturers.*** Recyclers sell the recyclable materials to processors in exchange for the scrap value of the material and for the CRV. Processors, who are reimbursed from the recycling fund for these CRV pass-throughs, then collect, sort, clean, and consolidate the recyclable materials and sell them to container manufacturers or other end users who make new bottles, cans, and other products from these materials.

In enacting the Bottle Bill, the Legislature sought to make redemption and recycling convenient, thereby encouraging litter abatement and beverage container recycling. The Legislature set a statutory recycling goal of 80 percent. When the recycling rate reaches around 80 percent, the BCRF essentially "clears" itself. That is, when consumers recycle 80 percent of purchased beverage containers subject to the CRV, all money paid into the fund by beverage container distributors is paid out either in reimbursements to beverage container recycling processors or to cover administrative and programmatic costs (including grants and

Figure 1

Operation and Funding of the Beverage Container Recycling Program



public education). In other words, up to around an 80 percent recycling rate, the Beverage Container Recycling Program is totally self-financing. However, over the 20-year history of the program, the recycling rate has rarely reached 80 percent. For example, in 2004—the last year for which actual data are available—the recycling rate was 59 percent. As a result, a significant portion of the monies paid into the BCRF has remained in the fund. Given the available balances, the Legislature approved loans from the BCRF to the General Fund totaling $286.3 million to help cover a General Fund budget shortfall in 2002-03 and 2003-04. The amount of these loans plus interest—an estimated $320 million—is to be repaid to the BCRF in 2008-09. Were these loans not made, the actual fund balance would be even higher than it is today.

Below-Target Recycling Rates, Increasing CRV, and a Swelling Fund Balance. Since the inception of the Bottle Bill program, the *volume* of beverage containers recycled in the state has grown. However, as new beverages—such as noncarbonated water primarily sold in plastic bottles—have become subject to the CRV, the *rate* of recycling has, in many years, declined and remained consistently below statutory targets. And, as shown in Figure 2, as recycling rates have declined or remained below 80 percent, the balance remaining in the fund generally has grown. Recent legislation—Chapter 753, Statutes of 2003 (AB 28, Jackson)—sought to improve the rate of recycling by increasing the CRV from 2.5 cents to 4 cents for containers less than 24 ounces, and from 5 cents to 8 cents for containers 24 ounces or larger. Since the increased CRV took effect on January 1, 2004, recycling rates have remained well below 80 percent, resulting in a BCRF fund balance that continues to grow.

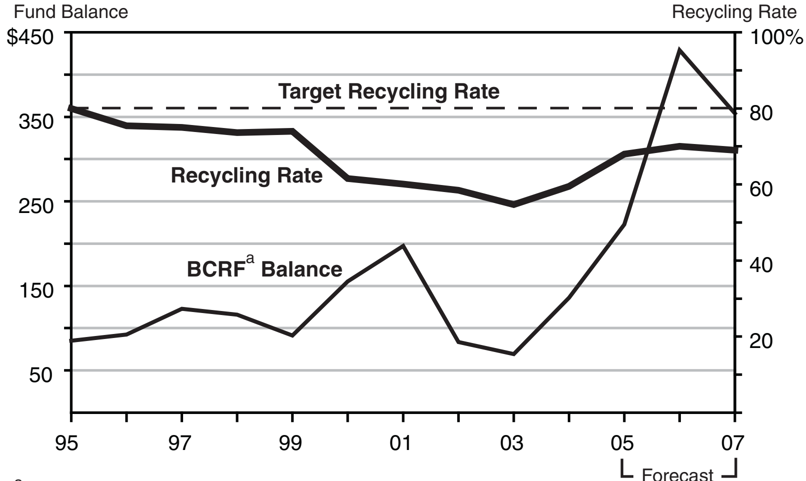
Chapter 753 anticipates the potential persistence of less-than-desirable recycling rates. The statute provides that if the recycling rate is below 75 percent during the 2006 calendar year or any calendar year thereafter, then the CRV will increase from 4 cents and 8 cents to 5 cents and 10 cents, respectively. The legislative intent behind this adjustment is that the higher CRV will spur consumers to recycle more beverage containers. The department is reluctant to project recycling rates. However, to the extent recycling rates remain below 80 percent, the BCRF balances will grow even larger should the higher CRV take effect.

The Governor's Budget Proposal. The budget proposes spending approximately $827 million on the Bottle Bill program in 2006-07. Of that amount, a projected $600 million (73 percent) is for CRV payments to processors and $36 million (4 percent) is for program administration. The balance of the program's expenditures is for various activities intended to support and promote recycling in California, including:

Figure 2

Beverage Container Recycling Program: High Fund Balances and Below-Target Recycling

(Dollars in Millions)



[a]Beverage Container Recycling Fund.

- Payments to qualified recycling center operators in designated Convenience Zones—areas generally located within one-half mile of a supermarket ($27 million).
- Grants to local conservation corps and community organizations and nonprofits that encourage litter abatement and recycling ($16 million).
- Supplemental payments to curbside recyclers ($15 million).
- Grants to cities and counties for litter abatement and recycling activities ($11 million).
- Infrastructure loan guarantees ($10 million).
- Grants to encourage new and expanded end-uses for aluminum, glass, and plastic beverage containers ($10 million).
- Consumer education and outreach ($6.5 million).
- Incentive payments to suppliers of clean, quality glass for recycling ($3 million).

Options to Address Swelling Fund Balance. The persistent balance in the BCRF presents the Legislature with challenges and opportunities.

As it appears optimistic to expect recycling rates to reach or remain at the statutory goal of 80 percent in the near term, it is likely that BCRF balances will remain at high levels for several years to come, absent corrective action. While the Legislature can reduce the recycling fund balance overtime simply by decreasing the money coming in to the fund or by increasing the money flowing out of it, we think that it should, in general, be guided by actions that encourage consumers to recycle more than they do today. In Figure 3, we list a number of actions that could be taken with the goal of increasing the rate of recycling, which would serve to bring down the fund balance to more reasonable levels.

In addition to the actions listed in Figure 3, which are mostly on the expenditure side of the ledger, the Legislature could take actions to gradually draw down the BCRF balance by reducing the flow of revenues into the fund. One such action would be to suspend, either partially or in full, payments made by beverage container distributors into the fund, until fund balances reach a more desirable level. Given the state's long-term fiscal condition, as discussed in "Part I" of our companion volume (*The 2006-07 Budget: Perspectives and Issues*) and the size of the BCRF balance, the Legislature may also want to consider extending the repayment period for the monies loaned to the General Fund from the BCRF in 2002-03 and 2003-04. (The current statutory repayment date is 2008-09.) These actions, however, would not assist the program in meeting its recycling target.

Recommend Department Report on Options to Address Fund Balance Issue. Many of the options available to potentially address very large BCRF balances involve policy choices that should be evaluated by the Legislature prior to implementation. To assist the Legislature in such an evaluation, we recommend that the Legislature adopt the following supplemental report language requiring the department to report on options available to address the BCRF fund balance:

> Item 3480-001-0133. *Beverage Container Recycling Program.* The Department of Conservation shall submit a report to the Legislature by January 10, 2007, that includes the following information:
>
> 1. A history of revenues, expenditures, and balances of the Beverage Container Recycling Fund (BCRF) since its inception, and an estimate/projection of such information for 2006-07 and the subsequent two fiscal years.
>
> 2. A history of beverage container recycling rates, and an estimate/projection of such rates for 2006 and the subsequent two years.
>
> 3. Identification and assessment of the costs and effectiveness of options to decrease the residual balance in the BCRF. Options to be evaluated should include those intended to increase the rate of recycling through targeted program augmentations as well as options impacting the flow of revenues into the fund.

Figure 3

Options to Lower Recycling Fund Balance By Increasing Rate of Recycling

- ✓ ***Increase the California Redemption Value (CRV) Yet Again***. In 2004, the CRV increased from 2.5 cents to 4 cents per container smaller than 24 liquid ounces, and from 5 cents to 8 cents per container larger than 24 liquid ounces. The CRV is likely to increase again in 2007 to 5 cents and 10 cents, respectively. Raising the CRV beyond 5 cents and 10 cents may induce greater consumer recycling.

- ✓ ***Expand Consumer Education Programs.*** The department's outreach and education programs, such as the *Recycle Rex* program that visits schools throughout the state, could be expanded or refocused on containers with low recycling rates, such as plastic water bottles.

- ✓ ***Increase Convenience Zone (CZ) Handling Payments, or Expand Entities Eligible for Payments.*** The department makes handling payments to encourage recycling within CZs—designated areas generally located near a supermarket. Increasing handling payments to recycling centers operating in CZs and/or increasing the number of recyclers allowed in a CZ may lead to more conveniently located recycling centers.

- ✓ ***Increase Grants to Community Organizations and Local Governments.*** The department could increase its grants to community organizations and to local governments to encourage litter abatement and recycling.

- ✓ ***Increase Market Development Grants.*** The department could increase grants it makes to support market development and expansion activities, such as improved recycling processes and end uses for recycled materials to encourage more efficient recycling and greater demand for recycled products.

- ✓ ***Increase Supplemental Payments to Curbside Recyclers.*** The department makes payments to certified curbside recyclers, based on recycling activity. Increasing these payments could further encourage curbside recycling.

FORESTRY AND FIRE PROTECTION
(3540)

The California Department of Forestry and Fire Protection (CDFFP), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. These areas of CDFFP responsibility are referred to as "state responsibility areas" (SRA). In addition, CDFFP (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

The budget requests about $1.1 billion for the department in 2006-07, including support and capital outlay expenditures. Of this total, 94 percent is for fire protection, 4 percent is for resource management, and the remainder is for State Fire Marshal activities and administration.

The total proposed budget is an increase of $164.6 million over estimated current-year expenditures. This largely reflects an increase of $121.3 million (mainly lease-revenue bonds) in capital outlay above estimated current year expenditures and $41.8 million (mainly General Fund) for employee compensation increases resulting from the 2001 Unit 8 memorandum of understanding (MOU). As in the current year, the proposed budget bill for 2006-07 authorizes the Director of Finance to augment the budget for emergency fire suppression by an amount necessary to fund these costs.

The General Fund will provide the bulk of CDFFP's funding for state operations and capital outlay—$591.3 million (about 56 percent). The remaining funding will come from reimbursements ($228.9 million), lease-revenue bonds ($119.1 million), federal funds ($29.2 million), and various other state funds. Major budget proposals include $119.1 million (lease-revenue bonds) for five new projects.

Employee Compensation Increasing Again

In the sections that follow, we discuss a number of issues related to the department's increasing employee compensation costs, largely being driven by contractual obligations to extend fire season staffing patterns to the nonfire season. We discuss a case of overbudgeting and make recommendations for the enactment of legislation to (1) ensure that additional staffing resources in the nonfire season are used to enhance the state's fire prevention activities and (2) provide the Legislature with better information on the costs and benefits of staffing patterns inherent in future contractual agreements that it is asked to approve.

Background

The budget proposes an augmentation of $38.7 million (mainly General Fund) for increases in employee compensation costs due to contractual obligations which will increase planned overtime costs.

Planned Overtime Driving Increasing Costs. As discussed in our report, *A Primer: California's Wildland Fire Protection System*, the employee compensation costs for CDFFP are increasing significantly, largely driven by increases in the compensation rate for "planned overtime" pursuant to a 2001 MOU with CDFFP firefighters (Unit 8). Planned overtime is the portion of the firefighters' *regularly* scheduled workweek for which they receive compensation at overtime rates. The number of hours in a firefighter's workweek is determined by state contract. Federal law requires that firefighters be paid at overtime rates for the portion of a workweek that exceeds 53 hours.

Currently, the scheduled workweek for most state-funded CDFFP firefighters exceeds 53 hours only during the fire season. While the length of the fire season varies across the state, it is generally for a period of six to seven months (May-November) in Northern California and nine to ten months (April-November) in Southern California. During the fire season, firefighters normally work three 24-hour shifts in a week, for a total of 72 hours. Of this total, 19 hours are therefore considered planned overtime. During the nonfire season, firefighters do not currently accrue planned overtime because they generally work a 53-hour week consisting mostly of day shifts. During this time, when wildland fire activity is low, firefighters prepare equipment for the next fire season, take vacation time, conduct fire prevention activities, and perform work on a reimbursement basis for those activities considered local government responsibilities.

Employee Compensation Projected to Increase Significantly in Budget Year. The budget proposes an augmentation of $38.7 million ($34.3 million General Fund, $4.4 million reimbursements) for increases in employee compensation costs due to contractual increases in planned overtime costs. This is the result of a provision in the 2001 Unit 8 MOU that provides that beginning the last day of the agreement (June 30, 2006), firefighters will earn planned overtime year round, instead of only during the fire season as is the current practice. As a result of this provision, the average salary (excluding benefits) for a Unit 8 employee will increase 29 percent according to the department.

Employee Compensation Costs Overbudgeted

We recommend a reduction of $2.9 million from the General Fund requested for an increase in employee compensation costs due to overbudgeting. (Reduce Item 3500-001-0001 by $2,865,000.)

