



## Enhancing Implementation and Oversight: **Proposition 40** **Resources Bond**

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On March 5, 2002, voters approved Proposition 40—a \$2.6 billion bond for natural resource conservation, parks, and historical and cultural resources. We make recommendations to further legislative oversight of Proposition 40 expenditures. Specifically, we recommend that the Legislature: (1) review grant criteria; (2) monitor administrative costs; (3) designate a lead agency to coordinate various functions; and (4) require bond fund balances to be displayed in the Governor's budget. We also recommend that future costs resulting from bond-funded land acquisitions for state parks be adequately accounted for in the budget process. ■

### Acknowledgments

This report was prepared by Mark C. Newton. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

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## BACKGROUND

**Funding for Resources Programs.** The state carries out various programs to conserve natural and cultural resources, protect the environment, and provide recreational opportunities for the public. The state also provides loans and grants to local public agencies and nonprofit associations for similar purposes. Major state funding for such purposes has come from a variety of sources. These include the state's General Fund; special funds (including proceeds from environmental license plate sales, user and regulatory fees, and other sources); as well as proceeds from general obligation bonds.

**Prior-Year Bond Measures.** From 1970 through 2001, voters approved about \$9.3 billion of general obligation bonds for resources-related purposes. Funds from the bonds approved in the 1970s and 1980s (totaling \$4.2 billion) are essentially depleted. Bonds approved in these years were typically *either* for "park" purposes (including park development and habitat conservation) *or* "water" purposes (including water quality, water supply, flood control, and safe drinking water projects).

Between 1990 and 2001, three resources-related bonds totaling \$5.1 billion were approved by the voters—Proposition 204 (1996), Proposition 12 (2000), and Proposition 13 (2000). While Proposition 12 provides funds mainly for parks and habitat conservation, Propositions 204 and 13 each provide funds for both park/habitat conservation and various water purposes.

It is estimated that as of June 30, 2002, about \$1.3 billion will remain available for new projects, grants, and loans from resources-related bond measures approved in prior years. These are funds mainly for water-related purposes. The *2002-03 Governor's Budget* proposes about \$620 million in expenditures from these prior-year bond measures, leaving a balance of about \$721 million for future years.

**Proposition 40 Bond Measure Approved by Voters.** In 2001, the Legislature approved Chapter 875 (AB 1602, Keeley), which placed before the voters a \$2.6 billion resources bond measure. Voters approved the measure (Proposition 40) in March 2002, and the *2002-03 Governor's Budget*, as introduced this past January, proposes about \$119 million in expenditures from this bond. The Governor may propose additional Proposition 40 expenditures as part of his May Revision proposal. This report summarizes the major provisions of this measure and identifies major issues the Legislature should consider as the bond measure is implemented.

In general, we believe it is important that the Proposition 40 bond funds be allocated in a timely manner so that work on specific projects may begin as soon as possible, while ensuring accountability for the bond-funded expenditures. To facilitate accountability, we believe the allocation of funds should be based on clear criteria and that such criteria should be developed if they are not specified in the bond measure.

## MAJOR PROVISIONS OF PROPOSITION 40

Proposition 40, the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act, provides \$2.6 billion to conserve natural resources (land, air, and water), to acquire and improve state and local parks, and to preserve historical and cultural resources.

**Figure 1**  
**Allocations of Proposition 40 Funds by Recipient Agency**

(In Millions)

