

RESOURCES

SEA GRANT PROGRAM

Item 3110-001 from the General
Fund and the Environmental
License Plate Fund

Budget p. R 1

Requested 1991-92.....	\$589,000
Estimated 1990-91	609,000
Actual 1989-90	525,000
Requested decrease \$20,000 (-3.3 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3110-001-001	General	\$489,000
3110-001-140	Environmental License Plate	<u>100,000</u>
Total		\$589,000

GENERAL PROGRAM STATEMENT

The National Sea Grant College Program Act of 1966 authorizes federal grants to institutions of higher education and other agencies engaged in marine resources research programs. Federal funds provide up to two-thirds of approved research costs. The remaining one-third of the project costs must be provided from nonfederal sources. The state historically has provided funds to the Resources Agency for distribution to higher education institutions involved in the Sea Grant Program. Most of these funds are applied toward the one-third project match required by the federal government, primarily for projects at University of California campuses and the University of Southern California.

In 1989-90, institutions within California received \$3.7 million in federal grants for Sea Grant projects. The federal funds were matched with \$2 million from various funding sources and in-kind services, including \$525,000 in state funds provided in the 1989 Budget Act. In the current year the Sea Grant program has funded 49 projects related to the marine environment, including coastal ocean research, aquaculture research and development, pharmaceutical discovery programs, and marine advisory programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1617, Statutes of 1988 (AB 3223, Mojonnier), extended the Sea Grant program through 1993-94 and specified that the program should receive \$525,000 annually in state support. The budget proposes \$589,000 in state support for the Sea Grant program in 1991-92. This is a decrease of \$20,000, or 3.3 percent, below estimated expenditures in the current year. This decrease is a result of an unallocated reduction proposed to replace the trigger-related reduction established by Ch 458/90 (AB 2348,

SEA GRANT PROGRAM—Continued

Willie Brown). The total includes \$489,000 from the General Fund and \$100,000 from the Environmental License Plate Fund.

Our analysis indicates that the budget request for the Sea Grant program is reasonable.

TAHOE REGIONAL PLANNING AGENCY

Item 3110-101 from the General Fund and various funds

Budget p. R 1

Requested 1991-92.....	\$1,710,000
Estimated 1990-91	1,461,000
Actual 1989-90	1,366,000
Requested increase \$249,000 (+17 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3110-101-001—Support	General	\$910,000
3110-101-140—Various activities	Environmental License Plate	800,000
Total		\$1,710,000

GENERAL PROGRAM STATEMENT

The Tahoe Regional Planning Agency (TRPA) was established by an interstate compact approved by the California Legislature, Ch 1589/67 (AB 1362, Z'berg), the Nevada Legislature and the U.S. Congress. The compact provides for the development of a coordinated land use plan and enforceable regulations to preserve and enhance the environment and resources of the Lake Tahoe basin. Amendments to strengthen the compact were approved by the U.S. Congress, the President, and the states in 1980.

In May 1987, after lengthy court challenges, the TRPA acted to begin formal adoption of a revised regional plan and accompanying ordinances as part of a litigation settlement agreement. The court lifted a previously imposed development injunction at the time of the settlement.

The regional plan has been amended several times since it was approved in July 1987. These amendments include (1) the South Lake Tahoe Redevelopment Plan adopted in March 1989, (2) the Water Quality Management Plan adopted in November 1988 and approved by the Environmental Protection Agency in June 1989, and (3) the Scenic Quality Improvement Plan approved in October 1989.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes two appropriations totaling \$1.7 million as California's share of support for the TRPA in 1991-92. This amount consists of \$910,000 from the General Fund and \$800,000 from the

Environmental License Plate Fund (ELPF). This is an increase of \$249,000, or 17 percent, over the amount provided by California in the current year.

The TRPA also receives funds from Nevada, local governments and various other sources. Under the compact, California's contribution to TRPA support is twice that of Nevada.

Table 1 summarizes the TRPA's sources of funds for 1991-92 and indicates the percentage of the agency's total budget derived from each source. The agency proposes total expenditures of \$3.6 million in 1991-92. This amount is \$297,000, or 9.1 percent, more than total estimated current-year expenditures.

Table 1
Tahoe Regional Planning Agency
Sources of Funds
1991-92
(dollars in thousands)

<i>Funding Source</i>	<i>Amount</i>	<i>Percentage</i>
California	\$1,710	48.1%
Nevada	868	24.4
Local governments	150	4.2
Interest income	150	4.2
Grants and contracts	200	5.6
Filing fee income	375	10.5
Fines and forfeitures	20	0.6
Other	84	2.4
Total	\$3,557	100.0%

Table 2 summarizes the proposed changes in California's support for the agency during 1991-92, by fund. As the table shows, the budget

Table 2
Tahoe Regional Planning Agency
Proposed Budget Changes, by Fund
1991-92
(dollars in thousands)

	<i>General Fund</i>	<i>Environmental License Plate Fund</i>	<i>Totals</i>
1990-91 expenditures (revised)	\$896	\$565	\$1,461
<i>Workload and administrative adjustments</i>			
Cost-of-living adjustment	52	—	52
Eliminate one-time costs	—	-162	-162
Unallocated reduction	-38	—	-38
Subtotals	(\$14)	(\$162)	(\$148)
<i>Program changes</i>			
Community planning	—	\$30	\$30
Environmental monitoring program	—	99	99
Tahoe Environmental Geographic Information System	—	268	268
Subtotals	—	(\$397)	(\$397)
1991-92 expenditures (proposed)	\$910	\$800	\$1,710
<i>Change from 1990-91</i>			
Amount	\$14	\$235	\$249
Percent	1.6%	41.6%	17.0%

TAHOE REGIONAL PLANNING AGENCY—Continued

proposes \$52,000 to fund California's share of a 5 percent cost-of-living adjustment for the agency. This increase is offset by a \$38,000 unallocated reduction which the budget proposes in lieu of the "trigger" reduction specified in Ch 458/90 (AB 2348, Willie Brown).

As shown in Table 2, the budget proposes the reduction of one-time 1990-91 costs of \$162,000 from the ELPF for various programs, including Individual Parcel Evaluation System monitoring, environmental threshold evaluations, and stream environment zone mapping. The budget proposes continued ELPF funding of \$83,000 for these programs in 1991-92.

Also as shown in Table 2, the budget requests funds from the ELPF for new or expanded support of various programs related to the Tahoe basin regional plan. The agency requests: (1) an augmentation of \$30,000 for support of community plan development, (2) an additional \$99,000 for an expanded environmental monitoring program, and (3) \$268,000 in new funding for equipment and services to shift the Tahoe Environmental Geographic Information System database from its temporary home at the U.S. Geological Survey to its intended permanent home at the TRPA. Under these proposals, California's funding of these programs would total \$717,000.

The overall budget request appears reasonable, given the TRPA's responsibilities under the revised regional plan.

CALIFORNIA TAHOE CONSERVANCY

Item 3125 from the General

Fund and other funds

Budget p. R 2

Requested 1991-92.....	\$5,759,000
Estimated 1990-91	2,816,000
Actual 1989-90	2,483,000
Requested increase \$2,943,000 (+104.5 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3125-001-001—Support	General	\$804,000
3125-001-164—Support	Outer Continental Shelf Lands Act, Section 8(g) Revenue	388,000
3125-001-568—Support	Tahoe Conservancy	143,000
3125-001-720—Support	Lake Tahoe Acquisitions (Bond)	894,000
3125-101-164—Erosion control grants	Outer Continental Shelf Lands Act, Section 8(g) Revenue	3,500,000
Reimbursements	—	30,000
Total		\$5,759,000

GENERAL PROGRAM STATEMENT

Chapters 1222 and 1239, Statutes of 1984 (SB 1806, Garamendi and AB 3279, Filante), established the California Tahoe Conservancy and designated it as the lead agency for purposes of implementing the \$85 million Tahoe Acquisitions Bond Act of 1982 and acquiring environmentally sensitive and other undeveloped lands in the Lake Tahoe Basin. The conservancy also is authorized to use other available funds for (1) the acquisition of developed and partially developed lands and (2) the improvement and development of acquired lands for the purposes of recreation, protecting the natural environment, and providing public access.

The conservancy has a seven-member governing board composed of the Secretary for Resources and the Director of Finance, plus one member each appointed by the South Lake Tahoe City Council, the Placer County Board of Supervisors, the El Dorado County Board of Supervisors, the Senate Rules Committee, and the Speaker of the Assembly. In addition, a representative of the U.S. Forest Service serves as an ex officio, nonvoting member.

The conservancy's office is located in South Lake Tahoe. It has 22 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The conservancy's budget proposes expenditures totaling \$5.7 million for support and local assistance in 1991-92. This is an increase of \$2.9 million, or 105 percent, from estimated current-year expenditures. The increase is due primarily to increases of (1) \$523,000 from special funds for staff and operating expenses because of increased workload for various activities and (2) \$2.4 million in local assistance grants for soil erosion control (an increase of \$3.5 million from the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund, offset by reductions of \$1 million from the Environmental License Plate Fund and \$71,000 in federal funds).

Table 1 provides a summary of the conservancy's expenditures for support and local assistance from 1989-90 through 1991-92.

CALIFORNIA TAHOE CONSERVANCY—Continued

Table 1
California Tahoe Conservancy
Summary of Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Support	18.1	22.0	26.0	\$1,483	\$1,745	\$2,267	31.6%
Erosion control grants.....	—	—	—	1,000	1,071	3,500	226.8
Unallocated reduction.....	—	—	—	—	—	-8	— ^a
Totals.....	18.1	22.0	26.0	\$2,483	\$2,816	\$5,759	104.5%
Funding Sources							
<i>Support:</i>							
General Fund.....				\$649	\$800	\$804	0.5%
Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund.....				47	35	388	— ^a
Tahoe Conservancy Fund.....				52	122	143	17.2
Lake Tahoe Acquisitions Fund.....				735	766	894	16.7
Reimbursements				—	22	30	36.4
<i>Local assistance:</i>							
Environmental License Plate Fund.....				1,000	1,000	—	-100.0
Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund.....				—	—	3,500	— ^a
Federal funds.....				—	71	—	-100.0

^a Not a meaningful figure.