Planned Overtime Costs Overbudgeted by $2.9 Million. Based upon our review of the budget's projections for planned overtime expenditures in 2006-07, we find that the projections are overstated by about $2.9 million. This is because the projections overestimate the number of employees who will be affected by the move to year round planned overtime because they do not accurately account for the changes that have already occurred in the current year. (In the current year, there has already been the transition to year round staffing in selected Southern California counties.) The department concurs with our findings. We therefore recommend a reduction in the General Fund appropriation of this overbudgeted amount, for a savings of $2.9 million.

Staffing Changes Should Support State Responsibilities

We recommend the enactment of trailer bill language to ensure that a planned extension of fire season staffing patterns to the nonfire season enhances the state's fire prevention activities.

Year Round Overtime Results in Additional Staff Resources. In addition to increasing costs, the change to year round planned overtime beginning in 2006-07 also means that during the nonfire season, most permanent Unit 8 employees will be now on a 72-hour rather than 53-hour workweek. The department indicates it will implement the year round planned overtime by adopting workweek schedules for permanent Unit 8 employees that are similar to those in the fire season—that is three, 24-hour shifts. There are a number of ways that the department could allocate its staffing during the nonfire season given the planned overtime.

How Should Additional Resources Be Used? Generally, CDFFP is responsible for wildland firefighting and local governments are responsible for life and property protection in SRA. Because wildland fires are infrequent in many parts of SRA during the nonfire season, it is not likely that extending planned overtime to the nonfire season will result in significant increases in resources being used to fight wildland fires. We believe the Legislature should take action to ensure that the additional funding requested to extend planned overtime to the nonfire season is spent consistently with the *state's* wildland firefighting and fire prevention responsibilities. The extension of planned overtime to the nonfire season could be implemented in such a way as to further the department's wildland fire protection mission, if such a staffing change provides more resources for fire prevention and fuel reduction activities in SRA. Such activities could include removing fuels, enforcement of the state's brush clearance requirements, and working with local governments on wildland fire prevention and preparedness plans. While we recognize that some fire *prevention* activities can likely be done more cost effectively by using nonfirefighting personnel, nonetheless it is appropriate that additional resources that are available to the department as a result of contractual obligations for planned overtime be at least used in support of the *state's* wildland fire responsibilities.

In order to ensure that the additional resources available in the nonfire season are used for fire prevention activities that are a state responsibility, we recommend the adoption of the following trailer bill language. This recommendation is consistent with legislative intent expressed in the *Supplemental Report of the 2005 Budget Act* that the change to year round staffing in 2005-06 in selected Southern California counties result in significant increases in fire prevention activities.

> It is the intent of the Legislature that if funding is provided in the annual budget act as a result of extending the workweek in the nonfire season from 53 to 72 hours for most classifications within Unit 8, such funding will be used to significantly increase the level of fire prevention activities that are a state responsibility. In order to assess the progress of the department's prevention efforts, the department shall expand its reporting of fire prevention efforts as specified in the *Supplemental Report of the 2005 Budget Act* to include its efforts in all state responsibility areas and provide an assessment of the additional fire prevention efforts that result specifically from expanding the workweek to 72 hours in the nonfire season on a statewide basis.

Future Compensation Agreements Merit Legislative Direction

We recommend the Legislature provide specific direction to the Department of Personnel Administration concerning the type of analysis required when considering future Unit 8 memoranda of understanding. The purpose of the direction is to ensure the Legislature gets full information on the costs and benefits of the staffing patterns inherent in future labor agreements it is asked to approve.

Costs and Impacts of Current MOU Were Not Fully Evaluated. As we discuss in the primer, at the time the Legislature approved the 2001 Unit 8 MOU, the Department of Personnel Administration (DPA) did not provide information to the Legislature on the significant costs associated with changing to a 72-hour work week year round. Consequently, the Legislature did not have the opportunity to consider whether such staffing changes are cost-effective and best serve the department's mission of wildland fire protection. In addition, according to CDFFP, previous increases in planned overtime already put in place have resulted in "salary compaction" problems. According to the department, it has been difficult to recruit for the chief officer positions from the rank and file positions because, as a result of the planned overtime compensation changes, some rank and file positions are now making more than chief officer positions.

Recommend Future Unit 8 MOUs Be Guided by Legislative Direction. In order to ensure that the Legislature is provided with complete information on the costs and benefits of future Unit 8 MOUs it is being asked to approve, we recommend the Legislature provide specific direction to DPA on the analysis required when considering future Unit 8 MOUs. Specifically, when negotiating future Unit 8 MOUs, we think that DPA, in conjunction with CDFFP, should conduct an analysis of the costs and benefits of proposed staffing patterns and compare them with the costs and benefits of alternative staffing patterns. Alternatives to be considered should include both proposals which reduce the need for planned overtime and proposals which eliminate the need for planned overtime. We recommend that the findings and conclusions of this analysis, along with a report on the outcome of the negotiations using the analysis, be submitted to the Legislature upon submission of the Unit 8 MOU for legislative approval. In addition to assisting DPA in its analysis and preparation for contract negotiations, we think such an analysis will be valuable to the Legislature in evaluating any future Unit 8 MOUs submitted for its approval. (We note that Chapter 499, Statutes of 2005 [SB 621, Speier], requires our office to provide a fiscal analysis of future MOUs prior to consideration by the Legislature.) We therefore recommend the adoption of the following trailer bill language:

> It is the policy of the state for the Department of Personnel Administration to consider the cost-effectiveness of any Unit 8 memorandum of understanding (MOU) with an effective date on or after July 1, 2006. It is the intent of the Legislature that the department, in conjunction with the California Department of Forestry and Fire Protection, analyze the costs and benefits of proposed staffing patterns and compare those with the costs and benefits of alternative staffing patterns. Alternatives to be considered should include both proposals which reduce the need for planned overtime and proposals which eliminate the need for planned overtime. A report of the department's analysis and its findings, along

with a report on the outcome of the negotiations using the analysis, shall be submitted to the Legislature upon the submission of the Unit 8 MOU for legislative approval.

PROPOSED SOLUTION TO CAPITAL OUTLAY PROJECT DELAY IS INEFFICIENT

We recommend deletion of the proposed budget bill language, and related position authority, delegating project management responsibilities for capital outlay activities to the California Department of Forestry and Fire Protection (CDFFP) because it would establish a function at CDFFP that is duplicative of the function that already exists at the Department of General Services (DGS). Further, we recommend the administration report at budget hearings on how it proposes to address the existing project delays in the department's capital outlay program in a way that is consistent with statutory policy delegating project management authority to DGS.

Current Law Designates DGS as Project Manager. Under current law, most of the department's capital outlay real estate design and management activities are done by DGS, the state agency generally responsible for managing state capital outlay projects. The DGS is designated with project management authority because it allows for economies of scale by consolidating specialized services, such as architectural and engineering services, and also provides oversight. Recent budget acts have provided CDFFP with limited authority to manage a select few projects. Using this authority, CDFFP has managed mainly a number of minor capital outlay projects (those with costs of less than $500,000), and eight major capital outlay projects over the last five years.

Capital Outlay Projects Are Consistently Behind Schedule and Over Budget. The department's capital outlay projects are consistently behind schedule and are often over budget. The department indicates these delays have occurred for a variety of reasons, including expanded review requirements for lease revenue bond financing, bids coming in over budget, project scope changes, and environmental studies dictating project changes. In addition, because DGS manages projects across state departments, statewide prioritization may contribute to a delay in CDFFP's projects.

Budget's Proposed Solution to Project Delivery Problems Raises Several Concerns. The budget proposes to address the above delays in project delivery by establishing a project management unit within CDFFP to handle project management services for a number of major capital outlay projects on an ongoing basis. Currently, the department's capital outlay staff involvement is generally limited to minor capital outlay projects (such as landscaping, water system improvements, and equipment storage buildings) and providing assistance to DGS on major capital projects.

The budget proposes to double the department's capital outlay staff from 15 positions to 30 positions over a two-year period in order to allow CDFFP to manage an additional six to eight capital outlay projects annually out of a total of about 45 projects on an ongoing basis. (The remainder of the projects would continue to be managed by DGS.) The CDFFP also notes that using existing staffing, it plans to manage three to four major capital projects on an ongoing basis. The proposed budget bill also includes language authorizing CDFFP to conduct any real estate design and project management activities associated with its capital outlay projects. Figure 1 provides a list of the different types of activities related to real estate design and project management that the department proposes to undertake.

Figure 1

California Department of Forestry and Fire Protection Real Estate Design and Project Management Activities

Planning and Design

- Development and review of preschematic documents.
- Development and review of environmental documents.
- Development, review, and administration of architectural and engineering service contracts.
- Project cost estimating.
- Development and review of preliminary plans (design documents).
- Development and review of working drawings (construction documents).

Construction

- Development, review, and administration of construction contracts.
- Coordination of designers, special consultants, contractors, and inspectors.
- Change order analysis and estimating.
- Manage project schedules, costs, and scope.
- Oversee on-site construction operations.
- Preparation of project progress reports.
- Analysis and settlement of construction claims and disputes.
- Preparation of project completion reports.

We have two primary concerns with the department's proposed solution to the delay in capital outlay projects:

- ***Inefficient to Establish New Duplicative State Function, Rather Than Fix Existing Function.*** By expanding the project management function for major capital outlay projects at CDFFP, the budget proposal does not directly address the underlying issues with project delay and instead creates potential inefficiencies. The statutory policy to consolidate project management authority in a single agency—DGS—reflects the potential efficiencies from consolidating what would otherwise be similar functions performed by multiple state agencies. Additionally, there would likely be significant "start-up" costs at CDFFP to build expertise and it would take eight to ten months, according to the department, to hire staff to perform the expanded function.
- ***Proposal Is Inconsistent With Current Statutory Policy.*** As discussed earlier, under current law, DGS is generally delegated with project management authority for state agency capital projects. This budget proposal is inconsistent with this statutory policy in that it provides for a major project management function outside of DGS. As discussed above, the budget proposal raises fundamental policy issues about the role of DGS as the delegated authority for real estate management in statute. As such, we think changes to existing statutory policy should be evaluated by the Legislature in the policy committees before approving the creation of a project management unit in CDFFP.

In addition to the concerns addressed above related to the overall policy of establishing a project management function within CDFFP, we are also concerned that the budget includes a request for a high level position, Chief of Technical Services, that is unnecessary because such a position already exists within CDFFP.

Recommend Denial of Requested Position Authority. Based on the above concerns, we recommend the Legislature deny the proposed increase in positions and delete the corresponding budget bill language. We note that funding for these positions is included as a project cost under the department's capital outlay budget. By adopting our recommendation, this funding would be used instead to reimburse DGS for project management services. Therefore, no funding reduction accompanies this action.

Recommend Administration Report at Budget Hearings. Rather than establishing a separate capital outlay program at CDFFP to address concerns with project delays, we recommend the administration report at budget hearings on a proposal to address the existing project delays for the department's capital outlay program that is consistent with current policy to delegate project management authority to DGS.

State Lands Commission (3560)

The State Lands Commission (SLC) is responsible for managing lands that the state has received from the federal government. These lands total more than four million acres and include tide and submerged lands, swamp and overflow lands, the beds of navigable waterways, and state school lands.

For 2006-07, the budget proposes $25.1 million for the support of the commission. The amount is financed from various funds, including the General Fund ($9.7 million), the Oil Spill Prevention and Administration Fund ($9.4 million), and other special funds and reimbursements ($6 million). The proposed budget is $1.5 million, or 1.5 percent, above the commission's estimated current-year expenditures. Most of this increase is to fund remediation activities at a toxic, state-owned site in Selby in Contra Costa County.

No Progress in Commission's Management of School Land Bank Fund

The School Land Bank Fund (SLBF) is projected to have a reserve of $59 million by the end of the budget year. Because the State Lands Commission over the past many years has expended almost no money from the fund, we recommend the adoption of trailer bill language transferring the fund balance and any subsequent proceeds from land sales to the Teachers' Retirement Fund for management and investment by the State Teacher's Retirement System, the original intended beneficiary of SLBF investments.

The School Land Bank Fund. The SLC manages lands that were given to the state by the federal government in order to help support public education. Some of these lands are leased for commercial purposes (such as mining and oil drilling). Lease revenues (royalties) are deposited in the Teachers' Retirement Fund (TRF) after SLC recovers its costs. The

TRF is administered by the California State Teachers' Retirement System (CalSTRS).

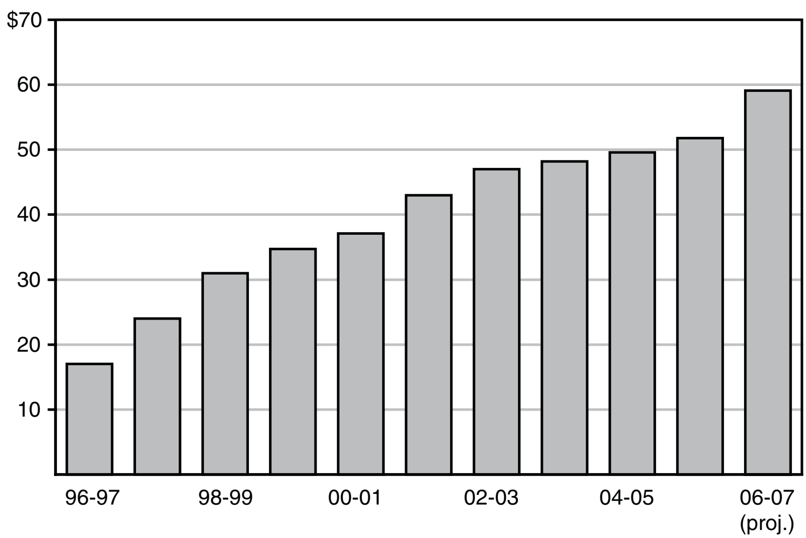
Under the School Land Bank Act of 1984, the commission may also sell school lands and use the proceeds to purchase other properties in order to consolidate school land parcels into contiguous holdings. The purpose of consolidating school lands is to facilitate the effective management of those lands for the purpose of generating lease revenue for TRF. Proceeds from land sales are deposited in the SLBF. These proceeds are available to SLC only for acquiring and enhancing school lands.