Recipient	Purpose	Amount
<b>State Department</b>		<b>\$1,915.0</b>
Parks and Recreation	Acquisition and development of state parks	225.0
Parks and Recreation	Local assistance	790.0
State Coastal Conservancy	Land/water resource acquisition/restoration	200.0
San Francisco Bay Area Conservancy Program (Coastal Conservancy)	Land/water resource acquisition/restoration	40.0
California Tahoe Conservancy	Land/water resource acquisition/restoration	40.0
Santa Monica Mountains Conservancy	Land/water resource acquisition/restoration	40.0
San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy	Land/water resource acquisition/restoration	40.0
Baldwin Hills Conservancy	Land/water resource acquisition/restoration	40.0
San Joaquin River Conservancy	Land/water resource acquisition/restoration	25.0
Coachella Valley Mountains Conservancy	Land/water resource acquisition/restoration	20.0
Wildlife Conservation Board	Habitat acquisition and restoration	300.0
Resources Agency Secretary	Grants for development and acquisition of river parkways	70.0
Resources Agency Secretary	Grants for urban streams program	5.0
Air Resources Board	Grants to local air districts	50.0
California Conservation Corps	Grants to local conservation corps	15.0
California Conservation Corps	Resource conservation activities	5.0
Department of Forestry and Fire Protection	Grants for urban forestry	10.0
<b>Local Recipients to Be Allocated Funds Directly</b>		<b>\$80.0</b>
City of Rancho Cucamonga	Development of Central Park	10.0
City of Los Angeles	Local parks, per capita	12.5
City of Los Angeles	Hansen Dam and Sepulveda Basin recreational areas	10.0
City of San Francisco	Golden Gate Park	35.0
County of Los Angeles	Local parks, per capita	10.0
County of Los Angeles	El Pueblo Cultural and Performing Arts Center	2.5
<b>Unspecified</b>		<b>\$605.0</b>
	Grants for water quality protection and restoration	300.0
	Grants for agricultural land preservation	75.0
	Historical and cultural resources	230.0
<b>Total</b>		<b>\$2,600.0</b>

**Bond Funds Allocated to Various Agencies.**

As shown in Figure 1, Proposition 40 bond funds are allocated to many different state and local agencies. About \$1.9 billion of the funds are allocated to 14 state agencies. (As discussed below, much of this funding will then be awarded as grants to local governments and nonprofit organizations.) Proposition 40 also allocates \$80 million directly to four local recipients. Finally, \$605 million of the bond funds are not allocated by the measure to any specific state or local recipient. In such cases, the Legislature will determine the administering agency for these funds as part of the budget process.

**Bond Funds Allocated for Various Purposes.** Proposition 40 allocates bond funds for a variety of purposes. In many cases, the measure provides only general guidelines for the use of the funds (such as \$300 million for the purposes of clean beaches, watershed protection, and

water quality projects). In other cases, the measure provides more specific direction in the use of the bond money (such as \$2.5 million for a particular performing arts center). Figure 2 shows the major categories for which bond funds are allocated.

**Substantial Funding for Grants.** About 54 percent (a little under \$1.4 billion) of the bond funds will be provided as grants to local governments and nonprofit organizations. The remaining \$1.2 billion balance is available for direct expenditure by state agencies or, in many cases, for *either* direct state expenditure or grants. Figure 3 (see next page) shows the main categories of grant funding.

Of the total amount for grants, about 39 percent (\$539 million) is to be allocated to local governments for parks on the basis of *population* and about 6 percent (\$80 million) is to be allocated to *specified* local recipients for

parks and historical and cultural resources preservation purposes. For the cases where funding is to be allocated based on a population-driven formula, the measure nonetheless requires the Department of Parks and Recreation to prepare and adopt criteria and procedures for evaluating grant applications for this funding.

An additional 20 percent (\$274 million) of the grant funding is earmarked for a

**Figure 2**  
**Uses of Proposition 40 Bond Funds**

(In Millions)

	Amount
<b>Land, Air, and Water Conservation</b>	<b>\$1,275.0</b>
• Acquisition, development, and restoration projects.	\$745.0
• Water quality protection and restoration activities.	300.0
• Agricultural and grazing lands preservation.	75.0
• Urban river parkways and streams.	75.0
• Grants for reducing diesel air emissions within parks.	50.0
• California Conservation Corps programs.	20.0
• Urban forestry programs.	10.0
<b>Parks and Recreation</b>	<b>\$1,057.5</b>
• Urban parks and recreational facilities.	\$460.0
• Regional and local parks.	372.5
• State park improvements and acquisitions.	225.0
<b>Historical and Cultural Resources Preservation</b>	<b>\$267.5</b>
• Preservation of culturally and/or historically significant properties, structures, and artifacts.	\$267.5
<b>Total</b>	<b>\$2,600.0</b>

**Figure 3**  
**Proposition 40 Grant Funding<sup>a</sup>**

(In Millions)