Table 2 summarizes, by funding source, the proposed changes in the conservancy's budget for 1991-92.

Table 2
California Tahoe Conservancy
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	Lake Tahoe Acquisi- tions Fund	Tahoe Conser- vancy Fund	Sec. 8(g) Revenue Fund	Other Funds ^a	Totals
1990-91 expenditures (revised).....	\$800	\$766	\$122	\$35	\$1,093	\$2,816
<i>Baseline adjustments:</i>						
Miscellaneous adjustments	12	11	5	—	—	28
Deletion of one-time costs	—	—	-30	-35	—	-65
Subtotals.....	(\$12)	(\$11)	(\$25)	(\$35)	(—)	(\$37)
<i>Workload and administrative changes:</i>						
Increased property management activities.....	—	—	\$10	\$188	—	\$198
Computer system enhancements and support	—	\$101	—	103	—	204
Additional support for program ad- ministration	—	16	—	97	\$8	121
Transfer to local agencies.....	—	—	36	—	—	36
Unallocated reduction.....	-8	—	—	—	—	-8
Subtotals.....	(\$8)	(\$117)	(\$46)	(\$388)	(\$8)	(\$551)

Item 3340

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Program changes:

Soil erosion control grants.....	---	---	---	\$3,500	-\$1,071	\$2,429
1991-92 expenditures (proposed)	\$804	\$894	\$143	\$3,888	\$30	\$5,759
Change from 1990-91:						
Amount	\$4	\$128	\$21	\$3,853	-\$1,063	\$2,943
Percent	0.5%	16.7%	17.2%	— ^b	-97.3%	104.5%

^a Environmental License Plate Fund, federal funds and reimbursements.

^b Not a meaningful figure.

Our review indicates that the budget requests for the conservancy in 1991-92 appear reasonable.

Capital Outlay

The Governor's Budget proposes several appropriations totaling \$9 million in Item 3125 for capital outlay expenditures by the conservancy. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

CALIFORNIA CONSERVATION CORPS

Item 3340 from the General
Fund and other funds

Budget p. R 14

Requested 1991-92.....	\$56,818,000
Estimated 1990-91	57,085,000
Actual 1989-90	58,035,000
Requested decrease \$267,000 (-0.5 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3340-001-001—support	General	\$40,070,000
3340-001-235—support	Public Resources Account, Cigarette and Tobacco Products Surtax	234,000
3340-001-465—support	Energy Resources Programs Account, General	6,022,000
Reimbursements	—	<u>10,492,000</u>
Total		\$56,818,000

GENERAL PROGRAM STATEMENT

The California Conservation Corps (CCC) was established by Ch 342/76 (SB 1575, Smith) to: (1) conserve and enhance the state's natural resources and environment and (2) provide meaningful on-the-job training and educational opportunities to California residents aged 18 through 23. The CCC was expanded by Ch 1710/84 (SB 2049, Garamendi) and Ch 1606/85 (SB 104, Garamendi) to develop community conserva-

CALIFORNIA CONSERVATION CORPS—Continued

tion corps in neighborhoods with large concentrations of minority youth and high youth unemployment.

The CCC's headquarters is in Sacramento. It operates 17 residential base centers, 30 satellite centers, and a corpsmember training academy in Camp San Luis Obispo. The CCC also provides funding for nine community conservation corps. The budget for the current year provides funding for a total of 1,925 corpsmember-years plus 438.4 supervisory and administrative personnel-years. In the current year, the corps expects to: (1) plant 500,000 trees; (2) restore 39 miles of fish habitat; (3) provide 83,000 hours of helitack fire fighting; and (4) conduct energy conservation audits and retrofits on 1.7 million square feet of space.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes expenditures totaling \$56.8 million in 1991-92. This amount consists of (1) \$40.1 million from the General Fund, (2) \$234,000 from the Public Resources Account, (3) \$6 million from Energy Resources Programs Account, and (4) \$10.5 million in reimbursements, including payments from non General Fund-support departments for work done by the CCC. This is \$267,000, or 0.5 percent, lower than estimated current-year expenditures. Table 1 summarizes the staffing and expenditures for the CCC from 1989-90 through 1991-92.

Table 1
California Conservation Corps
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
<i>Programs:</i>							
Orientation and training							
academy.....	29.0	30.9	30.9	\$3,811	\$3,881	\$3,913	0.8%
Base and fire center.....	264.7	276.9	276.9	49,348	48,557	49,124	1.2
Energy program.....	20.4	21.4	21.4	2,928	2,969	3,013 ^a	1.5
Nonresidential program.....	—	—	—	1,948	1,678	1,678	—
Unallocated reduction.....	—	—	—	—	—	-910	— ^b
Administration (distributed to other programs)	104.9	109.2	109.2	(4,304)	(4,681)	(4,770)	(1.9)
Totals	419.0	438.4	438.4	\$58,035	\$57,085	\$56,818	-0.5%
<i>Funding Sources</i>							
General Fund				\$40,473	\$40,566	\$40,070	-1.2%
Public Resources Account, Cigarette and Tobacco Products							
Surtax Fund				213	214	234	9.3
Energy Resources Programs Account, General Fund				5,821	5,920	6,022	1.7
Reimbursements.....				11,054	10,385	10,492	1.0

^a Governor's Budget does not reflect a \$20,000 pro rata adjustment for 1991-92.

^b Not a meaningful figure.

The \$267,000 reduction is primarily due to the net effect of (1) a decrease of \$910,000 due to an unallocated trigger-related reduction,

offset by (2) an increase of \$460,000 due to the full-year effect of 1990-91 employee compensation increases. The unallocated reduction is included in the proposed budget for the corps in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Our analysis indicates that the budget request for the California Conservation Corps is reasonable.

Capital Outlay

The Governor's Budget proposes an appropriation of \$140,000 in Item 3340-301-036 for capital outlay for the Corps. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

Item 3360 from various funds

Budget p. R 19

Requested 1991-92.....	\$110,752,000
Estimated 1990-91	87,509,000
Actual 1989-90	68,404,000
Requested increase \$23,243,000 (+26.6 percent)	
Total recommended reduction.....	13,145,000
Proposed increase in General Fund revenues	7,500,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3360-001-033—Energy conservation loans to schools, hospitals and local governments	State Energy Conservation Assistance Account, General	\$5,150,000
3360-001-044—Support Account	Motor Vehicle State Transportation	1,231,000
3360-001-465—Support	Energy Resources Programs Account, General	36,933,000
3360-001-479—Energy technology grants and loans	Energy Technologies Research, Development, and Demonstration Account, General	2,000,000
3360-001-497—Host site for the International Geothermal Association Secretariat	Geothermal Resources Development Account, General (GRDA)	143,000
3360-001-853—Energy conservation assistance	Petroleum Violation Escrow Account (PVEA)	10,090,000
3360-001-854—Purchase school buses	Katz School Bus Fund, PVEA	116,000
3360-001-890—Support	Federal Trust	1,801,000
Ch 1340/86—Methanol demonstration project, program administration	Clean Fuels Account, PVEA	50,000
Ch 1338/86—Small business energy loan program administration	PVEA	40,000
Ch 1341/86—Farm energy loan program administration	PVEA	50,000

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION—Continued

Ch 1343/86—Energy conservation assistance	Loan Jurisdiction Energy Assistance Account, PVEA	170,000
Public Resources Code Section 25402.1—Fee Revenue	Energy Resources Programs Account, General	75,000
Ch 1426/88—Purchase school buses	Katz School Bus Fund, PVEA	36,651,000
3360-490—Purchase school buses	Katz School Bus Fund, PVEA	8,349,000
Ch 1426/88—Purchase school buses program administration	PVEA	16,000
Ch 1436/88—Intervenor awards	PVEA	1,127,000
Ch 1611/90—Clean fuels tax credits	General	25,000
Ch 1661/90—Various alternative fuels programs	PVEA	3,500,000
3360-101-497—Grants to local governments	GRDA	2,800,000
Reimbursements	—	435,000
Total		<u>\$110,752,000</u>

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. **Transportation Energy Technology Innovation Program. Reduce Item 3360-001-044 by \$1,123,000 and two person-years (PYs).** Recommend deletion because (a) the commission has not demonstrated that the program is needed and (b) the program partially duplicates the commission's existing Energy Technologies Advancement Program. 341
2. **Optical Disk Computer System. Revert \$130,000 from the current-year's budget and reduce Item 3360-001-465 by \$192,000 and one PY.** Recommend reversion and reduction because the project is no longer cost-effective based on the Office of Information Technology's review. 341
3. **Expansion of the Alternative Fuels Demonstration Programs. Reduce Item 3360-001-853 by \$2,148,000 and three PYs.** Recommend reduction because the adoption of "Clean Fuels" regulations by the Air Resources Board makes expanding the commission's existing alternative fuels demonstration programs unnecessary. 342
4. **Establishment of a Special District Energy Assistance Program. Reduce Item 3360-001-853 by \$2,066,000 and one PY.** Recommend deletion of \$2 million and one PY because the funding is not needed in the budget year. 345
5. **Legislative Oversight — Katz School Bus Program.** Recommend that the commission advise the fiscal committees during budget hearings on the status of the Katz School Bus Demonstration; specifically, on (a) how the number of school buses to be purchased can be increased and (b) the likelihood of continued program delays. 346
6. **Additional Staff for Katz School Bus Demonstration Program. Reduce Item 3360-001-854 by \$116,000 and two PYs.** Recommend deletion because additional staff are not justified. 348

7. *Power Plant Siting — Application Fees. Reduce Item 3360-001-465 by \$7.5 Million.* Recommend enactment of legislation requiring the commission to adopt fees to cover the costs of processing power plant applications, thereby including the siting costs in the costs of building a new power plant. 349

GENERAL PROGRAM STATEMENT

The Energy Resources Conservation and Development Commission is a five-member, full-time body that is responsible for siting major electric power plants, forecasting energy supplies and demands, developing energy conservation measures, and conducting a program of research and development involving energy supply, consumption, conservation, and power plant siting technology.

The commission has 458.2 personnel-years in the current year.