Fund Reserves Continue to Grow. Pursuant to the School Land Bank Act, SLC has sold school lands and deposited the proceeds in SLBF. However, because SLC has not expended SLBF monies to acquire new land holdings, the fund balance has mounted over the years. As shown in Figure 1, the fund is expected to have a reserve of $59 million at the end of the budget year.

Figure 1

School Land Bank Fund Year-End Reserve

(In Millions)



Commission Has Made No Progress In Improving Its Management of SLBF. During hearings on the 1996-97 and 2001-02 budgets, the Legislature examined the issue of the mounting reserve in SLBF. As a result of the budget hearings, the *Supplemental Report of the 2001 Budget Act* required

SLC to report on its expenditures from SLBF and actions it planned to take to draw down the reserves of the SLBF. In its report, SLC indicated it expected to use the fund to purchase property in the near future. However, our review finds that over the past five years SLC has expended no money from SLBF for the purchase of new land investments—which is the purpose of this fund. Additionally, the *2006-07 Governor's Budget* does not show any investments being made by SLC from the fund in the budget year.

Legislative Intent Not Fulfilled. In enacting the School Land Bank Act in 1984, the Legislature expressed concern over a "significant depletion" of school lands, and stated its intent that all remaining school lands be "managed and enhanced" as a revenue-generating resource for TRF. The legislative goal of the program was to ensure that revenues from the sale of school lands would be reinvested in other land holdings that generate lease revenues for TRF. Maintaining a large fund balance for multiple years, however, does not achieve that goal.

Fund Balance Should Be Transferred to TRF. In view of SLC's inaction in purchasing new school lands with SLBF monies, as well as the significant reserve that continues to accumulate in the fund, we believe the Legislature should take action to ensure that its intent for the use of the SLBF is fulfilled.

Specifically, we recommend the adoption of trailer bill language requiring the SLBF fund balance be transferred to TRF and that subsequent proceeds from school land sales be deposited in TRF for investment by CalSTRS. In this way, the ultimate beneficiary of school lands proceeds—CalSTRS—could invest those funds directly for the benefit of teachers.

We note that CalSTRS has a significant portfolio and the staff expertise and organizational structure for identifying investment opportunities and managing the investments more efficiently than SLC. We also note that, under this recommendation, SLC would continue to manage existing school lands, and lease revenues from those lands would continue to be deposited in TRF.

DEPARTMENT OF FISH AND GAME
(3600)

The Department of Fish and Game (DFG) is responsible for promoting and regulating hunting and fishing for game species and for promoting resource protection for all California native plants, fish, and wildlife. The Fish and Game Commission sets policies to guide the department in its activities. The DFG currently manages about one million acres including ecological reserves, wildlife management areas, hatcheries, and public access areas throughout the state.

The budget proposes total expenditures of $311.4 million from various sources, a decrease of about $64.2 million below estimated current-year expenditures. Most of this decrease reflects a reduction in available bond funds for the CALFED ecosystem restoration program. Of the total proposed expenditures, $93.7 million (30 percent) will come from the Fish and Game Preservation Fund (FGPF), $68.2 million (22 percent) will come from federal funds, $53.6 million (17 percent) from General Fund, and the remaining $95.9 million (31 percent) from reimbursements and various other state funds.

The budget includes some significant increases from the General Fund, including (1) $10 million as a funding shift to bring the FGPF into balance due to revenue shortfalls and to implement recent legislation (Chapter 689, Statutes of 2005 [AB 7, Cogdill]) dedicating a specified portion of FGPF monies for hatcheries and native trout and (2) $4 million for grants for salmon and steelhead trout restoration activities that were previously funded using bonds and tideland oil revenues.

FISCAL PROBLEMS ABOUND AT FISH AND GAME

In the sections that follow, we discuss a number of issues related to the department's budget proposal. We review the department's proposal to balance the Fish and Game Preservation Fund and its funding plan to implement recent legislation (Chapter 689, Statutes of 2005 [AB 7,

Cogdill]). We also identify technical errors in the display of the budget bill and recommend the department's federal fund expenditure authority be reduced due to overbudgeting.

FGPF Proposal: Overall Problems Persist

Our review of the department's proposal to balance the Fish and Game Preservation Fund (FGPF) finds that it does not address a structural deficit within the fund that has built up over many years. We provide options on how to address this problem and recommend the department submit its plan to do so at budget hearings.

We also find that the proposed level of the fund reserve is not prudent given the uncertainty of the revenue projections, and therefore we recommend that the department submit a proposal for a reserve of five percent of expenditures for each FGPF account.

Lastly, we find the fund condition statement as displayed in the Governor's budget document impedes legislative oversight, and we recommend changes to future-year budget displays.

FGPF Includes Many Revenue Sources. The FGPF receives revenues from hunting and fishing licenses and taxes, commercial fishing permits and fees, and environmental review fees paid by project proponents. Each of these revenues can be used for a *broad* range of purposes related to the activities for which they were collected and are therefore referred to as "nondedicated" accounts by the department.

The FGPF is also supported by revenue sources that are dedicated by statute for specific activities relating to the sources from which they were collected. For example, revenues from a steelhead trout fishing fee are required to be spent on steelhead management and enhancement. These types of revenues are referred to as "dedicated" revenues. There are 27 dedicated accounts within FGPF to track the receipt of funds for each of these dedicated revenues sources.

Legislature Directed DFG to Address Structural Deficit Problem. In our *Analysis of the 2005-06 Budget Bill* (page B-59), we found DFG had been addressing shortfalls in certain accounts within FGPF by shifting funds from the reserves of other accounts to cover those shortfalls. As a result, revenues dedicated by statute for specific uses were instead being used for purposes not authorized in statute. The Legislature directed the department in the *Supplemental Report of the 2005 Budget Act* to address FGPF's structural problem in the *2006-07 Governor's Budget*.

DFG's Budget "Solution". The budget proposes to bring FGPF *as a whole* into balance by reducing FGPF expenditures by $7.2 million. To partially offset the impact of these reductions, the budget proposes to shift expenditures of $4 million from the nondedicated FGPF to the General Fund. In addition, the budget proposes fund shifts among the fund's accounts of $2.4 million. The budget also assumes FGPF revenues will increase by $4 million in the budget year.

Proposal Does Not Address Structural Deficit Problem. While the budget proposes adjustments to bring the FGPF as a whole into balance, it does not address a structural deficit problem in the fund. In fact, some accounts within the fund are shown in the budget with negative balances. (Negative balances result when prior-year spending exceeded available resources.) Specifically, the department has provided information showing that two accounts—the streambed alteration account and the nondedicated account—will start the budget year with a negative beginning balance of $8.2 million and $15.8 million, respectively. These accounts are projected to end the budget year with negative balances of $12 million and $ 7.7 million, respectively. Until these account deficits are eliminated—which could take many years absent corrective action—the department would presumably continue to "borrow" funds from other dedicated accounts as it has done in the past (contrary to statute) or seek a "bailout" from the General Fund.

Addressing FGPF's Fiscal Problems. Clearly, the existence of negative fund balances reflects inappropriate budgeting practices. This was explicitly recognized by the Legislature when it adopted supplemental language directing DFG to correct the problem. Regrettably, the administration has failed to do so. Therefore, we provide a solution to the Legislature to address it.

In the sections below, we recommend the Legislature address the FGPF's fiscal problems in two steps. First, we recommend the Legislature address the immediate problem of the negative account balances in the budget year. Second, we recommend that the Legislature take action to correct the FGPF's structural deficit problem going forward over the long term.

Step One: Addressing the Existing Negative Account Balances Within FGPF. There are a number of one-time, temporary, actions that the Legislature could take to address the immediate problem of the negative balances, including:

- Providing General Fund or special fund loans to the accounts with the negative balances. Such loans could be paid back over a specified repayment term, either by reducing expenditures and/or increasing revenues from fees.

- Providing loans from FGPF accounts with available fund balances to the accounts with the negative balances, with specified repayment terms. The loans could be paid back either by reducing expenditures and/or increasing revenues from fees.
- Providing a General Fund transfer to the accounts with the negative balances.

We recommend that the department report at budget hearings on the feasibility of the above options and other options that the Legislature might consider to address the negative balances, and submit its plan to address this issue.

Step Two: Addressing Structural Deficit Problem Over Long Term. In order to ensure that the practice of deficit spending in FGPF accounts does not persist in future years, we recommend that the Legislature take action requiring each FGPF account to have a prudent reserve. This ongoing reserve requirement will require the department to take corrective action (reduce expenditures and/or increase fees) if needed to align the revenues and expenditures in each account.

Our analysis finds that adequate account reserves are particularly important in the case of FGPF because FGPF revenue projections are uncertain and subject to change. This is largely due to variability in the sale of sport-fishing licenses—which can vary by more than 5 percent annually. For example, in the current year the department has revised its estimates for current-year FGPF revenues downward by $4 million from what was appropriated in the *2005-06 Budget Act* due to lower than projected license sales. Assuming adoption of the department's proposed expenditure plan, this would leave the FGPF with budgeted reserves of only $1.6 million, or about 1.7 percent of proposed FGPF expenditures by the end of 2006-07. Given the level of risk inherent in the department's revenue projections, this level of reserves does not appear prudent.

Therefore, we recommend that the department submit a proposal prior to budget hearings that would provide for a prudent reserve, for each account within FGPF, of 5 percent of expenditures. As discussed, this may require the department to take corrective actions to establish such a reserve. Such a proposal would allow the Legislature to oversee the corrective action necessary to bring FGPF into balance and provide a prudent reserve, rather than have the department take mid-year corrective action with little legislative oversight.

Budget Display Impedes Legislative Oversight. In the FGPF fund display in the *2006-07 Governor's Budget* document, revenues and expenditures are not broken down by nondedicated and dedicated revenue sources, as was the practice in previous years. This lack of detail complicates legislative oversight, as the fund condition statement does not allow for a determination, for example, of whether dedicated revenue sources are being used to offset expenditures in other accounts of FGPF.

In order for the Legislature to exercise improved oversight of FGPF, it is necessary for the administration to provide to the Legislature a fund condition statement that displays information on the condition of revenues and expenditures both for dedicated and nondedicated revenue sources. In order that future displays in the Governor's budget document include such information, we recommend the enactment of legislation requiring that the annual fund condition statement displayed in the Governor's budget document for this fund include both the dedicated and nondedicated revenue sources. We think this recommended change can be accomplished without additional resources since the department already maintains such information.

AB 7 Proposal Lacks Implementation Plan

While the budget proposes an increase in funding to implement Chapter 689, Statutes of 2005 (AB 7, Cogdill), it does not include an implementation plan or a request for positions which corresponds to the requested funding increase. Accordingly, we recommend the department submit an implementation plan and a request for positions prior to budget hearings.

Requirements of AB 7. Assembly Bill 7 provides that effective July 1, 2006, one-third of the fees derived from sport fishing licenses be deposited into the newly created Hatchery and Inland Fisheries Fund. Previously, all fees derived from sport fishing licenses were deposited in the nondedicated account of the FGPF and used to support all game programs including hatchery activities. (The effect of this change is to dedicate $16.8 million for this specific purpose.) Assembly Bill 7 specifies that funds in the Hatchery and Inland Fisheries Fund may be used to support the management, maintenance and capital improvement of California's fish hatcheries, the Heritage and Wild Trout Program, and related enforcement activities. The statute also sets forth a schedule for achieving specific trout production goals.

Budget Proposal Does Not Include Implementation Plan. In the current year, about $6 million is being spent from FGPF for hatcheries and the other purposes specified in AB 7. Effective July 1, 2006, AB 7 requires that one-third of sport fishing license fee revenues ($16.8 million) be spent on these purposes. However, the budget assumes the enactment of a budget trailer bill that would revise AB 7's requirements in three main ways. First, it would extend the schedule for achieving the trout production goals set forth in AB 7. Second, it would reduce from one-third to 27 percent the amount of sport fishing fees that would be used for the purposes of AB 7, thus requiring total funding of $13.7 million. Third, it allows for federal funds and reimbursements to be used to meet the requirements of AB 7. If the Governor's latter two proposed changes are adopted, the combined effect would be to provide a total of $13.7 million ($12 million [FGPF], $1.7 [federal funds and reimbursements]) for purposes of AB 7, instead of $16.8 million (FGPF) as required by AB 7. Accordingly, under the Governor's proposal, an additional $6 million FGPF above current expenditure levels is redirected from other FGPF-funded programs for purposes of AB 7. The budget proposes to "hold harmless" the programs affected by this redirection by backfilling the $6 million redirected within the FGPF with a like amount from the General Fund.