Program	Description	Amount
<b>Per Capita (Parks)</b>		<b>\$372.5</b>
Per Capita	• Funds for local parks allocated by formula. Eligible applicants include cities, counties, and eligible districts.	350.0
County of Los Angeles	• Funds for local parks.	10.0
City of Los Angeles	• Funds for local parks.	12.5
<b>Roberti-Z-Berg-Harris Program (Parks)</b>		<b>\$200.0</b>
	• Funds for local parks (urban areas) allocated by formula as block grants (existing program).	166.0
	• Funds for local parks allocated on a "need basis" as competitive grants (existing program).	34.0
<b>Urban and Special Need Park Programs</b>		<b>\$260.0</b>
Youth Soccer and Healthy Communities	• Funds to be spent pursuant to SB 359 (Murray), which establishes two competitive programs: (1) The California Youth Soccer and Recreation Development Program and (2) Urban Parks and Healthy Communities. SB 359 requires the Department of Parks and Recreation to adopt guidelines, which are yet to be adopted.	50.0
Urban Park Act of 2001	• Funds to be spent pursuant to AB 1481 (Frommer), which establishes a competitive grants program.	140.0
Murray-Hayden Urban Parks and Youth Services	• Competitive grant program (existing program).	50.0
City of Los Angeles	• Hansen Dam Recreation Area.	5.0
City of Los Angeles	• Sepulveda Basin Recreation Area.	5.0
City of Rancho Cucamonga	• Development of Central Park.	10.0
<b>Water Quality</b>		<b>\$300.0</b>
	• Grants (unspecified administering agency).	300.0
<b>Agricultural/Grazing Land Preservation</b>		<b>\$75.0</b>
	• Grants (unspecified administering agency).	75.0
<b>River Parkway</b>		<b>\$70.0</b>
	• Grants (existing program).	70.0
<b>Carl Moyer Memorial Air Quality Standards Attainment</b>		<b>\$50.0</b>
	• Competitive grants to local air districts for diesel emission reduction (existing program).	50.0
<b>Historical and Cultural Resources</b>		<b>\$37.5</b>
City of San Francisco	• Golden Gate Park.	35.0
County of Los Angeles	• El Pueblo Cultural and Performing Arts Center.	2.5
<b>Local Conservation Corps</b>		<b>\$15.0</b>
	• Grants to local conservation corps.	15.0
<b>Urban Forestry</b>		<b>\$10.0</b>
	• Grants for urban forestry programs (existing program).	10.0
<b>Urban Streams</b>		<b>\$5.0</b>
	• Competitive grant program (existing program).	5.0
<b>Total</b>		<b>\$1,395.0</b>

<sup>a</sup> Does not include provisions of Proposition 40 that authorize funds to be used for *either* direct state expenditure or grants. Such provisions include the \$300 million to the Wildlife Conservation Board, \$445 million to state conservancies, and \$230 million for historical and cultural resources preservation.

number of park-related *competitive* grant programs, mainly for urban and special need parks. The remaining 36 percent of the grant funding (\$502 million) is provided for a variety of purposes, including agricultural land preservation,

air quality improvements, and water quality projects. The measure does not specify a competitive grant process for most of this remaining grant funding.

## ADMINISTRATIVE PROVISIONS OF PROPOSITION 40

Proposition 40 contains provisions that specify, to varying degrees, how the bond-funded programs are to be administered. The key administrative provisions are summarized in Figure 4.

Some of these provisions could affect the timing and structure of program implementation. For instance, by requiring that all “actual” administrative costs be paid from bond proceeds, Proposition 40 sets up a tradeoff between capital outlay expenditures and administrative costs. With a few exceptions, the measure does not limit the

amount of bond funds that might be used for administrative purposes.