MAJOR ISSUES

- The \$2.1 million proposed to expand alternative fuels demonstration programs is unnecessary, due to the adoption of "clean fuels" regulations by the Air Resources Board.
- Our review of the \$100 million Katz School Bus Program indicates that (1) substantially fewer buses will be replaced than originally estimated and (2) the delays that have plagued the program may continue.
- Enactment of legislation requiring application fees for the power plant siting program could result in General Fund savings of \$7.5 million.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$110.8 million from various state funds, federal funds, Petroleum Violation Escrow Account (PVEA) funds, and reimbursements for support of the Energy Commission in 1991-92. This is a net increase of \$23.2 million, or 27 percent, above estimated current-year expenditures. Table 1 shows the Energy Commission's budget for the prior, current, and budget years.

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—Continued**

Table 1
California Energy Commission
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Change from 1990-91	
	Actual 1989-90	Esti- mated 1990-91	Pro- posed 1991-92	Actual 1989-90	Esti- mated 1990-91	Pro- posed 1991-92	Amount	Percent
Regulatory and planning.....	173.8	197.0	194.1	\$13,872	\$16,416	\$16,544	\$128	0.8%
Energy resources conservation .	74.1	82.7	82.3	11,459	39,345	21,127	-18,218	-46.3
Development.....	61.4	70.1	78.2	34,410	22,724	63,910	41,186	181.2
Policy, management, and ad- ministration.....	<u>104.4</u>	<u>108.4</u>	<u>106.7</u>	<u>8,663</u>	<u>9,024</u>	<u>9,171</u>	<u>147</u>	<u>1.6</u>
Totals.....	413.7	458.2	461.3	\$68,404	\$87,509	\$110,752	\$23,243	26.6%
Funding Sources								
Energy Resources Programs Account (ERPA).....				32,842	\$36,988	\$37,008	\$20	0.1%
Energy Conservation Assistance Account.....				2,189	7,834	5,150	-2,684	-34.3
Energy Technologies Research, Development and Demon- stration Account.....				2,928	3,010	2,000	-1,010	-33.6
General Fund.....				—	25	25	—	—
Local Government Geothermal Resources Revolving Sub- account.....				1,703	3,643	2,943	-700	-19.2
Petroleum Violation Escrow Account.....				5,969	19,380	14,823	-4,557	-23.5
Katz School Bus Fund.....				19,347	2,000	45,116	43,116	2,155.8
Local Jurisdiction Energy Assistance Account.....				1,271	11,008	170	-10,838	-98.5
Clean Fuels Account.....				856	50	50	—	—
Motor Vehical Account.....				101	103	1,231	1,128	1,095.1
Federal Trust Funds.....				1,017	3,033	1,801	-1,232	-40.6
Reimbursements.....				181	435	435	—	—
Totals.....				\$68,404	\$87,509	\$110,752	\$23,243	26.6%

Table 2 shows the changes in the California Energy Commission's (CEC) proposed budget for 1991-92, by funding source. The table shows a net increase of \$23.2 million. This increase is primarily due to changes in PVEA expenditures. The budget proposes net additional expenditures of \$27.7 million in PVEA funding. This increase consists of an additional \$43 million for the purchase of school buses, \$3.6 million for alternative fuels programs, and \$6.2 million in technical assistance for small schools and special districts. These increases are partially offset by the deletion of PVEA funding of \$9.1 million for the Local Jurisdiction Program, \$7.5 million in transportation grants to local governments, \$2.4 million in energy loans for small business, \$1.7 million in energy conservation loans for school districts, and \$1.3 million for local government energy contingency planning.

Table 2
California Energy Commission
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>Energy Resources Programs Account</i>	<i>Other Funds^a and Reimbursements</i>	<i>Federal Funds</i>	<i>PVEA^b</i>	<i>Total</i>
1990-91 expenditures (revised)	\$36,988	\$15,050	\$3,033	\$32,438	\$87,509
Baseline adjustments:					
Employee compensation adjustments	\$585	\$4	\$1	\$9	\$599
Expiration of limited-term positions...	-200	—	—	—	-200
Reduction in equipment	-9	—	—	—	-9
One-time baseline contract reductions	-235	—	—	—	-235
Pro rata adjustment	21	2	—	—	23
Subtotals, baseline changes	(\$162)	(\$6)	(\$1)	(\$9)	(\$178)
Program changes:					
Regulatory and Planning Program ...					
Increase energy contingency planning, contract redirection	(80)	—	—	—	—
Increase electricity resource planning, contract redirection	(100)	—	—	—	—
Conservation Program					
Delete regional energy training centers	—	—	—	-200	-200
Delete Local Jurisdiction Program ..	—	—	—	-9,099	-9,099
Delete School District Energy Loan Program	—	—	—	-1,739	-1,739
Delete Yurok Indian weatherization program	-75	—	—	—	-75
Delete local government transportation program	—	—	—	-7,495	-7,495
Delete CA Institute for Energy Efficiency funding	—	—	—	-1,000	-1,000
Delete local government contingency planning	—	—	—	-1,200	-1,200
Delete low-income economic relief ..	—	—	—	-150	-150
Delete National Energy Conference funding	—	—	-75	—	-75
Delete Energy Conservation Inventory funding	-100	—	—	—	-100
Reduce energy conservation loans (ECA)	—	-2,685	—	—	-2,685
Reduce solar energy and energy conservation bank grants	—	—	-100	—	-100
Reduce schools and hospitals grants	—	—	—	-681	-681
Reduce Farm Energy Assistance Program	—	—	—	-1,091	-1,091
Continue Small School District Assistance Program	—	—	—	3,100	3,100
Establish Special District Technical Assistance Program	—	—	—	3,066	3,066

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—Continued**

Table 2—Continued
California Energy Commission
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>Energy Resources Programs Account</i>	<i>Other Funds" and Reimbursements</i>	<i>Federal Funds</i>	<i>PVEA^b</i>	<i>Total</i>
Development Program					
Delete Small Business Energy Assistance Program.....	—	—	—	-2,428	-2,428
Delete biomass grant.....	—	—	-28	—	-28
Reduce Energy Technologies Advancement Program.....	—	-1,010	—	—	-1,010
Reduce export trade and development grants.....	—	—	-640	—	-640
Reduce alternative/clean fuels programs.....	—	—	-390	-1,872	-2,262
Reduce geothermal grants.....	—	-843	—	—	-843
Establish medium-duty vehicle CNG program.....	—	—	—	1,058	1,058
Increase Katz School Bus Demonstration Program.....	—	—	—	43,000	43,000
Increase electric vehicle program...	—	—	—	1,044	1,044
Increase alternative fuel infrastructure program.....	—	—	—	1,058	1,058
Co-fund flexible fuel vehicle demonstration.....	—	—	—	2,046	2,046
Host site for International Geothermal Secretariat.....	—	143	—	—	143
Establish transportation innovation program.....	—	1,123	—	—	1,123
Continue staffing alternative fuels program.....	—	—	—	170	170
Staff support for Katz school bus demonstration.....	—	—	—	116	116
Ch 1611/90 — alternative fuel vehicle tax credit.....	33	—	—	—	33
Policy, Management, and Administration					
Intervenor Award Program.....	—	—	—	9	9
Subtotals, program changes.....	<u>(-\$142)</u>	<u>(-\$3,272)</u>	<u>(-\$1,233)</u>	<u>(\$27,712)</u>	<u>(\$23,065)</u>
1991-92 expenditures (proposed).....	\$37,008	\$11,784	\$1,801	\$60,159	\$110,752
Changes from 1990-91:					
Amount.....	\$20	-\$3,266	-\$1,232	\$27,721	\$23,243
Percent.....	0.1%	-21.7%	-40.6%	85.5%	26.6%

^a Includes Energy Conservation Assistant Account; Energy Technologies Research, Development, and Demonstration Account; General Fund; Local Government Geothermal Resources Revolving Subaccount; and Motor Vehicle Account.

^b Includes PVEA and funds previously funded from PVEA including Katz School Bus Fund, Local Jurisdiction Energy Assistance Account, and Clean Fuels Account.

ANALYSIS AND RECOMMENDATIONS

Proposed Transportation Energy Research Program is Duplicative

We recommend deletion of two personnel-years and \$1.1 million requested to create the Transportation Energy Innovation Technology Program because the program duplicates existing commission programs. (Reduce Item 3360-001-044 by \$1,123,000.)

The budget proposes \$1.1 million from the Motor Vehicle Account to create the Transportation Energy Technology Innovation Program (TETIP) to research, develop, and demonstrate long-term transportation energy technologies (such as alternative-fueled vehicles). Our analysis raises two concerns with this proposal.

Duplicates the Existing ETAP. The proposed TETIP would very closely replicate the commission's existing Energy Technologies Advancement Program (ETAP) (the only difference being that the TETIP would be dedicated *solely* to transportation energy projects). The ETAP funds research on a variety of long-term energy technologies. Since its creation in 1985, the ETAP has co-funded 44 projects, *including 4 advanced transportation projects*. The projects funded by TETIP would be identical to the type of transportation projects funded through ETAP. Our review also finds that the new program would duplicate much of ETAP administrative costs in order to recreate ETAP's marketing, proposal-evaluation, and project-monitoring experience.

New Program Would Start Before Commission Corrects Problems with the ETAP. Our review indicates that the existing ETAP has several programmatic problems. Because the TETIP is based on the ETAP model, it will share these programmatic problems. For example, the ETAP's:

- Loan program is unattractive to potential participants because of high interest rates, overly stringent security requirements, and inflexible terms for repayment.
- Research contracts (90 percent of ETAP's projects) have low repayment potential because most of these projects will generate little or no cash flow.

Considering these problems, it seems premature to establish the TETIP before the commission has had an opportunity to correct the problems in its existing program.

Recommendation. Based on our analysis, we find that (1) the proposal would duplicate much of the existing ETAP and (2) it is premature to create a new program based on the ETAP model. Accordingly, we recommend that the Legislature reduce the commission's budget by two personnel-years and \$1 million to reflect the deletion of the TETIP.

Optical Disk Computer System Not Cost-Effective

We recommend the reversion of \$130,000 appropriated in the current year (revert \$130,000 from Item 3360-001-465 appropriated by the Budget Act of 1990) and \$192,600 and one personnel-year requested in the budget year for an optical disk computer system because the proposal is not cost-effective. (Reduce Item 3360-001-465 by \$192,000).