The budget proposal does not include a request for positions associated with the increase in funding for purposes of AB 7 or a plan addressing how hatchery production will be increased. At the time this analysis was prepared, the department indicates it is developing a plan for the implementation of AB 7 and is also developing a request for position authority. We recommend the department submit the implementation plan and request for positions prior to budget hearings in order to allow ample time for legislative review.

Technical Budgeting Issues

We recommend the Legislature amend the budget bill to correct a technical error in the scheduling of appropriations among programs. We further recommend a reduction of $10.5 million in federal funds due to overbudgeting. (Reduce Item 3600-001-0890 by $10.5 million.)

Correction Required for Budget Bill Schedule. In our review of the budget, we identified a technical error in the scheduling of appropriations for certain programs in the budget bill. The scheduling is inconsistent with a proposed budget change related to the implementation of AB 7. The department concurs with our findings. We therefore recommend the Legislature amend the scheduling of the budget bill as follows:

Item 3600-001-0001 For support of the Department of Fish and Game

Schedule:

(3) 30—Management of Department Lands and Facilities ~~$44,876,000~~ $50,876,000

(4) Conservation Education and Enforcement ~~58,515,0000~~ $52,515,000

Federal Funds Overbudgeted. The budget requests federal expenditure authority of $68.2 million. At the time the budget was prepared, the department anticipated it would receive a federal grant of at least $17 million in 2006-07 for salmon and steelhead recovery efforts. The department now anticipates it will only receive $6.5 million. We therefore recommend the Legislature reduce the department's federal expenditure authority by $10.5 million to more accurately reflect anticipated federal funds.

IMPROVING LEGISLATURE'S OVERSIGHT OF DFG

In response to the lack of information on the department's activities, funding levels, and outcomes, as well as concern about the fiscal sustainability of Fish and Game Preservation Fund, the Legislature directed the department to provide specific reports by January 10, 2006. These reports have not been submitted. Because these reports are critical to the Legislature in its evaluation of the budget proposal, we recommend that the Legislature withhold appropriating funding to the department until the reports are submitted. We further recommend the Legislature convene oversight hearings in order to address legislative concerns about the department's fiscal problems and performance in carrying out its multiple program responsibilities.

Multitude of Mandates and Responsibilities, With No Clear Priorities. Over the years, the department's statutory responsibilities have increased significantly related to both promoting and regulating hunting and fishing for game species and conservation for all California native plants, fish and wildlife. Our prior-year analyses of the department's budget and operations, as well as a recent report by the Bureau of State Audits, have raised concerns that the department does not have a clear set of priorities to guide its allocation of fiscal resources among its multiple objectives.

Difficult to Identify DFG's Level of Activity. The Legislature has repeatedly asked the department for information on the level of activity in its various program areas, and the department has been unable to provide an adequate response. As a result, it is difficult to determine the extent to which the department's many statutory responsibilities are being fulfilled. For example, it is not clear to what extent at-risk species are being inventoried and monitored.

DFG Directed to Provide Information Critical to Legislative Oversight. In the *Supplemental Report of the 2005 Budget,* the Legislature directed DFG to submit by January 10, 2006, three reports that the Legislature considered critical to its evaluation of the 2006-07 budget proposal. Also, this information was requested so the Legislature could take action necessary to address its concerns about FGPF fiscal problems and departmental performance in carrying out its multiple competing program responsibilities. These reports are:

- ***Report on Activities, Statutory Mandates, Funding Sources, and Outcomes.*** This report will provide information on what activities are being carried out by the department and at what level, how these activities are funded, and the funding necessary to meet the statutory or programmatic objectives of the activity if different from the current funding level. This report is critical in evaluating to what extent the department's activities are being funded at a level consistent with legislative priorities.
- ***FGPF Report.*** This report required the department to submit a proposal to address the negative balances in the accounts within the FGPF. This is critical for providing the Legislature information that will assist it in addressing the structural deficit of this fund.
- ***Section 1600 Report (Streambed Alteration Agreement Program).*** This report requires the department to report on the funding level necessary to meet the statutory requirements of the streambed alteration agreement program, and the funding required to review all streambed alteration agreements. This information is critical for the Legislature in evaluating the streambed alteration program.

Recommend Withhold Appropriating Funds Until Reports Submitted. At the time this analysis was prepared, the required reports had not been submitted. Because the lack of this information significantly hinders the Legislature's ability to conduct oversight of the fiscal problems of the department and its performance, we recommend the Legislature withhold appropriating funding to the department until the reports are submitted.

Recommend Oversight Hearings. Our analysis finds that key fiscal and programmatic concerns of the Legislature regarding DFG have not been addressed in the Governor's proposal and information from the administration to assist the Legislature in addressing these issues has not been forthcoming. We therefore recommend the Legislature convene oversight hearings, of the budget and appropriate policy committees of each house, on the department's budgeting problems and performance in carrying out its multiple program responsibilities.

Details of Proposed Department Restructuring Unknown

We recommend the department report at budget hearings on proposed changes to its organizational structure, details of which are unknown at this time.

Restructuring Underway; Recommend DFG Report on Proposed Changes. The department indicates it is currently considering shifting certain programs to other divisions and consolidating other programs in order to achieve efficiencies. At the time this analysis was prepared, the department had not provided the Legislature with information on the details of the proposed changes. Consequently, it is not clear to what extent such restructuring will result in any changes to the existing level of resources dedicated to particular activities. We therefore recommend the department report at budget hearings regarding the proposed organizational changes and how they would affect the level of program activities of the department.

DEPARTMENT OF PARKS AND RECREATION (3790)

The Department of Parks and Recreation (DPR) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state.

The state park system consists of 278 units, including 31 units administered by local and regional agencies. The system contains approximately 1.5 million acres, which includes 4,100 miles of trails, 300 miles of coastline, 970 miles of lake and river frontage, and about 14,800 campsites. Over 80 million visitors travel to state parks each year.

The budget proposes $411 million in total expenditures for the department in 2006-07. This is an overall decrease of $426 million below estimated current-year expenditures. Most of this reflects a decrease in available bond funds.

The budget proposes $336.2 million in departmental support, $45.4 million in local assistance, and $29.4 million in capital outlay expenditures. Of the total proposed expenditures in 2006-07, about $112.8 million (27 percent) will come from the General Fund; $30.9 million (7 percent) will come from bond funding; $121.2 million (29 percent) from the State Parks and Recreation Fund; $60.8 million (15 percent) from the Off-Highway Vehicle Trust Fund (OHVF); and the remainder $85.3 million (21 percent) from various other state funds, federal funds, and reimbursements. Major budget proposals include $5 million (General Fund) for hazardous material remediation at Empire Mine State Historic Park and $1.4 million (General Fund) to improve the operation and management of water and wastewater systems in state parks.

Off-Highway Motor Vehicle Recreation Grant Program off Track

We recommend deletion of $18 million for local assistance for the Off-Highway Motor Vehicle Recreation grant program because significant concerns raised in a program audit have not been addressed. Without the resolution of these issues, the effectiveness of this program cannot be assured. (Reduce Item 3790-101-0263 by $18 million.)

Off-Highway Motor Vehicle Recreation (OHV) Program: State Parks and Grants. The Off-Highway Motor Vehicle Recreation Program (OHV Program) administered by the department's Off-Highway Motor Vehicle Recreation Division (Division) provides opportunities for OHV recreation while protecting California's natural and cultural resources from the negative environmental impacts of OHV recreation. The Division operates eight OHV-related state parks referred to as State Vehicular Recreation Areas (SVRA). In addition, the Division administers a local assistance grants program discussed below.

Under current law, the OHV Commission (Commission) establishes policy for the program and must also approve grant applications. The Commission is made up of seven members who are required to represent a broad range of interests related to OHV recreation, including OHV enthusiasts, nonmotorized recreation interests, biologists, rural landowners, law enforcement, soil scientists, and environmental interests.

The OHV Local Assistance Program. The OHV grant program provides grant funding to local agencies, non-profit organizations, and federal agencies. The Governor's budget proposes $18 million (OHVF) for the OHV grant program in 2006-07. The grants are available for a variety of activities related to OHV recreation, including acquisition and development of OHV facilities, law enforcement operations, resource management, safety and education, and equipment projects.

Significant Concerns Raised in Audit About OHV Grant Program. A recent report by the Bureau of State Audits (BSA), *Off-Highway Motor Vehicle Recreation Program: The Lack of a Shared Vision and Questionable Use of Program Funds Limit Its Effectiveness*, raised many concerns specifically with the OHV grant program. These included findings that there are a lack of guidelines and established funding priorities for the grant program and problems with grant management and auditing. The audit also found areas in current law governing the OHV Program where further statutory clarification is needed. Specifically, the audit recommends the Legislature consider amending current law to clarify: (1) whether the use of OHVF to restore land damaged by OHV usage requires that those lands be permanently closed to OHV recreation, and (2) the allowable uses of OHVF. The BSA report also identified overall concerns with the OHV Program, most notably the lack of a shared vision between the Division in the department and the Commission, which sets policy and must approve grants.

Figure 1 highlights selected recommendations from the BSA report to address some of the significant concerns with the OHV Program. Figure 1 also notes the status of the implementation of these recommendations by the Division and Commission based on our review.

Figure 1

Bureau of State Audit's Recommendations For Improving OHV Program

Action to Be Taken by OHV Division and Commission	Implementation On Track?
• Establish a strategic plan, supported by the Off-Highway Motor Vehicle Recreation (OHV) Division and Commission.	No
• Establish clear guidelines or priorities for grant applicants.	No
• Submit reports to Legislature as required by statute.	No
• Develop a land acquisition strategy to ensure investments meet OHV program goals.	Yes
• Improve contracting practices.	Yes
• Improve management and auditing of grants.	Yes
• Provide grant funding only for those projects that meet the intent of the OHV program.	Yes
• Reevaluate the current spending restrictions in law.	Yes

Many Concerns Are Unresolved. As shown in Figure 1, while the department appears to be on track in addressing some of the issues—particularly in the area of grant management, significant issues remain unresolved. For example, the establishment of a clear set of grant guidelines and procedures, essential in order to award grants and ensure funds are spent consistent with statute, has not yet occurred. While the Division has recently established emergency regulations which include guidelines and has used those guidelines to evaluate grant proposals, the Commission at a December 2005 meeting adopted a significantly different set of grant guidelines. Thus, there are currently two inconsistent sets of guidelines.

Furthermore, as indicated in the BSA audit, the lack of a shared strategic plan between the Commission and Division limits the ability of the Division to implement the grant program consistent with the goals and priorities of the overall OHV Program. The Division indicates that efforts to develop the strategic plan have been delayed by the fact that it is still waiting for a study, required by statute, which will provide information on the number, type, and location of OHV users. This study will also be used to determine the specific allocation of funding available for the OHVF from fuel taxes.

Recommend Deleting Funding Until Problems Are Resolved. Until various actions are taken by the department and Commission to address concerns raised in the BSA audit, the effectiveness of the grant program cannot be assured. Therefore, we recommend the Legislature delete the $18 million proposed for the OHV grant program. Funding could be restored during the course of budget hearings if the Legislature is presented with information that satisfies it that the department and Commission are adequately addressing the recommendations from the BSA audit that are noted in Figure 1 as not yet implemented. The Legislature will be given another opportunity to consider the department's and Commission's progress in addressing the audit recommendations when evaluating legislation to reauthorize the Off-Highway Motor Vehicle Recreation Act, which is scheduled to sunset on January 1, 2007. If at such time the audit issues have been addressed to the Legislature's satisfaction, the Legislature could include an appropriation for the OHV grant program in the reauthorizing legislation.

For a discussion of the department's OHV capital outlay proposals, please see the "Department of Parks and Recreation (Item 3790)" write-up in the Capital Outlay chapter of this *Analysis.*

Concession and Operating Agreement Proposals

The budget includes five proposals for concessions and five proposals for operating agreements requiring legislative approval. While we find all of the operating agreement proposals warranted, we recommend the Legislature withhold approval of all of the concession proposals until each has received commission approval and the department, based on the completed economic analysis, provides the Legislature with information on the specific minimum rent to be paid to the state.

Under current law, the Legislature is required to review and approve any proposed or amended concession contract that involves a total investment or annual gross sales over $500,000. Concessions are private businesses operating under contract in state parks to provide services such as food that are not normally provided by state parks. The Legislature is also required to approve most types of operating agreements, which are agreements between the department and other government entities (mainly local governments) to allow these entities to operate and maintain a state park unit. In past years, the Legislature has provided the required approvals in the supplemental report of the budget act.

As shown in Figure 2, the department has included five concession proposals and five operating agreement proposals in its budget that require legislative approval. While we find the operating agreement proposals warranted, we recommend the Legislature withhold approval of all of the concession proposals.