**Figure 4**  
**Proposition 40**  
**Key Administrative Provisions**

Issue	Provision
<b>Bond issuance costs<sup>a</sup></b>	<ul style="list-style-type: none"> <li>• Cost to be paid out of bond proceeds.</li> <li>• Shared proportionally by each program funded through proposition.</li> </ul>
<b>Administrative costs</b>	<ul style="list-style-type: none"> <li>• “Actual costs” of administering programs to be paid from bond proceeds.</li> <li>• For air quality grant program, administrative costs capped at 5 percent.</li> </ul>
<b>Appropriation of funds</b>	<ul style="list-style-type: none"> <li>• Most funds require legislative appropriation.</li> <li>• \$300 million (for Wildlife Conservation Board) is continuously appropriated.</li> </ul>
<b>Structuring of accounts for deposit of bond funds</b>	<ul style="list-style-type: none"> <li>• Bond proceeds deposited in a single fund, without subaccounts. (California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund.)</li> </ul>
<b>Reporting/auditing requirements</b>	<ul style="list-style-type: none"> <li>• Secretary for Resources shall provide annual independent audit of bond fund expenditures.</li> <li>• No other reporting requirements.</li> </ul>

<sup>a</sup> Does not include principal and interest costs for sold bonds.

## CURRENT LEGISLATIVE PROPOSALS TO IMPLEMENT PROPOSITION 40

There are a number of bills currently being considered by the Legislature that would implement various provisions of Proposition 40. In some cases, these bills create new programs and authorize the use of Proposition 40 funds for the purposes of the new program. In other cases, the bills provide more specific direction and criteria for the use of particular Proposition 40 funds. These bills are summarized in Figure 5.

These bills currently under consideration are in addition to legislation related to Proposition 40 that has already been enacted. This legislation includes Chapter 876, Statutes of 2001 (AB 1481, Frommer), and Chapter 877, Statutes of 2001 (SB 359, Murray), which both direct the expenditure of Proposition 40 funds for urban parks. In addition, as discussed below, Chapter 8, Statutes of 2002 (AB 1414, Dickerson), provides for an annual report on Proposition 40 expenditures.

**Figure 5**  
**Legislative Proposals to Implement Proposition 40<sup>a</sup>**

Bill	Status <sup>a</sup>	Description
AB 52 (Wiggins)	In Senate.	<ul style="list-style-type: none"> <li>States intent to specify use of funds for agricultural and grazing land preservation.</li> </ul>
AB 1925 (Nakano)	Assembly Second Reading.	<ul style="list-style-type: none"> <li>Appropriates an unspecified amount of water quality program funds for coastal water quality monitoring.</li> </ul>
AB 2246 (Kelley)	Assembly Appropriations.	<ul style="list-style-type: none"> <li>States intent to use historic and cultural resources preservation funds for two specific projects.</li> </ul>
AB 2534 (Pavley)	Assembly Appropriations.	<ul style="list-style-type: none"> <li>States intent to appropriate water quality program funds for purposes of a number of new programs.</li> </ul>
AB 2726 (Washington)	Assembly Appropriations	<ul style="list-style-type: none"> <li>Appropriates \$6 million of water quality program funds to a specific project.</li> </ul>
SB 984 (Costa)	Assembly Natural Resources.	<ul style="list-style-type: none"> <li>Makes funding for a new grazing land conservation program contingent on an appropriation from Proposition 40.</li> </ul>
SB 1247 (Burton)	Senate Appropriations.	<ul style="list-style-type: none"> <li>Establishes the California Trust for Cultural and Historic Preservation, and requires transfer of Proposition 40 bond funds to a new fund to be administered by the trust.</li> </ul>
SB 1385 (Brulte)	Senate Appropriations.	<ul style="list-style-type: none"> <li>Requires that grant criteria for local park funds include recommendations that grant applicant consider water conservation measures in their proposed project.</li> </ul>
SB 1777 (Sher)	Senate Appropriations.	<ul style="list-style-type: none"> <li>Makes expenditure of bond funds appropriated to the Department of Fish and Game for salmon and steelhead trout conservation and restoration subject to an existing process.</li> </ul>

<sup>a</sup> As of April 30, 2002. This list does not include previously enacted legislation related to Proposition 40.



## ISSUES FOR LEGISLATIVE CONSIDERATION

As mentioned previously, the Governor's January budget proposal includes about \$119 million in expenditures from Proposition 40 funds. These expenditures are summarized in Figure 6. The Governor's May Revision may propose additional Proposition 40 expenditures. While the Legislature is reviewing the Governor's proposals for inclusion in the budget bill, the administration continues to draft guidelines and policies to implement the bond measure.