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION—Continued

The CEC's current-year budget includes \$130,000, and an additional \$192,600 and one personnel-year are requested in the budget year to purchase an optical disk computer system to automate the commission's docket files. The docket files contain all the material from the various proceedings held by the commission since its formation in 1975. Currently, these files are maintained manually and photocopied when the need arises.

This project was originally requested and approved in the 1989-90 budget. Since that time, there have been numerous delays in the project, due to concerns over the technical feasibility of the project, problems finding suitable vendors, and delays in the procurement process. As a result, the CEC has revised downward its estimate of the benefits from the project and has submitted a Special Project Report (SPR) to the Office of Information Technology (OIT) in the Department of Finance to justify the project's continuation. The OIT has reviewed the SPR, and estimated the total project costs of \$573,509 over six years, with offsetting benefits of \$351,802. This results in a net six-year cost of \$221,707. *Based on this information, the OIT has concluded that the project is no longer cost-beneficial and has not approved its continuation.* Accordingly, we recommend (1) the creation of a reversion item in order to revert \$130,000 from the CEC's current-year budget and (2) the deletion of \$192,600 and one personnel-year requested in the 1991-92 budget to fund this project. The following language would implement the current-year reversion:

3360-495 — Reversion, State Energy Resources Conservation and Development Commission. On the effective date of this act, \$130,000 of the funds appropriated by Item 3360-001-465 of the Budget Act of 1990 for the purpose of purchasing an optical disk computer system shall revert to the Energy Resources Programs Account in the General Fund.

Expanding Alternative Fuels Demos Not Necessary

We recommend deletion of \$2.1 million in PVEA funding (reduce Item 3360-001-853 by \$2,148,000) and three personnel-years (PYs) proposed to expand three ongoing alternative fuels demonstration projects because regulations adopted by the Air Resources Board (ARB) make expanding these demonstration projects unnecessary.

The budget includes \$2.1 million and three personnel-years (PYs) to expand the Flexible Fuel Vehicle (FFV), Compressed Natural Gas (CNG), and Electric Vehicle (EV) demonstration projects administered by the commission. The goal of these projects is to accelerate the development of alternative fuels technologies for motor vehicles and demonstrate the technical feasibility of these alternative fuels under actual driving conditions. Specifically, the budget includes an additional:

- \$1 million and one PY to augment the FFV Demonstration program. FFVs are automobiles designed to operate on methanol, ethanol, gasoline, or any combination of these fuels. The goal of this

program is to place 5,000 FFV (mostly modified Ford Tauruses and Chevrolet Luminas) in California automobile fleets (both public and private) by 1993. The FFV Demonstration is currently staffed by 2.9 PYs and, to date, approximately \$1.5 million in funding has been appropriated. This additional funding and staff would allow the commission to meet its 1993 goal.

- \$500,000 and one PY to expand the commission's CNG demonstration program to include medium-duty vehicles. Medium-duty vehicles are used for intercity delivery and shuttle services (for example, UPS delivery trucks). The CEC is currently funding light-duty and heavy-duty vehicle CNG demonstrations. To date, approximately \$880,000 and one PY have been appropriated to conduct these demonstrations.
- \$500,000 and one PY to expand the commission's EV demonstration program. There currently is one PY and approximately \$880,000 in the commission's budget to begin an EV demonstration to test current EV battery technologies. This additional funding will be used to conduct a follow-up demonstration using more advanced electric battery technologies.

Should the FFV, CNG, and EV Demonstrations Be Expanded? The goal of the CEC's alternative fuels demonstration projects is to share the financial risk with the private sector of developing clean alternative transportation fuels. By encouraging the use of alternative fuels, the CEC hopes to (1) reduce the risks to the economy of petroleum supply shortages and price increases (currently the transportation sector is virtually 100 percent dependent on petroleum as its energy source) and (2) reduce air pollution (in general, alternative fuels are cleaner-burning than petroleum fuels). The hope is that, once alternative-fueled vehicles are demonstrated to be viable alternatives to conventional gasoline-powered vehicles, the automobile manufacturers will begin production on their own. Based on our review, we find that (1) existing state regulations provide sufficient incentives for private markets to develop alternative-fuel vehicles without additional state subsidies and (2) each of the three proposals has specific shortcomings that should be addressed before they warrant approval by the Legislature.

The ARB's New Clean Fuels Regulations Provide Private Sector with Incentives to Develop and Produce Alternative-Fueled Vehicles. The ARB adopted regulations in September 1990 that impose new and increasingly more stringent air pollution emission standards in California beginning in 1994. These regulations require that the average air pollution emissions of new automobiles sold by each manufacturer be reduced. In order to meet these standards, automobile manufacturers will probably be required to produce and sell (1) alternative-fueled vehicles or (2) reformulated, cleaner-burning, gasoline vehicles. In addition, these regulations mandate the sale of "zero emission vehicles" (ZEMs), vehicles which have no air pollution emissions. The regulations require that 2 percent of new automobile sales in 1998 (and 10 percent by 2003) be ZEMs. In essence, this requirement mandates the production of

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—Continued**

EVs (EVs are the only vehicles that currently qualify as ZEMs).

Domestic automobile manufacturers are currently developing a number of alternatively fueled vehicles. For example, General Motors (GM) is currently working on the "Impact," an advanced electric vehicle. In addition, large private electric and gas utilities have both strong long-run financial incentives (to expand the markets for their products, electricity and natural gas), as well as the financial resources to advance the development of electric and CNG vehicles. Based on this analysis, we believe that the commission's requests to expand these programs are not warranted, because the private sector has both the incentives (due to ARB's regulations) and the ability to develop alternative fuels without further state subsidies.

Specific Concerns with Proposals

In addition, to the concern common to all three of the commission's requests, there are specific concerns with each request that we discuss below.

Cost-Sharing Should Be Required. The CEC is requesting \$500,000 and one PY to expand both their CNG and EV demonstrations. These proposals, however, would not require any private matching funds by electric or gas utilities or automobile manufacturers, even though these entities would benefit significantly from advancement of these technologies. Accordingly, if the Legislature chose to expand these projects, the private sector should share in the costs on a 50/50 basis. A similar requirement is in place for the expenditure of most of the commission's existing CNG and EV demonstration funds.

Expansion of EV Demonstration is Premature. Currently, the CEC has \$880,000 in its budget to conduct an EV demonstration. This demonstration, however, is in the preliminary stages. To date, only \$60,000 has been allocated (to conduct a small electric van demonstration with Pacific Gas and Electric) and, at the time this analysis was prepared, the commission had not determined how to expend the remaining \$820,000. The commission expects to request proposals from the private sector for EV projects to test during 1991 and begin demonstrations in the first half of 1992. Because the CEC currently has \$820,000 of unallocated funding dedicated for EV demonstrations, it is premature to expand this program at this time.

Questionable Statewide Benefits From Expansion of FFV Demonstration Program. The CEC is also proposing to expand their FFV demonstration, which they have conducted since 1989. Results to date indicate no significant problems with this technology; thus, it is unclear what additional benefits the state would gain from expanding this demonstration to over 5,000 vehicles. Although this expansion will allow both GM and Ford to conduct test production runs of FFVs, these benefits accrue primarily to GM and Ford, not to the State of California. Moreover, there are other automobile manufacturers (Nis-

san, Toyota, Mazda, Mitsubishi, and Volkswagen) who have agreed to loan or otherwise provide vehicles for this demonstration without the need for any direct state assistance.

Recommendation. Our analysis of the commission's requests to expand its alternative fuels demonstration programs raises a number of serious concerns. First and foremost, it does not appear that additional state assistance is necessary for developing alternative fuels technologies. The ARB's "clean fuels" regulations provide the private sector with strong incentives to develop alternative fuels without state assistance. In addition, there are a number of specific concerns with each of the proposals. Because of these concerns, we recommend the deletion of \$2.1 million and three PYs included in the CEC's budget request to expand its FFV, CNG, and EV demonstration programs.

\$2 Million in Special District Energy Assistance Not Needed

We recommend deletion of \$2 million and one PY from the CEC's request to establish a Special District Energy Assistance Program because the additional funding is not needed in the budget year. (Reduce Item 3360-001-853 by \$2,066,000.)

Budget Proposal. The budget proposes \$3.1 million from the Petroleum Violation Escrow Account and one PY to create a Special Energy Assistance Program to assist special districts, such as sewage, sanitation, and park districts to identify energy conservation opportunities. The \$3.1 million would be used to contract for audits to help special districts identify energy conservation opportunities. The special districts would then obtain private funding or CEC loans to implement the improvements recommended by the audits.

Chapter 1343, Statutes of 1986 (SB 880, Leroy Greene), created the Energy Partnership Program to provide energy conservation technical assistance to *cities and local jurisdictions*. However, Chapter 1343 specifies that this appropriation cannot be used to fund audits of special districts. To fund energy audits for special districts, the commission proposes to create the Special District Program.

Additional Contract Unnecessary. To implement the Special District Program, the CEC proposes to bid a new contract under the Special District Program. Our analysis, however, finds that, by augmenting its existing Energy Partnership contract rather than entering into a new contract, the commission could (1) fund the annual workload for the Special District Program (approximately 50 audits) in the budget year, (2) eliminate the need for additional staff, and (3) provide technical assistance to special districts immediately instead of waiting six to nine months (as would occur under the budget proposal). These issues are discussed below.

According to the State Administrative Manual, departments may augment existing contracts by up to 30 percent of the contract amount. Thus, the current Energy Partnership Program contract could be augmented by *up to* \$1.2 million in the budget year. Based on the experience of the Energy Partnership Program, the commission estimates that the

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—Continued**

Special District Program could provide a maximum of 50 energy audits annually at a cost of about \$1 million. Therefore, augmenting the Energy Partnership Program contract by \$1 million would allow the CEC to support a full schedule of energy assistance activities in the budget year. Future funding needs may be addressed in the annual Budget Act.

In addition, by consolidating the Special District contract into the existing Energy Partnership contract, the need for an additional PY to manage the new contract would be eliminated.