Figure 2

Department of Parks and Recreation Concession and Operating Agreement Proposals

	Term (In Years)	Minimum Rent To State	Minimum Capital Investment
State Park Concession Proposals			
Millerton Lake State Recreation Area			
• Operate marina	Up to 30	Not Determined	$2 million
Asilomar State Beach			
• Lodging	Not Determined	Not Determined	Not Determined
Hollister Hills State Vehicular Area			
• Park store	10	Not Determined	Not Determined
Old Town San Diego State Park			
• Food or retail	Up to 10	$5,000 or 8% of sales[a]	$100,000
Pismo State Beach			
• Lodging and restaurant		Uncertain	$14 million to $17 million
Operating Agreements			
Woodland Opera House State Park	25		
Folsom Lake State Recreation Area	Up to 20		
Stone Lake Property	25		
Lighthouse Field State Beach	50[b]		
Lucadra and Moonlight State Beaches	20		

a Whichever is higher.

b Corrected, November 6, 2006.

Recommend Withhold Approval for All Concession Proposals. Current law specifies that a concession proposal must be approved either by the California State Park and Recreation Commission or, if the proposal is for a SVRA, the Off-Highway Motor Vehicle Commission. As shown in Figure 3, our review of the department's request to solicit concession proposals found that for three of the five concession proposals, the department has not yet received the required commission approval. The department anticipates these proposals will be heard by the respective commission over the next few months.

In addition, as shown in Figure 3, for three of the five concession proposals, DPR has not completed the economic feasibility study that is used to determine the minimum revenue share (rent) to be paid to the state. The DPR anticipates contracting for these studies over the next few months. Without this information, the Legislature is not able to determine whether the proposal is in the state's best interest.

Accordingly, we recommend the Legislature withhold approval of the five concession proposals until (1) they receive commission approval and (2) the department, based on the completed economic analysis, provides the Legislature with information on the specific minimum rent to be paid to the state.

Figure 3

Status of 2006-07 Concession Proposals

	Feasibility Study Complete?	Commission Approval?
Millerton Lake State Recreation Area	No	Yes
Asilomar State Beach	No	Yes
Hollister Hills State Vehicular Area	No	No
Old Town San Diego State Park	Yes	No
Pismo State Beach	Yes	No

Sierra Nevada Conservancy (3855)

The Sierra Nevada Conservancy was established by statute in 2004. The conservancy will undertake projects and make grants and loans for various public purposes in the Sierra Nevada Mountains, including increasing tourism and recreation; protecting cultural, archaeological, and historical resources; reducing the risk of natural disasters; and protecting and improving water and air quality.

The budget proposes total expenditures of $3.7 million from two sources, the Environmental License Plate Fund ($3.5 million) and reimbursements ($200,000), and 20.5 positions for the conservancy in 2006-07.

Conservancy Failed to Report Expenditure Requirements to Legislature

The budget proposes $3.5 million from the Environmental License Plate Fund and $200,000 from reimbursements to fund conservancy operations and activities. We recommend the Legislature withhold action on the budget request until the conservancy submits a report detailing its total expenditure requirements for 2006-07 and future years, as required by the Legislature. (Reduce Item 3855-001-0140 by $3.5 million and reimbursements by $200,000.)

Background. Chapter 726, Statutes of 2004 (AB 2600, Leslie), established the Sierra Nevada Conservancy. The mission of the conservancy is to preserve and restore significant natural, cultural, archaeological, recreational, and working landscape resources (farms, ranches, and forests) in the Sierra Nevada Mountains. The conservancy's jurisdiction covers 25 million acres and is divided into six subregions. In 2005, the conservancy began its start-up activities, such as determining a headquarters location and initiating an executive director search.

The conservancy's initial focus in its first two years is undertaking and facilitating a strategic program planning process involving meetings and workshops within each of the subregions, with the purpose of formulating strategic program objectives and priorities within that subregion. Chapter 726 requires these activities in order to encourage local involvement and participation in the conservancy's activities.

Legislature Requested Report on Ongoing Expenditure Requirements. The Legislature approved the conservancy's budget of $3.6 million for 2005-06 with the understanding that some of the conservancy's expenditures in the current year reflect start-up costs that are one-time or limited in term and that the conservancy's ongoing expenditure requirements had not yet been fully determined. Accordingly, in the *Supplemental Report of the 2005 Budget Act*, the Legislature required the conservancy to report to the Legislature, in conjunction with its 2006-07 budget proposal, on its total expenditure requirements for 2006-07 and future years, including the amount, purpose, and term of these expenditures.

Conservancy Has Failed to Submit Report; Recommend Legislature Withhold Action on Budget Request. At the time this analysis was prepared, the conservancy had not reported on its expenditure requirements for the budget and future years, as directed by the Legislature. Without the conservancy's report, the Legislature lacks information that it felt necessary to evaluate the conservancy's proposed budget for 2006-07. For this reason, we recommend the Legislature withhold action on the conservancy's budget until the conservancy has submitted the required expenditure report for legislative review.

DEPARTMENT OF WATER RESOURCES (3860)

The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department maintains the State Water Project (SWP), which is the nation's largest state-built water conveyance system, providing water to 23 million Californians and 755,000 acres of agriculture. The department maintains public safety and prevents damage through flood control operations, supervision of dams, and water projects. The department is also a major implementing agency for the CALFED Bay-Delta Program (CALFED), which is putting in place a long-term solution to water supply reliability, water quality, flood control, and fish and wildlife problems in the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (the " Delta").

Additionally, the department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, IOUs manage the receipt and delivery of the energy procured by the contracts.

Proposed Funding. The budget proposes total expenditures of about $6.5 billion in 2006-07 (including capital outlay), a reduction of $340 million, or 5 percent below estimated expenditures in the current year. Most of this reduction reflects reduced interest costs from a refinancing of bonds which were originally issued to finance energy contracts entered into by CERS during the state's energy crisis.

Major budget proposals include increases of $38.2 million (mostly General Fund) and 30 personnel-years for state operations of flood management and local assistance, as part of a three-year program initiated in the 2005-06 budget, and $84.1 million (General Fund) for the All-American Canal lining project.

The budget total includes $208 million for capital outlay projects, of which $122 million is for SWP (the costs of which are reimbursed from SWP contractors), $44.4 million (Proposition 13 and Proposition 50 bond funds) for CALFED water conveyance projects, and $41.3 million for flood control ($31.4 million comes from the General Fund and $9.9 million is from reimbursements).

Addressing the State's Flood Management Problems

The budget proposes an increase of $38.2 million (mostly General Fund) in 2006-07 for flood management-related state operations and local assistance. The budget also proposes $31.4 million (General Fund) for flood control capital outlay. Due to the critical need to improve the Central Valley flood control system and for the state to be able to respond to flood events, we recommend that the Legislature approve the Governor's proposal. However, we also identify several issues for legislative consideration as it evaluates solutions to the state's flood management problems. These issues relate to the role of bond funding, the relationship between land use and flood control, "beneficiary pays" financing, and state oversight of Delta levees.

State's Role in Flood Management. In the Central Valley, the state is the nonfederal sponsor of federally authorized flood control projects. For these projects, the state provides capital outlay funds for the construction and repair of flood control structures such as levees, with a federal and local cost share. For approximately 80 percent of the 1,600 miles of levees in the Central Valley, the state has turned over the operations and maintenance to local reclamation districts, although the state retains ultimate responsibility for the levees and the system as a whole. The state oversees the operations and maintenance efforts of the local districts in the Central Valley system and provides floodplain management services by designating floodways and providing assistance to local agencies through floodplain mapping and other technical assistance. The department also serves as the lead state agency for predicting and responding to floods.

Outside the Central Valley flood control system, the state's role in flood management is generally limited to providing local assistance funds to local governments for flood control projects. In the Delta region, for example, the state has no oversight role with respect to local levee construction or maintenance (a majority of Delta levees—about 700 miles—are located outside the state system). While the state has provided subventions for levee rehabilitation in the past, the state has no formal role in assessing the structural integrity of these levees. However, because a significant portion of the state's population depends on water supplies that come from the Delta, there is a strong state interest in the continued operation of the Delta levee system.

Funding for Flood Management Has Varied Substantially Over Time. Figure 1 illustrates the state's historic funding on flood management activities. As can be seen, the level of funding available for flood management has varied considerably in recent years.

Figure 1

Department of Water Resource's Flood Management Funding

(In Millions)

Fund Source	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	$114.1	$92.4	$25.0	$29.2	$14.9	$41.3	$85.9
State Operations	(17.5)	(19.1)	(17.6)	(14.5)	(14.9)	(24.3)	(39.5)
Local Assistance	(84.3)	(47.7)	(1.1)	(11.0)	—	—	(15.0)
Capital Outlay	(12.3)	(25.6)	(6.3)	(3.6)	—	(17.0)	(31.4)
Proposition 13 bond funds	140.5	15.6	28.2	14.7	22.5	36.0	3.8
Proposition 50 bond funds	—	—	2.3	21.4	21.4	18.8	1.0
Other funds[a]	14.0	12.3	6.9	6.7	6.8	11.6	18.0
Totals	**$268.5**	**$120.3**	**$62.4**	**$72.0**	**$65.6**	**$107.7**	**$108.8**

a Includes federal funds and reimbursements.

Unmet Funding Requirements Identified by Department. The department has indicated that there are substantial unmet funding requirements in the state's flood control system. This is due to an aging system of flood control infrastructure, deferred maintenance, increasing development in floodplains (often behind substandard levees), and limited resources for flood management in recent years. Based on available, but limited, information, the department has made rough estimates of the costs to restore and upgrade the Central Valley flood control system. According to the department's preliminary estimates, it would cost between $50 million and $100 million simply to complete a systemwide assessment of the structural integrity of the Central Valley flood control system. The department has also estimated that it will cost between $1 billion and $1.5 billion to restore Central Valley levees to their original design capacity; an additional $1 billion to $1.5 billion to upgrade flood control for urban areas; and an additional $2 billion to $4 billion to reconstruct the levee and channel system in order to provide improved flood protection, provide environmental restoration, and improve the state's ability to maintain the system. In addition, DWR estimates that it could cost $3 billion to $5 billion to make *critical* Delta levee upgrades to protect the operation of SWP and the Central Valley Project.

Budget Proposal. The budget proposes increases of $7.6 million in one-time funds and $30.6 million in ongoing funds (mainly General Fund) for various flood management-related state operations and local assistance. Collectively, these increases make up the department's "flood management plan." The budget also includes $31.4 million (General Fund) for flood management-related capital outlay projects in the Central Valley. The major components of the flood management plan and capital outlay expenditures are summarized in Figure 2 and described below.

Figure 2

Department of Water Resources, Flood Management Increases[a]

2006-07
(In Millions)

Element	One-Time Funds	Total
State Operations and Local Assistance		
CALFED levees (includes $2.5 million bond funds)	$4.5	$17.5
Flood project maintenance	2.0	13.3
Floodplain management	—	3.0
Emergency response	0.7	2.3
System reevaluation and rehabilitation	0.5	2.1
Totals	**$7.6**	**$38.2**
Capital Outlay Projects		
Seven projects (excludes reimbursements)	$31.4	$31.4

[a] General Fund, unless noted.

Details of the proposed increases for flood management are as follows:

- ***CALFED Levees System Integrity—$17.5 Million ($4.5 Million One Time).*** These augmentations would provide increased levee maintenance, levee improvements, and other flood control activities in the Delta, including drafting a Delta Risk Management Study required under current law.

- ***Flood Project Maintenance—$13.3 Million ($2 Million One Time).*** These augmentations are proposed to improve the department's maintenance efforts in the Central Valley. Proposed activities include: maintenance of levees and channels, levee inspections, sediment removal, coordination with other state and federal agencies, erosion repair, and levee and flood channel capacity surveys.
- ***Floodplain Management—$3 Million.*** These augmentations are proposed to improve DWR's ability to inform local governments about potential flood risks through increased floodplain mapping. The department will update existing Federal Emergency Management Flood Insurance Rate Maps and prepare maps for unmapped areas, in both cases, focused on areas of new or anticipated development. The DWR will also create an Awareness Floodplain Mapping Program, which will cover areas that are unmapped or unlikely to be mapped soon but which are expected to experience development in the next 25 years. In theory, these maps will assist local decision makers in planning for new development. Additionally, the department will participate in several ongoing programs which provide assistance to local governments for flood control projects and floodplain mapping activities.
- ***Emergency Response—$2.3 Million ($670,000 One Time).*** These augmentations are proposed to improve DWR's ability to predict and respond to flood events. Under the proposal, the department will increase staff at its flood operations center, increase planning for flood events, restore and expand the network of sensors used to monitor river levels, and improve the collection and analysis of data used to predict floods.
- ***System Reevaluation and Rehabilitation—$2.1 Million ($450,000 One Time).*** These augmentations are proposed to increase DWR's ability to identify deficiencies in the existing flood control system and begin the process of rehabilitating those deficiencies. The department will begin the process of assessing the structural integrity and capacity of the flood control system in the Central Valley and make repairs to a specified levee in Sacramento County.
- ***Additional Capital Outlay Projects—$31.4 Million.*** In addition to the state operations and local assistance funds in the flood management plan, there are several ongoing flood control capital outlay projects in the budget. These projects include the Sacramento River Bank Protection Project, the American River Flood Control Project (Natomas Features), the Folsom Dam Modifications Project, the

American River (Common Features) Project, the American River Watershed, Folsom Dam Raise Project (Bridge Element), and the Upper Sacramento River Area Levee Restoration Project.