**Figure 6**  
**Proposition 40**  
**Governor's Proposed 2002-03 Expenditures<sup>a</sup>**

(In Millions)

Department	Purpose	Amount
Various Resources Agency departments	CALFED Bay-Delta program: watershed management, water quality, and ecosystem restoration.	\$101.1
Parks and Recreation	State parks deferred maintenance.	10.0
Fish and Game	Salmon and steelhead restoration.	8.0
<b>Total</b>		<b>\$119.1</b>

<sup>a</sup> January 10, 2002 proposal.

The Legislature should ensure that its priorities for implementation of the bond measure are reflected in this and future years' budget proposals. In this regard, we have identified several immediate issues that we think the Legislature should address to ensure the effective and efficient implementation of the bond measure in accordance with the Legislature's objectives. As discussed below, we recommend the adoption of budget bill language and the enactment of a trailer bill to address these issues.

### DEVELOPMENT OF GRANT CRITERIA

As mentioned above, Proposition 40 provides about \$1.4 billion in grant funding to local and nonprofit organizations, a significant portion of which is to be available on a competitive basis. Five state departments are specified in the measure to allocate these grants.

Proposition 40 provides funds for a number of existing grant programs, such as the Carl Moyer Memorial Air Quality Standards Attainment Program. In such cases, grant criteria and guidelines already exist, although some modifications may be necessary to conform to requirements of Proposition 40. In other cases, the bond measure provides funding for new grant programs, such as urban park and water quality programs, where grant guidelines have yet to be

developed.

**Recommend Legislative Review of Grant Criteria.** Particularly in the case of competitive grants, it is important that clear criteria be established to facilitate the consistent evaluation of grant applications. The development of grant criteria will also help applicants to submit appropriate project applications. In developing grant criteria, the administering departments will need to meet any requirements specified in the bond measure. For example, for some grant

programs, Proposition 40 provides that priority should be given to projects with local matching funds. For other programs, the bond measure specifies the allocation of grants to cities and counties. Legislative review of the grant criteria proposed to be used by the departments will give the Legislature an opportunity to ensure that the bond measure's requirements are being met.

Additionally, we think that the grant criteria to be developed by the departments should include priorities for the allocation of the funds. This would give the Legislature the opportunity, upon its review of the criteria, to evaluate whether the administration's priorities for the grant funds are consistent with its own priorities.

Accordingly, we recommend that the Legislature adopt budget bill language prohibiting the expenditure of bond funds by departments in the budget year until relevant grant criteria have been submitted to the Legislature for review. To the extent that the Legislature finds modification of the criteria to be necessary, such notification will provide the opportunity to do so.

Specifically, we recommend the adoption of the following budget bill language under both Item 0540-001-0001 (Secretary for Resources—main item) and Item 0555-001-0044 (Secretary for Environmental Protection—main item):

Funds appropriated to this agency and its constituent departments for a grant program implemented pursuant to Proposition 40 approved by the voters in March 2002 shall be expended no sooner than 30 days following the receipt by the Chair of the Joint Legislative Budget Committee and the chairs of the legislative fiscal committees of each house of a report setting out the priorities and criteria to be used in the award of grants under that program. This restriction does not apply in cases where the bond measure identifies a specific recipient for grant funds.

## USE OF BOND FUNDS FOR PROGRAM ADMINISTRATIVE COSTS

To the extent that various administrative costs are charged to bond proceeds, there will be less bond funding available for specific projects and programs. Therefore, the Legislature should consider how these costs are funded and allocated as it reviews proposals to appropriate funds for bond-funded programs.

***Program Administrative Costs Require More Legislative Direction.*** Generally, program administrative costs are for general administrative purposes, such as accounting and processing grant applications related to carrying out the bond-funded programs. These costs include staff salaries, benefits, equipment, and other operating expenses. As mentioned previously, Proposition 40 requires that actual costs of administering programs be paid from bond proceeds, but generally does not impose any limits on the *magnitude* of these bond costs.