Finally, the commission indicates that, under the best of circumstances, the Department of General Services' (DGS) contract bidding and evaluation process would take from six to nine months. In other words, no special district technical assistance energy audits could be undertaken until at least six months into the budget year. However, by augmenting its existing contract, the commission could begin to provide technical assistance immediately.

Recommendation. Our analysis indicates that the CEC should augment its existing Energy Partnership contract by \$1 million, rather than establish a new \$3 million Special District contract. By augmenting its existing Energy Partnership contract by \$1 million, the commission could (1) fully fund the Special District Program in the budget year, (2) eliminate the needs for an additional PY, and (3) provide technical assistance to special districts immediately instead of waiting six to nine months. We therefore recommend deletion of \$2 million and one PY requested for the Special District Energy Assistance Program.

Legislative Oversight — How Many Buses Should \$100 Million Buy?

We recommend that the California Energy Commission report during budget hearings on (1) whether it can increase the number of buses to be purchased without compromising its demonstration goal and (2) the likelihood that the delays in implementing Phase I of the program will continue into the second and third phases.

Chapter 1426, Statutes of 1988 (AB 35, Katz), established the Katz School Bus Demonstration Program to provide safer and more fuel efficient school buses. Our review of the program's implementation indicates that the program (1) will provide significantly fewer buses than the Legislature originally expected and (2) has experienced significant implementation delays that are likely to persist in the later phases of the program. We discuss these issues in detail below.

Background. Chapter 1426 appropriated \$100 million from the Petroleum Violation Escrow Account (PVEA) to replace pre-1977 school buses with a combination of high efficiency diesel, methanol, and compressed natural gas school buses. The goals of this program are (1) to improve the safety of California's school bus fleet and (2) to test whether certain fuel technologies can increase energy savings and improve air quality. The program's funding from the PVEA is directly tied to this demonstration goal. For programs to qualify for PVEA funds, the federal Department of

Energy requires that at least 35 percent of the demonstration buses be powered by methanol or other low-emission, clean-burning fuels, such as compressed natural gas. The balance of the demonstration buses will be powered by advanced diesel engines capable of exceeding current air pollution emissions standards.

How Many Buses Should \$100 Million Buy?⁹ This program is divided into three phases. Each phase assumes the purchase of a specified number of buses to be completed during a particular time frame. In 1988 — prior to implementing the program — the commission advised the Legislature that it would replace approximately 1,300 pre-1977 school buses. However, having spent about \$20 million for only 163 school buses in Phase I, the commission currently estimates that the program will ultimately replace no more than 750 to 850 pre-1977 school buses. This lower estimate is due to three factors:

- ***Faulty Cost Assumptions Led to Unrealistic Bus Replacement Target.*** The commission's initial estimates assumed an average cost per bus of about \$77,000 — or approximately the cost of a new conventional school bus. The commission's estimate failed to account for the incremental costs of developing advanced diesel and alternative engines, modifying bus chassis, and adding new safety features. These costs raised the average price per bus from the anticipated \$77,000 to nearly \$130,000.
- ***Only Two Manufacturers Capable of Competing for Both Diesel and Methanol School Buses.*** The commission and the Department of General Services required manufacturers to submit a single, "linked bid" price to supply both diesel and methanol buses in Phase I. The unintended effect of the linked bid strategy was to narrow the Phase I competition to two of the industry's higher price chassis manufacturers. Lower priced chassis manufacturers were unable to meet the linked bid specifications and did not compete.
- ***Increasing the Number of Alternative Fuel Buses Will Result in the Purchase of Fewer Buses.*** For Phase II (and possibly Phase III), the CEC plans to increase the percentage of alternative-fuel school buses from 35 percent to 50 percent. Because of the higher costs of alternative fuel-buses (between \$15,000 and \$25,000), we estimate that this policy will result in the purchase of 10 to 25 fewer buses.

Our analysis indicates that the commission's practice of linking bids and its plans to increase the percentage of alternative buses will result in the program purchasing fewer buses than it could otherwise. For instance, a decision not to require a linked bid price in Phases II and III could increase manufacturer participation and potentially generate diesel bus prices in the \$100,000 range instead of \$130,000 per bus. This would make it possible for the commission to purchase up to 50 additional buses. In addition, the commission could purchase 10 to 25 more buses if it does not increase the percentage of alternative fuel buses beyond the current 35 percent. Neither federal nor state law requires the CEC to increase this percentage. Moreover, keeping the current percentage of alternative fuel buses will not adversely affect air quality because both diesel and

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—Continued**

alternative fuel buses will meet 1994 air quality standards. To the extent that the CEC continues its practice of linking bids and its plan to increase the percentage of alternative fuel buses, there will be a reduction in the number of safer replacement buses that can be made available to school districts.

Why is it Taking So Long to Deliver These Buses? The commission initially planned to complete Phase I in June 1990, Phase II in March 1992, and Phase III in June 1992. The commission now advises that Phase I will not be completed until June 1991, a year behind schedule. This delay has occurred because of a time-consuming technical specification process, difficulties developing agreements with participating school districts, delays in the manufacturer's production schedule, and finally the primary chassis manufacturer going out of business.

The commission now plans to complete Phase II in early 1993, and begin Phase III shortly thereafter. There are already indications that the commission may not be able to adhere to its Phase II time frame. For example, the scarcity of alternative fuel school bus manufacturers that plagued Phase I is likely to produce future program delays. This is because the commission will only use technology that is (1) not commercially available and (2) that meets the state's 1994 air quality standards. At this point it is unclear that any of the currently identified manufacturers have the ability to meet the commission's technical requirements and deliver the required alternative fuel buses within the planned schedule. In addition, the Phase I delivery problems will be aggravated in Phases II and III if the commission elects to raise the percentage of alternative fuel buses to 50 percent, as currently planned.

To ensure that, from a legislative perspective, the commission is achieving the appropriate balance between (1) maximizing the number of buses replaced, and thus, ensuring that more children are riding in safer buses and (2) testing alternative fuels technologies, we recommend that the commission report at budget hearings. Specifically, the commission should advise the Legislature on (1) whether the commission can increase the number of buses it expects to purchase without compromising its demonstration goals and (2) the likelihood that the delays in implementing Phase I of the program will continue into the second and third phases.

Staffing Increase for School Bus Program Not Justified

We recommend the deletion of the CEC's request for two additional PYs for the Katz School Bus Demonstration Program because the staffing increase is not justified. (Reduce Item 3360-001-854 by \$116,000.)

Budget Proposal. The budget proposes an increase of \$116,000 to hire two additional energy specialists to implement Phase II of the Katz School Bus Demonstration Program. The commission indicates that the staff are needed to ensure timely implementation of the program's second phase which will replace three times as many buses as Phase I.

Staffing Increase Not Justified. Our analysis indicates that the commission's proposal to add staff is not justified because the proposal (1) does not account for existing staff resources that will be available because the program has been downsized by 40 to 50 percent and (2) would add staff to address implementation problems not related to staffing levels.

- **Proposal Does Not Account for Reduction in Program's Size.** The commission is currently authorized six staff positions to support workload related to implementing the demonstration program. The current staffing level is based on workload estimates for a program that would replace 1,300 to 1,400 school buses. Due to the unanticipated cost increases discussed previously, the program will now replace only 750 to 850 school buses. Thus, our analysis indicates that there are substantial savings in existing staff resources that could be redirected to address any increased workload for Phase II.
- **Delays in Phase I Not Due to Insufficient Staff.** Although the commission argues that additional staff are needed to prevent the delays experienced in Phase I, information provided by the commission indicates that delays in the first phase of the program primarily were due to factors unrelated to staffing levels. For example, Phase I was delayed due to (1) delays in the manufacturer's production schedules, (2) a time consuming technical specifications process, and (3) the program's principal supplier going out of business.

Recommendation. Based on our review, we cannot recommend that the Legislature approve the proposed augmentation because the commission's proposal does not take into account staff resource savings due to a reduction in the program's size. The commission can redirect existing staff to address any increased workload related to Phase II. In addition, it appears that to date, delays in implementing the program have not been due to insufficient staff. Accordingly, we recommend that the Legislature delete \$116,000 and two positions proposed for the school bus demonstration program.

Power Plant Siting Fees

We recommend the enactment of legislation requiring the commission to adopt fees to cover the costs of processing power plant applications, thereby including siting costs in the costs of building a new power plant. We further recommend adoption of Budget Bill language transferring \$7.5 million from the Energy Resources Programs Account to the General Fund. (Reduce Item 3360-001-465 by \$7.5 million.)

State law requires the CEC to perform engineering and environmental reviews (referred to as "power plant siting") for proposed power plants of greater than 50 megawatts (plants of less than 50 megawatts are sited by local governments). There are three types of power plants sited by the CEC: (1) utility-owned power plants, (2) private power facilities, which generate power for sale to utilities (qualifying facilities, QFs), and (3) self-generation facilities, which generate power primarily for their own use.

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—Continued**

The Governor's Budget includes approximately \$10 million to fund the CEC's power plant siting program. The cost of this program is funded entirely by the Energy Resources Programs Account (ERPA). The ERPA derives its revenues (about \$41 million in 1991-92) from a surcharge imposed on ratepayers of electricity sold by utilities.

Under the current funding mechanism, the CEC's power plant siting costs are not reflected in the costs of building a power plant, but are borne directly by ratepayers. In our view, there are a number of drawbacks to this funding mechanism. Specifically, the current funding mechanism:

- ***Results in Cross Subsidies Between Ratepayers.*** For example, if additional power is needed in a specific utility's service area, under the current funding mechanism the CEC's costs of siting that new power plant would be born by *all* ratepayers, not just those ratepayers who are the primary beneficiaries of that additional power.
- ***Subsidizes Power Produced by QFs and Self-Generators for Their Private Consumption.*** Because power generated for private use is not subject to the ERPA surcharge, ratepayers fund the cost of siting these facilities without receiving any of the direct benefits.
- ***Creates Inequities Between Large and Small Power Producers.*** Under the California Environmental Quality Act (CEQA) process, smaller facilities (under 50 megawatts) sited by local governments are normally charged for their siting costs, while larger facilities sited by the commission are funded directly by ratepayers.
- ***Can Distort Private Investment Decisions*** because it may result in the construction of power plants that would not be viable if the state's siting costs were explicitly considered in private investment decisions.