Recommend Approval of Budget Request. As we discussed in our *2005-06 Budget: Perspectives and Issues (P&I)* (see page 217), the state faces a crisis in flood management. We recommend that the Legislature adopt the department's proposed flood management plan as a prudent initial step to begin addressing the state's obligation to provide adequate flood control.

Issues for Legislative Consideration. While we recommend approval of the department's flood management budget proposal, we also think that there are a number of other issues that the Legislature should consider when evaluating this and other proposed solutions to state's flood management problems. These include:

- ***Role of Bond Funding.*** The Governor's ten-year Strategic Growth Plan includes $2.5 billion in new bond funds for flood management activities. These bond proposals are contained in AB 1839 (Laird), and SB 1166 (Aanestad), introduced this session. In addition, SB 1024 (Perata), provides an unspecified amount of funding for flood management projects. The Legislature should consider how the budget and bond proposals fit with one another and the appropriate mix of General Fund and bond funds in addressing the state's flood management funding requirements. For example, DWR has identified a need of $50 million to $100 million to complete an evaluation of the existing flood control system. The budget proposal includes $1.6 million (General Fund) in ongoing funds for system evaluation and the Governor's bond proposal includes funding for this purpose (though not a specified amount), as well as for actual repairs and infrastructure upgrades. It may be appropriate to begin funding this large-scale evaluation through General Fund appropriations today, so that the state could more quickly utilize any future bond funds for actual repairs and rehabilitation should they become available.
- ***Land Use and Flood Control.*** One of the key issues identified by DWR's January 2005 white paper, *Responding to California's Flood Crisis,* is the connection between development and flood risk. The department's flood management plan includes increased funds for floodplain mapping, which should help to educate local land use decisionmakers about the flood risks of new development. However, this information will still be advisory for local governments. In our *2005-06 P&I* (see page 231), we proposed that the Legislature consider improving the connection between land use planning

and flood risk. First, we recommended that the Legislature tie flood control subvention funding to flood risk, so that local agencies that approve risky development would be ineligible for flood control subventions funding. Second, we recommended that the Legislature consider enacting a floodplain development fee, which could be used to fund increased flood control measures necessary to protect new development in flood-prone areas. Additionally, the state could require that local agencies make a determination that new development has an adequate level of flood control, as they must currently do for water supply. This last recommendation has been included in AB 1899 (Wolk), introduced this session.

- ***Central Valley Flood Control Benefit Assessment.*** In our *2005-06 P&I* (see page 230), we also recommended that the Legislature establish a Central Valley systemwide assessment, so that the beneficiaries of the state's flood management efforts in the Central Valley pay for a portion of the state's costs. The Governor's Strategic Growth Plan references support for the concept of a funding contribution from beneficiaries of the Central Valley flood control system to help pay a portion of the infrastructure-related costs. However, the Governor did not propose a specific mechanism to accomplish this. We think that the Legislature should consider the role for benefit assessments when evaluating flood management bond and budget proposals.
- ***Increased State Oversight of Delta Levees.*** In our *2005-06 P&I* (see page 230), we recommended that the Legislature reconsider its role with regard to Delta levees. As noted above, the state has no direct oversight of the operations and maintenance for most of these levees. While the budget proposal includes $13 million in ongoing funds for CALFED (Delta) levee system integrity, the proposal does not increase the state's level of oversight over these critical levees. The Legislature may wish to consider increasing its oversight role over the operations and maintenance of the Delta levees as a cost-effective measure to reduce the state's risk of incurring significant emergency response and repair costs when these levees fail.

Due to the critical need to improve the Central Valley flood control system, we recommend that the Legislature approve the Governor's budget proposal. However, we believe the Legislature should also consider the role of bond funding, the relationship between land use and flood control, "beneficiary pays" financing, and state oversight of Delta levees in the broader context of evaluating proposed solutions to address the state's flood management problems.

AIR RESOURCES BOARD
(3900)

The Air Resources Board (ARB), along with 35 local air pollution control and air quality management districts, is charged with protecting the state's air quality. The local air districts regulate *stationary sources* of pollution and prepare local implementation plans to achieve compliance with federal and state standards. The ARB is responsible primarily for the regulation of *mobile sources* of pollution and for the review of local district programs and plans. The ARB also establishes air quality standards for certain pollutants, administers air pollution research studies, and identifies and controls toxic air pollutants.

The budget proposes $265.3 million from various funds, primarily special funds, for support of ARB in 2006-07. This is a decrease of $5.3 million, or 2 percent, from estimated 2005-06 expenditures. This decrease reflects the elimination of a number of one-time expenditures that occurred in the current year, including $8.6 million for various air pollution control and monitoring equipment and contracts, $12.5 million for the Carl Moyer Program (diesel emission reduction incentives), and $15 million for school bus retrofitting. The budget also reflects a number of increases, including $6.5 million to continue the Governor's Hydrogen Highway initiative, $5.2 million for the Governor's Climate Change Initiative, and $4 million for enforcement.

Additional Funding for Hydrogen Highway Premature

The budget proposes $6.5 million from the Motor Vehicle Account (MVA) to continue efforts initiated in the current year that encourage the development of hydrogen-powered vehicle technologies and infrastructure. We believe this funding request is premature until the board submits a statutorily required report to the Legislature that will enable legislative evaluation of whether continued funding for this purpose is warranted. We therefore recommend the deletion of the $6.5 million from the MVA. (Reduce Item 3900-001-0044 by $6.5 million.)

Governor's Executive Order. In April 2004, the Governor issued an executive order designating California's 21 interstate freeways as the California Hydrogen Highway Network (the Hydrogen Highway). The order further declared the administration's intention to plan and build a network of fueling stations along the Hydrogen Highway so that, by 2010, every Californian would have access to hydrogen fuel. The order asserted numerous benefits of a hydrogen-based fuel economy as justification for development of the Hydrogen Highway, including the administration's claims that:

- Hydrogen can be produced from clean, renewable energy.
- Hydrogen-powered vehicles can break California's dependence on unstable energy sources.
- Hydrogen-powered vehicles produce zero or near-zero emissions and can reduce California's contribution to global warming.
- Public investment in hydrogen energy stations enhances the economic feasibility of hydrogen infrastructure.

2005-06 Budget and Related Legislation. To implement his Hydrogen Highway initiative, the Governor submitted as part of his 2005-06 May Revision budget proposal a request for $12.3 million (various special funds). This request included $5.5 million for development of 11 hydrogen-refueling stations, $4 million for hydrogen vehicle purchase incentives, and $2.8 million for research contracts and other staffing and operating expenses.

Recognizing that the Governor's initiative involved major policy choices that should be evaluated by the policy committees, the Legislature rejected the Governor's budget proposal during hearings on the budget. Instead, the Legislature enacted policy legislation (Chapter 91, Statutes of 2005 [SB 76, Committee on Budget and Fiscal Review]) that provided funding parameters for the Hydrogen Highway initiative and included an appropriation of $6.5 million from the MVA for the initiative. These funds are available for expenditure through January 1, 2007. Specifically, the funding is for the following purposes:

- Establishment of up to three, publicly accessible demonstration hydrogen fueling stations.
- Lease of up to 12 hydrogen-powered vehicles, and purchase of up to two hydrogen-powered shuttle busses for use at airports or universities.
- Employment of support staff limited to a two-year period.

Additionally, Chapter 91 requires the California Department of Food and Agriculture (CDFA), in conjunction with the board, to establish and adopt specifications for hydrogen fuels by January 1, 2008. (See our related discussion of the Hydrogen Highway initiative in our write up for CDFA in the "General Government" chapter.)

In approving these funds, the Legislature expressed its intent that the funded activities should contribute to specific energy and environmental goals—namely, a 30 percent reduction in greenhouse gas emissions; the use of at least 33 percent new renewable resources in the production of hydrogen for vehicles; and no increase in toxic or smog-forming emissions. In addition, the Legislature clearly indicated its desire to periodically review implementation of Chapter 91, which requires the California Environmental Protection Agency to report to the Legislature every six months, and requires ARB to report to the Legislature by December 31, 2006, on the development of hydrogen-related business activity in California and the appropriateness of continued deployment of hydrogen fueling stations within the state.

Budget Proposes Augmentation. The budget requests an increase of $6.5 million from the MVA for the Hydrogen Highway initiative in 2006-07—funding that is in addition to that which was provided in Chapter 91. These funds are proposed to provide matching funds for three publicly accessible hydrogen fueling stations and to leverage federal matching funds for five fuel cell busses to be used in public transit fleets.

Budget Request for Augmentation Is Premature. We think the budget's request to augment funding for the Hydrogen Highway is premature, and therefore recommend that it be denied. We make this recommendation for two reasons. First, the current-year appropriation (in Chapter 91) was intended to fully fund activities through January 1, 2007. At the time this analysis was prepared (February 2006), only about $550,000 of the appropriation had been spent (for contracts and to develop fuel specifications and public outreach). Based on information provided by the administration, we expect ARB to spend a total of approximately $3 million in the current year, leaving $3.5 million of the original $6.5 million appropriation available for expenditure in the budget year. Therefore, the need for additional funding in the budget year has not been justified. Second, in order to evaluate the merits of continued funding for the Hydrogen Highway initiative, the Legislature directed ARB to submit a report by the end of this year on various matters related to the initiative's implementation, including recommendations on continued expansion of hydrogen fueling stations in the state. Without this report, it is premature to provide the additional funding requested.

Goods Movement Proposal Needs Refinement to Prevent Misuse of Motor Vehicle Funds

The budget proposes $1.5 million from the Motor Vehicle Account (MVA) for contracts and eight new positions to mitigate air pollution associated with the ships, locomotives, diesel trucks, and cargo handling equipment used in goods movement. We recommend that the board resubmit its funding proposal so that it limits MVA funding, consistent with state law, to those mitigation activities directly related to motor vehicles used on public roadways. We further recommend that ARB identify alternative funding sources for mitigation of environmental effects ineligible for MVA funding.

Goods Movement Related Pollution of Increasing Concern. With an extensive coastline and ties to the global economy, California has substantial "goods movement" activity at its ports, rail yards, and other transportation facilities. For example, California's ports handle nearly 28 percent of the international trade goods entering and leaving the U.S. Based on projections of economic activity in the country and in the state, California's goods movement activity is expected to increase considerably in coming years. While there are economic benefits to goods movement, there are also environmental costs. For example, the ports of Los Angeles and Long Beach together contribute 10 percent of the region's nitrous oxides emissions and 25 percent of its diesel particulate matter, and residents living near the busy ports disproportionately experience the negative effects of these pollutants.

The U.S. Environmental Protection Agency and the board have adopted several regulations to reduce emissions from goods movement. However, the state has limited regulatory authority over certain aspects of goods movement, such as rail transport, that are mainly under federal jurisdiction. For this reason, the board has also taken nonregulatory actions, such as entering into voluntary memoranda of understanding with certain rail lines for the implementation of emission reduction strategies.

Budget Proposes Increase to Address Pollution From Goods Movement. The budget proposes $1.7 million from the MVA for contracts and eight positions to perform a variety of environmental mitigation activities related to goods movement. Specifically, the funds are to develop a goods movement emissions inventory; model air quality; develop regulatory and nonregulatory controls; provide outreach to industry and affected entities; and increase enforcement.

Budget Proposal Needs Refinement; Would Misuse MVA Funds. The State Constitution limits the uses of MVA monies. Specifically, MVA monies can be used to fund the mitigation of environmental effects resulting from operation of "*motor vehicles used upon the State's public streets and* *highways*." Such motor vehicles include diesel trucks, but not ships, locomotives, or most cargo moving equipment. The budget request proposes funding to address goods movement-related air pollution from various pollution sources, including ships and locomotives, using the MVA as the sole funding source. However, mitigation of air pollution produced by vehicles not used on the state's public roadways is not an eligible use of MVA funds given the constitutional limits on the use of MVA for environmental purposes.

Recommend Submission of a Revised Proposal Justifying Use of MVA Funds. Because the budget request does not allocate funding based on pollution source, it is unclear what portion of the requested funds would be legitimately funded from the MVA. Therefore, we recommend that the Legislature not approve the request as submitted, and that the board submit a revised funding proposal at budget hearings that specifies activities that directly involve the mitigation of environmental effects of motor vehicle operation on the state's public roadways, and are therefore eligible for funding from the MVA. We further recommend that, for those mitigation activities not eligible for MVA funding, the board identify an alternative source of funds, as we recommend the deletion of MVA funding requested for that portion of the proposal.

California Integrated Waste Management Board (3910)

The California Integrated Waste Management Board (CIWMB), in conjunction with local agencies, is responsible for promoting waste management practices aimed at reducing the amount of waste that is disposed in landfills. The CIWMB administers various programs that promote waste reduction and recycling, with particular programs for tires, used oil, and electronics. The board also regulates landfills through a permitting, inspection, and enforcement program that is mainly enforced by local enforcement agencies that are certified by the board. In addition, CIWMB oversees the cleanup of abandoned solid waste sites.