Accordingly, the bond measure leaves considerable room for budgetary discretion. This is because program administrative costs are not defined in the bond measure or elsewhere in state law. As a result, departments effectively have broad discretion to determine which administrative costs to charge against bond proceeds. Such broad discretion could result in the dilution of the intended programmatic uses of the bond—capital projects and local assistance grants. These administrative costs potentially could be quite significant. For every 1 percent of bond money spent on administrative costs, the total amount of bond funds available for capital projects and local assistance would be reduced by about \$26 million.

***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 ultimately available for projects, we think it is important that the Legislature exercise effective oversight of these costs. In order to do this, we recommend the adoption of a control section in the *2002-03 Budget Bill* that would limit the maximum percentage of bond funds that could be spent on administrative costs for grants and property acquisitions. We believe that a cap of up to 5 percent of an appropriation for a grant program and for individual property acquisition projects would be reasonable. Specifically, we recommend the adoption of the following control section:

Section xx. Notwithstanding any other provision of law, of the funds appropriated in this act from Proposition 40 approved by the voters in March 2002, administrative costs shall not exceed 5 percent of any such appropriation for purposes of grant programs and of the purchase price of individual property acquisition projects.

In order to address these issues for subsequent years, we recommend the enactment of legislation that would provide a reasonable limit on, and definition of, administrative costs funded from bond proceeds. As a general guideline, we believe that only departmental costs directly attributable to bond-related projects should be borne by bond funds.

Even with this legislative direction, we believe the allocation of bond funds to administrative costs warrants ongoing legislative monitoring. It is important that the administration report annually in the Governor's budget document on the amount of administrative costs

actually funded from bond proceeds in order to allow for continued legislative oversight.

Nonstate entities, such as local governments and nonprofit organizations, also may incur administrative costs as they utilize bond funds for specified purposes. The bond measure, however, does not provide parameters for the use of bond funds by these entities for administrative purposes. We believe it is appropriate to permit certain project-related costs incurred by nonstate entities to be covered from the bond funds. However, in order to minimize the erosion of bond funding available for project costs, we recommend that provisions be adopted in future legislation (similar to those recommended previously for the state) to limit and define administrative costs to be applied to nonstate entities.

## COORDINATION OF ACTIVITY

The implementation of Proposition 40 will involve at least 14 state agencies. In some cases, bond expenditure decisions made by one agency may affect or overlap with a bond-funded program area that is under another agency's jurisdiction. For example, a number of different state agencies are provided funds under Proposition 40 for habitat restoration and protection. In addition, bond-funded activities may relate to existing programs. For example, projects eligible for funding from Proposition 40's water quality program could potentially be funded by the same agency under existing water bond programs.

In view of the above, there will be a need for coordination both within and among state agencies implementing the bond's provisions. This coordination is important mainly for two

reasons. First, it is necessary to ensure that bond-funded expenditures are cost-effective in addressing the state's priorities for resource protection. To accomplish this, expenditure decisions should be made by taking into account other bond-funded program areas and existing programs that relate to, or may be affected by, the expenditure in question.

Second, coordination is necessary in order to ensure a complete and accurate accounting of bond-funded expenditures and account balances. For example, a lack of coordination and standardization in fiscal accounting by various state agencies in the implementation of recent resources bonds (Propositions 12, 13, and 204) has made it difficult to obtain information on those measures' fund conditions. In addition, coordinated and consolidated reports would facilitate legislative oversight by providing an easier means by which to hold state agencies accountable for implementation of the bond programs.

***Recommend Designation of Lead Agency.*** The coordination of decision making, accounting, and reporting under Proposition 40 would be facilitated by designating a lead agency responsible for overseeing the implementation of the bond. For instance, the Resources Agency, which oversees the departments with most of the Proposition 40 expenditures, could be designated as the lead agency. Doing so would increase the likelihood that the bond measure would be implemented effectively and the Legislature's oversight of bond-funded activities would be enhanced. Accordingly, we recommend the enactment of a trailer bill to designate a lead agency for the overall implementation of Proposition 40.

## ACCOUNTABILITY MEASURES

As Figure 4 shows, the bond measure does not impose reporting requirements on the departments that will be administering the bonds, apart from a requirement for an annual independent audit of bond expenditures. Because most of the bond-funded programs will be administered over a number of years, it is important that the Legislature receive regular updates regarding the status of the programs, as well as information that allows for the evaluation of whether bond expenditures are meeting legislative goals and objectives.