In addition, if the CEC's power plant siting program were funded through application fees based on the costs of siting each new power plant, these fees would also provide private firms with an incentive to provide the CEC with timely information and complete applications, thus expediting the CEC's siting process.

Based on this analysis, we recommend that legislation be adopted requiring the CEC to adopt cost-based application fees to cover its costs of siting new power plants. These fees, if enacted, would raise about \$7.5 million in the budget year. This estimate assumes that we assess fees only on new power plant siting applications expected in 1991-92. In most cases, these fees would represent less than 1 percent of the total costs involved in the design, operation, and retirement of the typical power plant.

In addition, in anticipation of this legislation, we recommend that the resulting savings to the Energy Resources and Programs Account (ERPA) (estimated to be \$7.5 million) be transferred to the General Fund to increase the Legislature's fiscal flexibility. The following Budget

Bill language in Item 3360-001-465 would implement this recommendation:

Provision:

1. On the effective date of this act, the State Controller shall transfer \$7.5 million from the Energy Resources Programs Account to the General Fund.

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—REAPPROPRIATION**

Item 3360-490 from Petroleum
Violation Escrow Account and
Katz Schoolbus Fund

Budget p. R 19

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item extends the commission's authority to spend previously appropriated funds for five different programs until June 30, 1992. Specifically:

- \$4 million authorized in Ch 1436/88 (SB 283, Rosenthal) for energy conservation grants to schools and hospitals.
- \$285,000 also authorized in Ch 1436 to increase public participation in the commission's proceedings.
- \$5.1 million authorized in Ch 1435/88 (SB 2723, Seymour) to conduct a clean fuel heavy-duty truck demonstration program.
- \$1.3 million authorized by Ch 1429/88 (AB 2487, Hauser) to provide training on building standards adopted by the commission.
- \$59.6 million authorized by the the Budget Act of 1990 and Ch 1426/88 (AB 35, Katz) to purchase school buses.

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—EXTENSION OF LIQUIDATION
PERIOD—REAPPROPRIATION**

Item 3360-491 from the
Geothermal Resources
Development Account

Budget p. R 19

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Legislature approved \$2.2 million in the 1987 Budget Act to provide grants and loans to local governments to develop geothermal energy resources. This item would extend the liquidation period to spend encumbered funds until June 30, 1992.

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD

Item 3380 from the General Fund, the Integrated Waste Management Fund, and various funds

Budget p. R 35

Requested 1991-92.....	\$62,376,000
Estimated 1990-91	53,820,000
Actual 1989-90	6,191,000
Requested increase \$8,556,000 (+ 15.9 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3380-001-226—Tire Recycling Act	Tire Recycling Management	\$3,300,000
3380-001-281—Recycling market development loans	Recycling Market Development Revolving Loan Account, Integrated Waste Management	5,000,000
3380-001-387—Support	Integrated Waste Management Account, Integrated Waste Management ^a	29,712,000
3380-001-435—Landfill cleanup and maintenance	Solid Waste Disposal Site Cleanup and Maintenance Account, Integrated Waste Management ^a	12,879,000
3380-001-441—Tax expenditures	Waste Management Incentive Account, General	4,784,000
3380-003-387—Loan to Recycling Market Development Loan Account	Integrated Waste Management Account, Integrated Waste Management	(5,000,000)
3380-011-001—Transfer to Waste Management Incentive Account	General	(4,784,000)
3380-101-435—Local assistance grants, hazardous waste management	Solid Waste Disposal Site Cleanup and Maintenance Account, Integrated Waste Management ^a	5,500,000
Chapter 1657/90, Public Resources Code Section 3491—Support	Used Oil Collection Demonstration Grant	67,000
Chapter 1657/90, Public Resources Code Section 3491—Local assistance		900,000
Chapter 1452/90, trash bag recycled content—Support	Integrated Waste Management Account, Integrated Waste Management	117,000
Chapter 1631/90, household battery study—Support	Integrated Waste Management Account, Integrated Waste Management	117,000
Total		\$62,376,000

^aBudget Bill cites the Solid Waste Management Fund, the previous name for the Integrated Waste Management Fund.

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis
page*

- 1. Fee Financing of New Market Development Loan Program Administration Would Be Counter-Productive. The Legislature has several options it can pursue to deal with the board's concerns about financing new program administrative costs through fees. 355

GENERAL PROGRAM STATEMENT

The California Integrated Waste Management Board (IWMB) is responsible, in conjunction with local agencies, for promoting waste management practices aimed at reducing the amount of waste that is disposed in landfills. These practices include: source reduction, recycling and composting, and environmentally safe transformation. In addition, the board protects public health and safety through regulation of existing and new solid waste land disposal sites.

The board's activities include:

- Designating local agencies to enforce state minimum standards for handling solid waste and operating waste disposal facilities.
- Providing technical assistance to local governments and private firms.
- Reviewing and approving county integrated waste management plans (CIWMPs) and assisting the development of city and county source reduction and recycling plans.
- Aiding in market development for recycled materials, including tires, newsprint and oil.
- Providing public information and education on source reduction and recycling.
- Pursuing research and development in various areas of solid waste management.

The board is composed of six members serving staggered four-year terms. Four of the members are appointed by the Governor and two by the Legislature. At the time of the *Analysis*, five of the six members had been appointed. The board has 308 personnel-years (PYs) authorized in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests a total of \$62.4 million for support of the IWMB in 1991-92. This amount is \$8.6 million, or 16 percent, higher than estimated current-year expenditures. The increase primarily results from \$5.2 million in new funding for recycling market development loans to implement Ch 1543/90 (SB 2310, Bergeson).

The requested expenditures include \$29.9 million from the Integrated Waste Management Account for support and \$18.4 million—including \$5.5 million in local assistance grants—from the Solid Waste Disposal Site Cleanup and Maintenance Account for the board's landfill hazard reduction program. Both accounts are funded by waste disposal fees. The

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD—Continued

proposed expenditures also include \$4.8 million from the General Fund for payment of tax credits and \$3.3 million in tire disposal fees from the Tire Recycling Management Fund to promote the recycling of used tires. Table 1 summarizes the staffing and expenditures for the board from 1989-90 through 1991-92.

Table 1
California Integrated Waste Management Board
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Planning and enforcement.....	38.2	109.2	111.7	\$3,373	\$16,018	\$17,466	9.0%
Disposal site cleanup and maintenance.....	18.8	24.0	24.7	1,044	18,299	18,379	0.4
Waste reduction and resource recovery.....	16.5	97.1	102.6	1,774	16,208	23,231	43.3
Tire recycling	—	4.6	4.8	—	3,295	3,300	0.2
Administration (distributed to other programs)	18.9	73.1	76.9	(1,482)	(10,007)	(11,912)	19.0
Totals.....	92.4	308.0	320.7	\$6,191	\$53,820	\$62,376	15.9%
Funding Sources							
General Fund.....				\$4,706	\$4,784	\$4,784	—
Tire Recycling Management Fund.....				—	3,295	3,300	0.2%
Recycling Market Development Revolving Loan Account				—	—	5,000	— ^a
Integrated Waste Management Account.....				441	27,409	29,946	9.3
Solid Waste Disposal Site Cleanup and Maintenance Account.....				1,044	18,299	18,379	0.4
Used Oil Collection Demonstration Grant Fund.....				—	33	967	2,830.3
Waste Management Incentive Account				—	(4,784)	(4,784)	—

^a Not a meaningful figure

Proposed Budget Changes for 1991-92

Table 2 summarizes, by fund, the proposed changes in the board's budget for 1991-92. The table shows that the proposed \$8.6 million net increase in expenditures includes increases of:

- \$5.2 million for recycling market development loans to implement Chapter 1543.
- \$1.4 million from the Integrated Waste Management Account for completion of the purchase of the board's data processing system.
- \$338,000 to fund an Interagency Agreement for services from the Attorney General.

In addition, the Governor's Budget indicates that "significant program enhancements" will be submitted for the Legislature's review at the Spring revision, pending the appointment of the full board.

Table 2
California Integrated Waste Management Board
Proposed Budget Changes
1991-92
(dollars in thousands)

	<i>General Fund</i>	<i>Integrated Waste Management Account</i>	<i>Solid Waste Disposal Cleanup Account^a</i>	<i>Other Funds^b</i>	<i>Total</i>
1990-91 Expenditures (Revised).....	\$4,784	\$27,409	\$18,299	\$3,328	\$53,820
<i>Baseline adjustments:</i>					
Employee compensation and other ad- ministrative adjustments.....	—	\$482	\$80	\$5	\$567
Adjustment for full-year costs.....	—	168	—	934	1,102
Subtotals	(—)	(\$650)	(\$80)	(\$939)	(\$1,669)
<i>Program changes:</i>					
Recycling market development loans....	—	\$187	—	\$5,000	\$5,187
Data processing system.....	—	1,362	—	—	1,362
Attorney General costs.....	—	338	—	—	338
Subtotals	(—)	(\$1,887)	(—)	(\$5,000)	(\$6,887)
1991-92 Expenditures (Proposed)	\$4,784	\$29,946	\$18,379	\$9,267	\$62,376
Change from 1990-91:					
Amount	—	\$2,537	\$80	\$5,939	\$8,556
Percent.....	—	9.3%	0.4%	178.5%	15.9%

^a Solid Waste Disposal Site Cleanup and Maintenance Account

^b Includes: the Tire Recycling Management Fund; the Recycling Market Development Revolving Loan Account; and the Used Oil Collection Demonstration Fund.

ANALYSIS AND RECOMMENDATIONS

Financing the Administration of the Market Development Loan Program

The board has legitimate concerns about the impact that imposing loan application fees required by statute will have on a new market development loan program. The Legislature has several options for addressing the board's concerns through legislation or Budget Bill language.

Background. Chapter 1543, Statutes of 1990 (SB 2310, Bergeson), created a low-interest loan program to assist local governments and private firms in meeting the waste-reduction objectives of the state's integrated waste management program. The measure funds the loan program through a transfer of \$5 million from the Integrated Waste Management Account to the Recycling Market Development Revolving Loan Account (RMDA). The transferred funds are repayable, with interest, by the program's sunset date of July 1, 1997. In addition, the measure requires that administrative costs of the program be fully supported by fees charged to loan applicants.