The budget proposes expenditures of $190.2 million from various funds (primarily special funds) for support of CIWMB. This is a decrease of $10.1 million (or 5 percent) from estimated 2005-06 expenditures. This decrease is largely a result of reduced expenditures due to lowered revenue projections in the used oil recycling program ($2.8 million) and the electronic waste program ($7.2 million). The budget also proposes several expenditure increases, most notably $5.2 million for the tire recycling program (for various activities, including enforcement and rubberized asphalt market development), $466,000 for greenhouse gas reduction as part of the Governor's Climate Change Initiative, and $223,000 for increased enforcement as part of the Governor's Environmental Enforcement Initiative.

Funding Proposal for Environmental Education Fails to Follow Legislative Direction

We withhold recommendation on $3.5 million proposed for the Environmental Education Initiative pending receipt of a revised funding proposal that is consistent with legislative direction on how the program should be funded.

Background. Chapter 926, Statutes of 2001 (SB 373, Torlakson), established an office in CIWMB and charged it with the development and implementation of an environmental education program for elementary and secondary schools in the state. The environmental principles that are to be included in the program are very broad in scope and relate to, but are not limited to, the following topics: air, water, energy, pest management, forestry, fish and wildlife resources, toxic and hazardous waste management, resource conservation and recycling, and integrated waste management.

Chapter 665, Statutes of 2003 (AB 1548, Pavley) further defined the requirements of the program (referred to as the Education and the Environment Initiative [EEI]), and established the Environmental Education Account (EEA) to be administered by the Secretary for Environmental Protection for purposes of funding this program. Chapter 665 permitted the account to receive funds from public or private organizations as well as proceeds from state or federal court judgments.

Chapter 581, Statutes of 2005 (AB 1721, Pavley), provided a role for the State Board of Education and the Superintendent of Public Instruction in determining the appropriateness of incorporating the environmental principles in instructional materials and sample curricula, respectively. It also authorized a state agency that requires development or promotion of environmental education to contribute to the EEA. Chapter 581 also authorized a storm water permittee to contribute to the EEA under specified circumstances.

Legislative Direction on How the EEI Should Be Funded. The *2005-06 Governor's Budget* proposed to fund the EEI at a level of $3.5 million, most of which ($3.3 million, 94 percent) was to come from a single funding source—the Integrated Waste Management Account (IWMA). The IWMA receives its revenues from "tipping" fees on the disposal of waste at landfills. The balance of the funding was proposed from the Waste Discharge Permit Fund (WDPF). The WDPF receives its revenues from fees levied on permittees of the State Water Resources Control Board that discharge waste into the water.

While the Legislature ultimately approved the Governor's funding request for the EEI in 2005-06, it expressed its intent at budget hearings that, in future years, multiple funding sources would better reflect the broad scope of the program. Specifically, in the *Supplemental Report of the 2005 Budget Act*, the Legislature directed the Secretary for Environmental Protection to report by January 10, 2006, on a balanced funding mix for the EEI, which the Legislature intended to be incorporated in the *2006-07 Governor's Budget*.

Legislative Direction Not Followed. At the time this analysis was prepared, the Secretary had not submitted its report on funding the EEI. The budget also proposes to fund the EEI from the same narrow sources as the current year's budget—$3.3 million from IWMA and $200,000 from WDPF. This funding proposal is contrary to the Legislature's clearly stated intent that funding for the EEI represent the program's broad environmental scope. For this reason, we withhold recommendation regarding this budget request and recommend that the Governor's May Revision include a revised funding proposal that better reflects the scope of the environmental education program, consistent with legislative intent.

STATE WATER RESOURCES CONTROL BOARD (3940)

The State Water Resources Control Board (state board), in conjunction with nine semiautonomous regional boards, regulates water quality in the state. The regional boards—which are funded by the state board and are under the state board's oversight—implement water quality programs in accordance with policies, plans, and standards developed by the state board.

The state board carries out its water quality responsibilities by (1) establishing wastewater discharge policies and standards; (2) implementing programs to ensure that the waters of the state are not contaminated by underground or aboveground tanks; and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment, water reclamation, and storm drainage facilities. Waste discharge permits are issued and enforced mainly by the regional boards, although the state board issues some permits and initiates enforcement actions when deemed necessary.

The state board also administers water rights in the state. It does this by issuing and reviewing permits and licenses to applicants who wish to take water from the state's streams, rivers, and lakes.

Proposed Funding. The budget proposes expenditures of $632 million from various funds for support of the state and regional boards in 2006-07. This amount is a decrease of $408 million, or about 40 percent, below estimated current-year expenditures. Most of this decrease reflects a reduction in bond-funded expenditures, mainly for loans and grants for local water quality and water recycling projects. Despite this overall spending reduction, the budget does propose some increases in program funding. These proposals include $10 million for the cleanup of leaking underground storage tanks, $8.5 million for statewide water quality monitoring ($4 million in one-time funds and $4.5 million in ongoing federal funds shifted from another program), and $2.9 million to improve tracking of water rights permits.

Low Compliance in Agricultural Regulatory Program

Low compliance with state regulatory requirements by growers has limited the agricultural program's effectiveness. In order to increase compliance, we recommend the enactment of legislation requiring grower coalitions to provide specific information. We also recommend that the board report at budget hearings on its plans to make the program self-supporting, consistent with legislative intent.

Regulation of Water Pollution From Agriculture. In areas where polluted wastewater is discharged into surface waters (for example, rivers or streams), the regional boards establish waste discharge permit requirements, which put restrictions on the kinds of waste and the amounts that may be discharged. State law allows regional boards to waive the waste discharge requirements if it is in the public interest, typically because the amount of discharge is insignificant. The regional boards typically make the grant of a "waiver" to the discharger subject to some conditions, such as requiring the discharger to monitor its discharges. While still a form of regulation, "conditional waivers" provide a less stringent method of regulation for minor discharges than would be required under a waste discharge permit.

Historically, the regional boards have regulated runoff from agriculture under conditional waivers. Early on, these waivers had few conditions and were largely unenforced. To address this issue, Chapter 686, Statutes of 1999 (SB 390, Alpert), required the regional boards to review and renew their conditional waivers or replace them with the more stringent waste discharge requirements if appropriate, given water quality impacts.

In order to comply with Chapter 686, the regional boards have adopted new conditional waivers for agricultural dischargers, under what is known as the Irrigated Agricultural Waivers Program. Under the program, individual growers or coalitions of growers are required to monitor water quality in the water bodies around their fields. If monitoring reveals that discharges from agricultural lands are contributing to water quality levels that exceed specified standards, the regional board may require the individual grower or coalition to implement a plan to reduce the impacts on water quality.

Grower Coalitions as a Regulated Entity. In the Central Valley, there are an estimated 80,000 individual growers and 9.6 million acres of land in agricultural production. The state board has determined that it would be impractical to enforce the conditional waiver requirements on each individual grower. Therefore, the state board has adopted a system under which individual growers can voluntarily join coalitions of growers, who would be the entity granted the waiver, rather than the individual grower. These coalitions are required to educate growers on water quality issues, instruct them in best management practices to prevent pollution, and undertake water quality monitoring programs. The coalitions provide annual water quality monitoring reports to the regional boards. Over time, these monitoring data will allow the regional boards to target their enforcement efforts to problem areas and to evaluate the effectiveness of pollution control efforts.

Funding the Agricultural Regulatory Program. Chapter 801, Statutes of 2003 (SB 923, Sher), authorized the state board to include the payment of a fee as a condition of granting a waiver under the Irrigated Agricultural Waivers Program. The Legislature has since directed that the waivers regulatory program be fee-supported. In the 2005-06 budget, the Legislature authorized the state board to collect $1.9 million in fees to support the program. In June 2005, the state board adopted a fee schedule for the program that is designed to encourage participation in coalitions by providing for a discounted fee for coalition participants. In the state board's estimation, the activities of the coalitions reduce the level of outreach and enforcement by regional board staff, and hence it is worth generating lower fee revenues if it results in increased enrollment in the coalitions.

Compliance Problems. In the Central Valley region, there are ten coalitions whose enrolled membership collectively covers about 4.1 million acres of farmland. In addition, a very limited number of growers have enrolled as individuals in the program (covering approximately 4,600 acres). While the total acreage enrolled individually or through coalitions is significant, it represents only 43 percent of the farmland acreage in the Central Valley. This level of compliance is much lower than anticipated by the regional board. To date, the coalitions have not shared their membership lists with the regional board. This has made it very difficult for the regional board to determine which growers have enrolled in a coalition and which growers are simply not complying with the conditional waiver.

Low Compliance Reduces Program Effectiveness and Negatively Impacts Program Budget. The low compliance rate has two major impacts. First, there is a programmatic impact. Growers who have not enrolled individually or through a coalition may not be getting information on the waiver's conditions and may not have information on ways to minimize polluted runoff. Additionally, because the level of compliance is low, more than one-half of the acreage in the Central Valley is probably not being effectively monitored.

Second, the low compliance rate has a budgetary impact. Because the program is fee funded, the low compliance rate has a direct impact on the generation of revenues necessary to support the program. When the state board adopted its fee schedule for the agricultural waivers program in June 2005, it anticipated raising $1.9 million in fee revenues annually, beginning in 2005-06, to support $2.1 million in program expenditures. However, the state board currently estimates that the fees will only generate $548,000 in the current year. As a consequence, the board advises that in the current year, the shortfall will be covered by a positive balance in the Waste Discharge Permit Fund, and in the budget year it anticipates addressing a projected shortfall by increasing fee rates.

Recommend Measures to Increase Compliance and Meet Legislative Intent. In order to fulfill the Legislature's intent in Chapter 686 that more stringent permit requirements be waived only when it is in the public interest to do so, it will be necessary to increase growers' compliance with the agricultural regulatory program.

First, as was mentioned above, the Central Valley regional board is not able to determine which growers are complying with the conditional waiver by enrolling in coalitions and therefore, by method of elimination, which growers are not. If the coalition membership lists were available to the regional board, it could then identify noncompliant growers in order to ensure that they comply either individually or through a coalition. Additionally, if the membership lists were publicly available, there may be peer pressure for noncompliant growers to enroll—because compliant growers are fulfilling the waiver's requirements and paying fees that noncompliant growers are not. We therefore recommend the enactment of legislation that requires: (1) coalitions to provide their membership lists to the regional board as a condition of the regional board enrolling each coalition in the agricultural waivers program, and (2) coalitions to make their membership lists public.

Second, we are concerned that, absent corrective action, the budget significantly overestimates the fee revenues that will be collected to support the waivers regulatory program in the budget year. The board's proposed solution is to adjust its fee schedule upward to account for the lower-than-anticipated compliance with the conditional waiver. We recommend that the board report at budget hearings on its plans to revise the fee schedule and its assumptions about compliance in the budget year. This will enable the Legislature to evaluate the reasonableness of the budget's assumed fee revenues and to take necessary corrective action if the assumptions appear unrealistic.

PUBLIC UTILITIES COMMISSION
(8660)

The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The CPUC's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The CPUC also promotes energy conservation through its various regulatory decisions.

Proposed Funding. The budget proposes CPUC expenditures of $1.2 billion in 2006-07 from various special funds and federal funds. This is an $18 million increase from the current year due, in part, to proposed new positions to administer the proposed Telecommunications Consumer Bill of Rights and to regulate railroad safety. The budget also proposes to redirect 12 positions from existing duties to implement the Governor's Climate Change Initiative. (Please see our analysis of this initiative in the Crosscutting Issues section of this Chapter.)

Funding for Telecommunications Consumer Bill of Rights Premature

The budget proposes adding $9.9 million (special funds) and 28 new positions to implement a new Telecommunications Consumer Bill of Rights. However, the California Public Utilities Commission has not adopted a final bill of rights. Since the document's specifics will determine the expenditures necessary to implement it, it is premature to provide new funding and position authority at this time. (Reduce Item 8660-001-0462 by $9.9 million.)

Proposed Telecommunications Bill of Rights. The CPUC has been considering whether to adopt a Telecommunications Consumer Bill of Rights, which would generally ensure that consumers have adequate information about services available to them, understand their rights under California and federal law, and are able to initiate complaints over fraudulent behavior on the part of their telecommunications provider. Currently, there are two versions of a proposed bill of rights under consideration. The CPUC may adopt either of these versions or some variation of them. The CPUC expects to issue a final decision in March 2006.

Budget Request. The budget proposes $9.9 million and 28 positions for CPUC to implement a new bill of rights, of which about $7 million is for public outreach and $2.9 million is for enforcement. However, proposed expenditures do not assume the adoption of any specific version of a bill of rights, but rather are based on the estimated cost to generally improve consumer education and increase enforcement.

Proposed Augmentation Premature. The costs required to implement a bill of rights will depend on its specific requirements and provisions. For example, CPUC anticipates that it will undertake an education campaign to inform consumers of their rights under a newly adopted bill of rights. However, the scope of such an educational campaign—and hence its cost—will be determined based on the specific consumer protections and industry requirements included in an adopted bill of rights. Given that CPUC has not yet adopted a bill of rights, it is premature to provide new funding. The ultimate decision adopted by CPUC may be substantially different from the assumptions that were used to draft the budget proposal. We therefore recommend that the Legislature deny the request for increased funding and position authority. We recommend that CPUC resubmit its budget request for legislative evaluation after CPUC has made its final decision on the bill of rights.