***Reporting to Legislature.*** Recently enacted legislation—Chapter 8, Statutes of 2002 (AB 1414, Dickerson)—does, however, provide for reporting on Proposition 40 expenditures. Chapter 8 requires that the Secretary for Resources prepare an annual summary report on expenditures from the bond measure and make this information available to the public. We recommend that the Legislature direct the Secretary for Resources to include a number of items in this report. Specifically, the report should include fiscal information such as an accounting of expenditures (including administrative costs) and a description of major projects that have been approved. In addition, the annual report should address broader programmatic issues, such as the amount and location of habitat acquired by bond funds and the species targeted for protection. This type of information would allow the Legislature to assess the extent to which the bond programs are achieving legislative goals and priorities.

***Recommend Fund Balances, on a Program-by-Program Basis, Be Displayed in Governor's Budget.*** Finally, in order to exercise oversight of

the bond programs, the Legislature will need periodic updates on the fund balances remaining for the various programs funded by the bond measure. As mentioned previously, Proposition 40 created only a single fund for all bond proceeds. We therefore recommend the enactment of trailer legislation that requires the fund balances for each of the *programs* provided funding in the bond measure—such as the \$350 million per-capita parks program—be displayed annually in the Governor’s budget document. This will promote accountability, and will facilitate the monitoring of fund balances for use in future budget appropriations.

## BUDGETING FOR COSTS ASSOCIATED WITH STATE PARK ACQUISITIONS

Proposition 40 provides \$225 million in bond funds for acquisition and development of state parks. Of this amount, not more than 50 percent may be used for acquisition. While the Governor’s budget proposal introduced in January does not include any expenditures from Proposition 40 for state park acquisitions, the Governor could propose expenditure of these funds during the May Revision process.

***Land Acquisitions Create Future Cost Obligations.*** In our *Analysis of the 2002-03 Budget Bill* (please see page B-72), we make a number of recommendations for legislative action to ensure that costs associated with land acquisitions for state parks are better accounted for in the budget process. Our analysis found that land acquisitions for state parks can result in a number of obligations to the Department of Parks and Recreation (DPR) beyond the actual cost of the parcel. These obligations include the costs to provide public access and to develop

the property in order to achieve the intended purpose of the acquisition. For example, many of the recent acquisitions in urban areas for a state park involve unimproved lots with no existing park features such as trails, natural landscaping, or facilities. These parcels will likely require significant development costs. In addition, the department will incur ongoing operating costs once a state park is open to the public.

***Need Exists to Better Identify, and Provide for, Future Obligations.*** Our review found that in most instances where future development will be required for a recent acquisition, the department has not identified the cost or extent of this development. In addition, we found that only in limited cases have the funds necessary for future development and/or operating costs been identified or provided during the budget process when funding approval for land acquisition is being considered. To the extent that these future obligations are unaccounted for in the funding decision, the full benefits to the public associated with the acquisition may not be achieved nor the stewardship needs of the acquisition met.

***Recommendations to Improve Budgeting of Bond-Funded State Park Acquisitions.*** In order to improve budgeting for the obligations associated with land acquisitions for state parks using Proposition 40 funds, we recommended in the *Analysis* that the Legislature:

- Require DPR to submit a funding plan for future obligations associated with land acquisitions proposed for funding from Proposition 40. This funding plan should include an estimate of (1) the costs necessary to permit public access to the property and (2) to the extent known, potential additional

development and ongoing operating costs based on the planned or possible uses of the parcel.

- Require DPR to set aside bond funds to cover costs for future development as a condition of legislative approval of the budget request.

- Consider giving priority to funding development projects that provide timely access to *existing* acquisitions.

## CONCLUSION

The passage of Proposition 40 provides the opportunity for the state to make major new investments in its parks and its natural, cultural, and historical resources. It is important that these investments be targeted to address the

state's highest priorities, and that available funds be administered as efficiently and effectively as possible. Toward these goals, we believe the Legislature should provide further direction, along the lines suggested above.

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