The board estimates that it will make a total of 50 loans over the life of the program. The board further estimates that its administrative costs will total approximately \$187,000 in 1991-92. Roughly similar administrative costs will be incurred annually at least through 1996-97, depending on the terms of the loans. Our review indicates that the board's estimated costs

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD—Continued

are reasonable and appropriate. The board's proposed source of funding for these costs, however, does not reflect current law.

Fee Funding Required by Statute. Chapter 1543 requires the board to establish and collect application fees for loans in an amount to cover *all* administrative costs of the loan program. Revenue from the fees is deposited in the RMDA for appropriation by the Legislature to support the board's administrative costs related to the program.

In spite of the clear requirement of current law that administrative costs be supported by fees, the board proposes to impose only nominal loan application fees of between \$25 and \$50 per loan. These fees will produce less than 2 percent of the first year's administrative costs for this multi-year program. In place of fee revenues, the board proposes to fund the bulk of the program's administrative costs with \$187,000 from the Integrated Waste Management Account (IWMA).

Board Has Well-Founded Programmatic Concerns with Fees. Notwithstanding the requirements of current statute, our analysis indicates that the board has legitimate concerns regarding the impact of fees on the effectiveness of the market development loan program. Specifically, the board fears that fees set high enough to cover administrative costs of the program will reduce the number of loan applicants and will thereby limit the board's ability to stimulate markets for recycled materials. Based on the board's projected costs and anticipated number of loans, we estimate that, in order to cover costs fully, loan fees could exceed \$35,000 for average loans of \$100,000. (This cost does not include the interest charges that borrowers also would pay.) Fees of this magnitude obviously would reduce the attractiveness of the loan program. Less attractive loans mean fewer loan applicants, in turn resulting in less chance for the board to successfully stimulate the development of markets for recycled materials as envisioned by Chapter 1543.

Legislative Options for Addressing Board's Concerns. Our review of the board's proposal to use the IWMA to support the administrative costs of the new loan program indicates that this use would be (1) consistent with the broad purposes for which the IWMA was established, but (2) inconsistent with the specific language of Chapter 1543. Our review further indicates that the Legislature has several options to address the board's concerns about program effectiveness. Specifically, these include:

- ***Adopt Budget Bill language to supersede existing law.*** By adopting Budget Bill language, the Legislature could adopt the board's proposal for nominal application fees and IWMA support on a *one-year basis*. Presumably, this language would need to be included in each annual Budget Act through 1996-97.
- ***Direct the board to collect some higher—but reasonable— application fee.*** The Legislature could take this approach either through new legislation or through Budget Bill language. Program administrative costs in excess of the amount provided by fees could be funded from the IWMA.

- *New legislation to repeal the application fee requirement.* The Legislature could enact new legislation (1) repealing the requirement that program administration costs be funded through fees and (2) authorizing funding of the program from the IWMA.

AIR RESOURCES BOARD

Item 3400 from the Motor Vehicle Account and other special funds

Budget p. R 41

Requested 1991-92.....	\$96,907,000
Estimated 1990-91	96,546,000
Actual 1989-90	85,283,000
Requested increase \$361,000 (+0.4 percent)	
Total recommended reduction.....	200,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3400-001-014—Support	Hazardous Waste Control Account, General	\$130,000
3400-001-044—Support	Motor Vehicle Account, State Transportation	58,173,000
3400-001-115—Support	Air Pollution Control	9,274,000
3400-001-140—Support	Environmental License Plate	1,404,000
3400-001-164—Marine fisheries mitigation program	Outer Continental Shelf Lands Act, Section 8(g) Revenue	1,069,000
3400-001-421—Inspection and maintenance program	Vehicle Inspection and Repair	7,873,000
3400-001-434—Toxic hot spots	Air Toxics Inventory and Assessment Account, General	2,926,000
3400-001-465—Cogeneration	Energy Resources Programs Account, General	206,000
3400-001-890—Support	Federal Trust	3,193,000
3400-101-044—Subventions to air pollution control districts	Motor Vehicle Account, State Transportation	7,511,000
Ch 1390/85—Support	Offshore Energy Assistance	18,000
Reimbursements	—	5,130,000
Total		\$96,907,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

- | | |
|--|-----------------------------|
| 1. <i>Toxic Air Contaminants. Reduce Item 3400-001-044 by \$200,000.</i> Recommend enactment of legislation to allow the board to proceed with control measures of federally listed toxic air contaminants without first listing the substances with the Office of Administrative Law. | <i>Analysis page</i>
361 |
|--|-----------------------------|

GENERAL PROGRAM STATEMENT

The Air Resources Board (ARB) is responsible for achieving and maintaining satisfactory air quality in California. This responsibility requires the board to establish ambient air quality standards for certain

AIR RESOURCES BOARD—Continued

pollutants, regulate vehicle emissions, identify and control toxic air pollutants, administer air pollution research studies, develop and oversee implementation plans for the attainment and maintenance of both state and federal air quality standards, and oversee the regulation of sources of pollution by air pollution control districts.

The board consists of a full-time chairperson and eight part-time members, all of whom are appointed by the Governor and serve at his pleasure. The chairperson of the board also serves as the Governor's Secretary of Environmental Affairs and, as such, has an advisory and coordinating role in the environmental area.

The board has 811.8 personnel-years in the current year, including staff for the Environmental Affairs Agency (which is included in the ARB budget).

MAJOR ISSUES

- Recent amendments to the federal Clean Air Act may alter the Air Resources Board's role in regulating (1) toxic air contaminants, (2) off-road engines, and (3) vehicle emissions.
- The state could save as much as \$200,000 annually by amending current law to allow the board to regulate federally listed toxic air contaminants without first listing these contaminants with the Office of Administrative Law.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$96.9 million for the Air Resources Board in 1991-92. This is an increase of \$361,000 or 0.4 percent, over estimated expenditures for the current year. Although the total proposed budget is not substantially larger than in the current year, the budget proposes a \$7.4 million increase in the air pollution control program. This increase is attributable to (1) replacement of worn equipment (\$1.1 million), (2) development of consumer product testing methods (\$1.1 million), (3) \$1.1 million to develop policies related to transportation, and (4) other miscellaneous program adjustments. The increase in the air pollution program is offset by the deletion of \$5.3 million in one-time current-year expenditures in the Environmental Affairs Agency for local coastal improvement programs.

Table 1 summarizes the staffing and expenditures for the board from 1989-90 through 1991-92. It shows that the budget proposes to increase the board's staff by 23.5 personnel-years, primarily to develop test methods, improve transportation planning, and improve the accuracy of the air emissions inventory. Table 2 shows the proposed budget changes, by funding source, for the board in 1991-92.

Table 1
Air Resources Board
(Including Environmental Affairs Agency)
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Air pollution control program							
Technical support	124.4	130.6	137.3	\$15,913	\$14,452	\$16,196	12.1%
Stationary source	102	105.2	105.2	16,002	17,528	18,286	4.3
Mobile source	157.6	210.2	217.8	14,597	22,056	23,061	4.6
Compliance	55.2	55.1	55.1	5,365	5,964	6,005	0.7
Monitoring and laboratory	124.4	130.1	138.2	13,897	15,496	18,106	16.8
Research	45.6	48.6	49.5	12,431	13,160	12,665	-3.8
General support:							
Distributed to programs	119.5	111.8	112	(9,128)	(10,134)	(10,858)	7.1
Undistributed	0.5	1.0	1.0	10	22	22	—
Environmental Affairs Program ..	18.8	19.2	19.2	7,068	7,868	2,566	-67.4
Totals	748.0	811.8	835.3	\$85,283	\$96,546	\$96,907	0.4%
Funding Sources							
General Fund				\$2,916	\$2,934	—	-100.0%
Hazardous Waste Control Account, General Fund				—	—	130	— ^a
Motor Vehicle Account, State Transportation Fund				56,613	57,954	65,634	13.3
Air Pollution Control Fund				7,039	8,940	9,274	3.7
California Environmental License Plate Fund				289	1,113	1,404	26.1
Outer Continental Shelf Land Act Section 8(g) Revenue Fund				1,950	1,850	1,069	-42.2
Vehicle Inspection and Repair Fund				4,245	8,887	7,873	-11.4
Air Toxics Inventory and Assessment Account, General Fund ..				1,392	2,851	2,926	2.6
Energy Resources Programs Account, General Fund				199	206	206	—
Offshore Energy Assistance Fund				144	2,370	18	-99.2
Local Coastal Program Improvement Fund				3,650	1,848	—	-100.0
Federal funds				3,484	3,137	3,193	1.8
Reimbursements				3,362	4,456	5,130	15.1

^a Not a meaningful figure.