Increasing Participation in California Teleconnect Fund Program

The budget proposes approximately $22 million for implementation of the California Teleconnect Fund program to provide discounts to selected telecommunications customers in the state. We recommend that California Public Utilities Commission report at budget hearings on the feasibility of specified options that we provide to increase participation in the program by eligible entities, particularly community-based organizations and public hospitals and clinics.

The CPUC administers several programs designed to subsidize telecommunications service in order to ensure universal access to these services. These programs are funded through surcharges applied to telephone customers' bills for in-state service. One of these is the California Teleconnect Fund (CTF) program, which provides discounts to schools and libraries; municipal, county, and hospital district-owned hospitals and clinics; and community-based organizations (CBOs). The CBOs that qualify for the program include nonprofit organizations that provide health care, job training, job placement, and educational instruction.

The CTF program provides discounts for traditional phone service as well as advanced telecommunications services such as high speed internet access. Under existing law, the CTF program provides a 50 percent discount on telecommunications services to qualifying participants. The discount is applied to the qualifying entity's telecommunications bill by the service carrier. The service carrier then submits claims to CPUC to be reimbursed for the discounts provided.

Problems Expanding Program Participation. In the past, the Legislature has expressed a desire to ensure that the CTF program is fully utilized by all eligible participants, particularly those who may not have access to advanced telecommunications services. Based on the experience of CPUC staff, it appears that most of the eligible schools and libraries participate in the program (currently, more than 2,000 participate). According to CPUC staff, the largest potential for new program participation is local publicly owned hospitals and clinics, and CBOs. The number of participating hospitals and clinics has increased from 8 in 2002 to 35 in 2006, while the number of CBOs has increased substantially in recent years, from 38 in 2002 to over 560 in 2006. However, there remain significant hurdles to increasing participation in the program, particularly for CBOs.

With respect to hospitals and clinics, the obstacle to increased program participation appears to be limited knowledge of program benefits by potential participants. The CPUC indicates that, given increased outreach efforts, participation by local publicly owned hospitals and clinics could be substantially increased.

In regards to CBOs, impediments to increased participation are more challenging. First, it can be difficult to inform CBOs about the CTF program. While CPUC does conduct outreach efforts, the large number of potential CBO participants makes it difficult to identify and inform potential participants of the program's benefits.

Second, the services typically offered under the program are not always the services that are most appropriate for CBOs. For example, for many small CBOs, advanced, high speed Internet connections such as T1 lines are too expensive and offer service beyond their needs. On the other hand, DSL (digital subscriber line) service, which provides high-speed Internet access (slower than T1, but at a lower cost) may be a better fit for their needs. Under a ruling by the Federal Communications Commission, DSL service is not under CPUC's jurisdiction. Therefore, CPUC cannot compel carriers to offer it under the program. To date, most carriers have elected not to allow customers to apply a CTF discount to DSL service, which may be a significant barrier to increased program participation by CBOs. It is not clear why these providers do not offer such service under the CTF program, but the administrative costs to carriers of processing applications and claims may be a disincentive to do so.

Finally, CPUC policy limits the use of program discounts to telecommunications carriers licensed by CPUC. There are other providers of Internet service—such as DSL providers, cable Internet providers, and Internet service providers—which are not licensed by CPUC but provide telecommunications services that may be in higher demand from CBOs than existing, licensed services.

Recommend Legislature Consider Expanding Program Activities and Eligibility to Increase Participation. In order to increase participation in the CTF program, particularly from CBOs, we think that there are a number of actions that the Legislature should consider.

First, CPUC could increase outreach efforts to eligible parties not currently participating in the CTF program. Increased outreach efforts towards CBOs and local publicly owned hospitals and clinics could raise awareness of the program's benefits. For example, CPUC could work with telecommunications providers to identify new and existing customers who may be eligible for CTF discounts.

Second, the state could encourage providers of telecommunications services that are not commonly offered under the CTF program to do so. To do this, the Legislature could enact legislation authorizing service providers not regulated by CPUC to offer CTF discounts for telecommunications services. The Legislature could also consider allowing telecommunications providers to be reimbursed for the administrative costs of processing CTF program applications and claims as an incentive to offer additional services under the program.

We therefore recommend that CPUC report at budget hearings on the feasibility of these actions, and any other actions that it might propose to increase participation in the program by eligible entities. We note, however, that any increase in program participation will increase program costs. According to the budget proposal, CTF will have a positive balance of $24.8 million at the end of 2006-07. However, CPUC has indicated that it now projects the fund balance to be considerably less, due to updated information on prior-year claims activity. We therefore recommend that CPUC provide updated fund balance information at budget hearings so that the Legislature can evaluate the feasibility of potential actions to increase program participation in the context of such actions' impact on the CTF fund balance.

Findings and Recommendations

Resources

Analysis Page

Crosscutting Issues

Reforming the CALFED Bay-Delta Program

B-21 ■ **Governor Requested Actions to Improve CALFED.** Responding to legislative concerns, the Governor requested a number of independent reviews of CALFED be conducted and that CALFED refocus its expenditures on solving Delta conflicts.

B-22 ■ **Budget Proposal Does Not Reflect Reforms.** The budget proposal does not include changes to CALFED governance and other reforms.

B-25 ■ **Independent Reviews Identified Many Problems.** Four independent reviews found problems with CALFED's governance structure, lack of priorities, and lack of performance measures.

B-27 ■ **Recommended Legislative Actions.** We recommend actions to improve CALFED, including the enactment of legislation to revise the CALFED governance structure, establish expenditure priorities and performance measures, and define the beneficiary pays funding principle.

Analysis Page

Resources Bond Funds

B-29 ■ **Resources Bond Fund Conditions.** The budget proposes $496 million of program expenditures from the five resources bonds approved by the voters since 1996. Funds for park projects have essentially been depleted.

B-32 ■ **New Resources Bonds Proposed.** As part of his Strategic Growth Plan, the Governor has proposed over $9.4 billion of bonds for resources-related purposes, mainly flood protection and water management.

B-34 ■ **Issues for Legislative Consideration.** The Legislature should consider a number of issues when evaluating the Governor's and other proposals for new bonds. These issues concern retaining legislative oversight of bond expenditures, addressing the funding eligibility of private companies, ensuring that administrative costs are reasonable, and coordinating bond measures with existing programs.

Governor's Climate Change Initiative

B-38 ■ **Governor's Greenhouse Gas (GHG) Reduction Targets.** Budget proposes $7.2 million and 23.4 positions to implement the Governor's GHG reduction targets.

B-40 ■ **Efforts Already Underway to Curb GHG Emissions.** Many efforts are currently underway to reduce California's emission of GHGs, several of which were instigated by legislative action.

B-43 ■ **Legislature Needs to Set Overall Policy Direction.** Major policy choices inherent in the Governor's Climate Change Initiative should be evaluated by the Legislature. Recommend Secretary for Environmental Protection advise

Analysis Page

policy committees on various issues and that Legislature provide statutory direction for an overall climate change policy for the state.

Department of Conservation

B-47 ■ **Swelling Recycling Fund Balance Needs Attention.** Recommend adoption of supplemental report language requiring department to report on options available to reduce fund balance, consistent with achieving program's recycling targets.

Forestry and Fire Protection

B-55 ■ **Employee Compensation Increasing Again.** The budget proposes an augmentation of $38.7 million for increases in employee compensation costs due to contractual increases in planned overtime costs.

B-56 ■ **Employee Compensation Costs Overbudgeted. Reduce Item 3540-001-0001 by $2,865,000.** Recommend reduction of $2.9 million to correct for overbudgeting.

B-56 ■ **Staffing Changes Should Support State Responsibilities.** Recommend the enactment of legislation to ensure that the extension of fire season staffing schedules to the nonfire season results in increased fire prevention activities.

B-57 ■ **Future Compensation Merit Legislative Direction.** Recommend the enactment of legislation to provide policy direction to the Department of Personnel Administration when considering future Unit 8 memoranda of understanding.

Analysis Page

B-59 ■ **Proposal for Capital Outlay Project Management Unit Inefficient.** Recommend denial of proposed budget bill language and related position authority deleting project management responsibilities to the California Department of Forestry and Fire Protection (CDFFP) because it would establish a project management function at CDFFP that is duplicative of the function that already exists at the Department of General Services (DGS). Recommend administration report at budget hearings on proposals to address project delays in a manner consistent with statutory policy generally delegating project management authority to DGS.

State Lands Commission

B-62 ■ **No Progress in Commission's Management of School Land Bank Fund.** Recommend adoption of trailer bill language to transfer balance of fund and proceeds from future school land sales to the Teachers' Retirement Fund.

Department of Fish and Game

B-66 ■ **Fish and Game Preservation Fund Proposal (FGPF): Overall Problems Persist.** We provide a solution on how to address FGPF's structural deficit problem that is not addressed in the budget. We find that the proposed level of the account reserves within the fund are not prudent given the uncertainty of revenue projections and recommend that the department submit a plan to establish prudent reserves in each account. We also recommend improvements in future-year budget displays of the FGPF fund condition statement.

Analysis Page

B-69 ■ **Assembly Bill 7 Proposal Lacks Implementation Plan.** Recommend the department submit prior to budget hearings an implementation plan and a request for positions which corresponds to the request for increasing funding to meet the requirements of Chapter 689, Statutes of 2005 (AB 7, Cogdill).

B-70 ■ **Technical Budgeting Issues. Decrease Item 3600-001-0890 by $10.5 Million.** Recommend the Legislature amend the budget bill to correct technical errors in the scheduling of appropriations among programs. Further, recommend a reduction of $10.5 million in federal funds due to overbudgeting.

B-71 ■ **Improving Legislature's Oversight.** The department has not submitted three reports required by the *Supplemental Report of the 2005 Budget Act* that would assist the Legislature in its evaluation of the budget proposal. Recommend that the Legislature withhold appropriating funding for the department pending submittal of these reports. Further, recommend that the Legislature hold oversight hearings on the department's fiscal problems and its performance in carrying out its multiple program responsibilities.

B-73 ■ **Details of Proposed Department Restructuring Unknown.** Recommend the department report at budget hearings on proposed changes to its organizational structure.

Department of Parks and Recreation

B-75 ■ **Off-Highway Vehicle Grant Program off Track. Reduce Item 3790-101-0263 by $18 Million.** Recommend deletion of $18 million Off-Highway Vehicle Trust Fund for the Off

Analysis Page

Highway-Vehicle grant program because significant concerns raised in program audit have not been addressed.

B-77 ■ **Withhold Approval on All Concession Proposals.** Recommend the Legislature withhold approval of all of the concession proposals until they receive commission approval and the economic analyses used to determine the minimum rent paid to the state are completed.

Sierra Nevada Conservancy

B-80 ■ **Conservancy Has Not Reported Funding Requirements to Legislature.** Recommend withholding action on conservancy's budget until it meets legislative direction to report on its expenditure requirements.

Department of Water Resources

B-83 ■ **Addressing the State's Flood Management Problems.** Recommend the Legislature approve the budget proposal for increased funding ($38.2 million [mainly General Fund] for state operations and local assistance and $31.4 million [General Fund] for capital outlay) for various flood management activities. We also raise issues for legislative consideration in evaluating solutions to the state's flood management problems, relating to the role of bond funding, the relationship between land use and flood control, "beneficiary pays" financing, and state oversight of Delta levees.

Analysis Page

Air Resources Board

B-89 ■ **Additional Funding for Hydrogen Highway Premature. Reduce Item 3900-001-0044 by $6.5 Million.** Recommend deletion of the $6.5 million from the Motor Vehicle Account (MVA) for Hydrogen Highway activities as funding request is premature pending submittal of report enabling legislative evaluation of merits of continued funding.

B-92 ■ **Goods Movement Proposal Would Misuse MVA Funds.** Recommend the board resubmit its funding proposal, identifying those activities that are eligible for MVA funds and proposing alternative funding for, or elimination of, those activities that are not eligible for MVA funds.

California Integrated Waste Management Board

B-94 ■ **Legislative Direction on Environmental Education Funding Not Followed.** Withhold recommendation on funding the environmental education program pending receipt of a revised funding plan that is consistent with legislative intent to fund this program from multiple funding sources.

State Water Resources Control Board

B-98 ■ **Low Compliance in Agricultural Regulatory Program.** Low compliance has limited program effectiveness and generation of fee revenues necessary to enforce the program's requirements. Recommend the enactment of legislation requiring grower coalitions to provide information regarding their membership as a regulatory requirement. Recommend the board report at budget hearings on plans to revise its fee schedule.

Analysis Page

Public Utilities Commission

B-101 ■ **Funding for Telecommunications Consumer Bill of Rights Premature. Reduce Item 8660-001-0462 by $9.9 Million.** The budget proposes adding $9.9 million (special funds) and 28 new positions to implement a new Telecommunications Consumer Bill of Rights. Because the California Public Utilities Commission (CPUC) has not adopted a final decision detailing the specifics of the bill of rights at this time, it is premature to provide new funding and position authority.

B-102 ■ **Increasing Participation in California Teleconnect Fund Program.** Recommend that CPUC report at budget hearings on the feasibility of specified options that we provide to increase program participation.