Table 2
Air Resources Board
(Including Environmental Affairs Agency)
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	Motor Vehicle Account	Air Pollution Control Fund	Other Special Funds	Federal Funds and Reimbursements	Total
1990-91 expenditures (revised)	\$2,934	\$57,954	\$8,940	\$19,125	\$7,593	\$96,546
Workload and Administrative Adjustments:						
Deletion of one-time expenditures ..	—	—	-\$275	-\$2,570	-\$167	-\$3,012
Technical adjustment (fisheries)	—	—	—	-1,850	—	-1,850
Employee compensation	\$53	\$829	38	94	66	1,080
Coastal grants	—	—	—	-4,200	—	-4,200
Replace worn equipment	—	1,085	—	122	8	1,215

AIR RESOURCES BOARD—Continued

Table 2—Continued
 Air Resources Board
 (Including Environmental Affairs Agency)
 Proposed 1991-92 Budget Changes
 (dollars in thousands)

	General Fund	Motor Vehicle Account	Air Pollution Control Fund	Other Special Funds	Federal Funds and Reimburse- ments	Total
Replace laboratory air conditioning units	—	562	—	—	—	562
Replace General Fund	-2,987	2,987	—	—	—	—
Fund switch: SARA Title III	—	—	—	130	-130	—
Miscellaneous adjustments	—	270	271	-73	14	482
Subtotals	(-\$2,934)	(\$5,733)	(\$34)	(-\$8,347)	(-\$209)	(-\$5,723)
<i>Program Changes:</i>						
Reducing motor vehicle emissions:						
Improve motor vehicle emission inventories.....	—	\$427	—	—	—	\$427
Develop incentive-based regulatory policies to reduce vehicle miles ..	—	176	—	—	—	176
Implement recall/registration renewal program with DMV	—	226	—	—	—	226
Assist agencies involved in transportation planning.....	—	—	—	—	\$939	939
Analyze motor vehicle fuels	—	570	—	—	—	570
Enhanced computer resources:						
Continue computer resources needed to Implement California Clean Air Act, Ch 1568/88.....	—	—	\$300	—	—	300
Continue computer resources necessary to implement the Toxics "Hot Spots" Act, Ch 1252/87	—	—	—	\$463	—	463
Consumer product regulatory program:						
Evaluate consumer products emissions	—	—	—	250	—	250
Develop consumer products test methods	—	—	—	1,069	—	1,069
Implement a heavy-duty vehicle inspection program hearing process	—	—	—	416	—	416
Determine health risk assessment factors	—	—	—	150	—	150
Improve air monitoring data quality..	—	598	—	—	—	598
Mitigate cumulative impacts of offshore oil and gas development on commercial fishing industry...	—	—	—	500	—	500
Subtotals	(—)	(\$1,997)	(\$300)	(\$2,848)	(\$939)	(\$6,084)
1991-92 Expenditures (Proposed)	—	\$65,684	\$9,274	\$13,626	\$8,323	\$96,907
Change from 1990-91:						
Amount	-\$2,934	\$7,730	\$334	-\$5,499	\$730	\$361
Percent	-100.0%	13.3%	3.7%	-28.8%	9.6%	0.4%

ANALYSIS AND RECOMMENDATIONS

Impact of New Federal Clean Air Act Amendments

We recommend (1) enactment of legislation to allow the board to proceed with control measures of federally listed toxic air contaminants without first listing the substances with the Office of Administrative Law (OAL) and (2) deletion of \$200,000 from the Motor Vehicle Account for the administrative costs associated with listing these toxic air contaminants with the OAL. (Reduce Item 3400-001-044 by \$200,000.)

In the fall of 1990, the federal government passed amendments to the 1970 Clean Air Act (CAA). These amendments (1) make a variety of changes in federal law to strengthen requirements related to air emissions in all states and (2) direct the federal Environmental Protection Agency (EPA) to enforce the new requirements. The changes in federal law may alter the role the ARB plays in air quality regulation in three areas.

Air Toxics Regulation. Current state law, Ch 1047/83, (AB 1807, Tanner) requires the ARB to identify and control toxic air contaminants (TACs). TAC identification requires public workshops, an extensive health risk assessment conducted by the Department of Health Services, peer review by a scientific review panel, formal ARB identification of a substance as a TAC, and finally registration of the substance as a TAC with the Office of Administrative Law (OAL). Subsequent to identification of a substance as a TAC, the ARB develops control measures, targeting first those substances that are most potent to the greatest number of people.

The state's process for identifying TACs and defining control measures is time consuming. Since the beginning of the program in 1984, the ARB has identified 14 substances as TACs and has developed control measures for 10 of these substances. The board proposes expenditures of \$7.6 million from the Motor Vehicle Account in 1991-92 for identifying (\$904,000) and developing control measures for (\$6.7 million) TACs.

The CAA amendments formally identify 189 substances as hazardous air pollutants. (This list encompasses all of the substances the ARB has identified to date as TACs, all but one of the eight substances currently in the identification process, and all but one of the 24 substances nominated for future review.) The CAA further requires (1) the EPA to accelerate its control measure development process and (2) states to enforce the federal control measures by adopting and enforcing measures which are as stringent as the federal measures. Under current state law, however, the ARB must proceed to identify these substances as TAC's prior to regulating them, even though under federal law, the ARB now has the authority to regulate these substances without first identifying them as *state* toxic air contaminants.

Our review of the federal and state programs indicates that the state should continue to promulgate control measures for toxic air contaminants that are of special concern in California. This is because (1) the federal process for developing control measures has been even slower

AIR RESOURCES BOARD—Continued

than the state's process and (2) priorities of the federal government may not coincide directly with those of California, as some toxic contaminants found in many parts of the U.S. are not found in California. Our review further indicates, however, that the state gains little from formally listing with the OAL substances which are already listed under the CAA. Based on information provided by the ARB, we estimate that the state could save as much as \$200,000 annually by modifying the AB 1807 listing process.

Consequently, we recommend enactment of legislation to modify the AB 1807 process to allow the board to proceed to regulate toxic air contaminants without listing the substances with OAL, provided the substances are already listed with the federal government in the CAA amendments. We further recommend reducing the ARB's budget by \$200,000 to reflect this legislative change.

Regulation of Off-Road Engines. The California Clean Air Act, Ch 1568/88, (AB 2595, Sher) requires the ARB to regulate emissions from six categories of off-road engines, including: construction and farm equipment, utility engines, locomotives, ships, off-highway vehicles, and off-road motorcycles. These engines, which previously were unregulated, contribute substantially to the overall air pollution problem in the state. To date, the ARB has established emission limits for utility engines (e.g., chain saws and lawn and garden equipment).

The federal CAA amendments preclude the ARB from regulating certain off-road engines. Specifically, the state no longer may regulate: (1) farm and construction equipment with engines of less than 175 horsepower, and (2) new locomotive engines. (For the remaining engine categories, the CAA allows California—and no other state—to adopt regulations for these engines if they are at least as stringent as federal regulations.) As a result, the ARB's mobile source division will not achieve maximum reductions from all off-road engines, increasing the need to make reductions from other stationary and mobile sources to attain the federal ambient air standards. The ARB indicates that it plans to regulate *existing* locomotives, and will develop data and conduct tests on engines of less than 175 horsepower in order to try to encourage EPA to issue regulations as stringent as what ARB would have adopted.

Smog Check Program. California currently has a decentralized biennial smog check program, where car owners must take their vehicles every two years to a certified private business for vehicle emissions tests. The amended CAA requires states to adopt smog check programs that are as effective as a centralized annual program. California will have to demonstrate to the EPA that the current state program is as effective as a typical centralized program where car owners take their car once a year to a state-run facility. To date, the EPA has not defined what criteria will be used to determine the adequacy of the state's program.

COLORADO RIVER BOARD

Item 3460 from the General
Fund and the Environmental
License Plate Fund

Budget p. R 50

Requested 1991-92.....	\$942,000
Estimated 1990-91	893,000
Actual 1989-90	698,000
Requested increase \$49,000 (+5.5 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3460-001-001	General	\$286,000
3460-001-140	Environmental License Plate	9,000
Reimbursements	—	647,000
Total		\$942,000

GENERAL PROGRAM STATEMENT

The Colorado River Board is responsible for protecting the state's rights to water and power resources of the Colorado River. At present the river accounts for approximately 65 percent of the water used in southern California. Because six other states and Mexico also claim a portion of the river's supply, the amount of water available for California could decrease in future years. Consequently, the board seeks to protect California's water rights by: (1) representing California's interests concerning allocation of Colorado River resources and (2) implementing programs to maximize the amount of Colorado River Water available for use in California. These programs include developing conservation measures and water storage facilities, obtaining credits for return flows to the river, and other means of enhancing the efficient use of Colorado River water. The board's water development and management activities are carried out through technical investigations, negotiations with federal agencies and other states, litigation concerning operation of the river, and seeking congressional action concerning water development, water quality and program funding.

The board consists of 10 members appointed by the Governor. Six members are appointed from the following agencies with entitlements to Colorado River water: Palo Verde Irrigation District, Imperial Irrigation District, Coachella Valley Water District, Metropolitan Water District of Southern California, San Diego County Water Authority, and Los Angeles Department of Water and Power. The other board members are the Directors of the Departments of Water Resources and Fish and Game, and two public representatives.

The six water agencies listed above support approximately two-thirds of the board's budget and the state provides the remainder. The board has 10.9 personnel-years in the current year.

**COLORADO RIVER BOARD—Continued
ANALYSIS AND RECOMMENDATIONS**

We recommend approval.

The total 1991-92 budget proposed for the board from all sources is \$942,000, an increase of \$49,000 or 5.5 percent, above estimated current-year expenditures. This increase, funded by reimbursements, primarily reflects an increase in rent for the board's new location in Glendale. The amount requested consists of \$295,000 (31 percent) in state funds and \$647,000 (69 percent) in reimbursements from the six water agencies. The state funds consist of \$286,000 from the General Fund and \$9,000 from the Environmental License Plate Fund.

Our analysis indicates that the budget request for the board is reasonable.

DEPARTMENT OF CONSERVATION

Item 3480 from the General
Fund and various funds

Budget p. R 52

Requested 1991-92.....	\$337,142,000
Estimated 1990-91	307,682,000
Actual 1989-90	215,323,000
Requested increase \$29,460,000 (+9.6 percent)	
Total recommended reduction.....	408,000
Recommendation pending	2,479,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3480-001-001—Support	General	\$15,545,000
3480-001-035—Surface mining and reclamation program	Surface Mining and Reclamation Account, General	2,125,000
3480-001-042—Caltech seismograph network	State Highway Account, State Transportation	12,000
3480-001-133—Support	California Beverage Container Recycling	25,958,000
3480-001-141—Support	Soil Conservation	1,128,000
3480-001-144—Caltech seismograph network	California Water	12,000
3480-001-336—Support	Mine Reclamation Account, General	963,000
3480-001-338—Support	Seismic Hazards Identification	1,316,000
3480-001-398—Support	Strong-Motion Instrumentation Program	3,513,000
3480-001-890—Support	Federal Trust	513,000
3480-002-336—Interest expense	Mine Reclamation Account, General	33,000
3480-011-336—Transfer to Strong-Motion Instrumentation Program Fund for loan repayment	Mine Reclamation Account, General	(136,000)

Item 3480

Ch 1290/86—Beverage container recycling	California Beverage Container Recycling	237,997,000
Ch 1290/86 and Ch 1339/89—Beverage container redemption bonuses	Redemption Account, California Beverage Container Recycling	26,500,000
Ch 1274/90—Glass container recycling	Glass Processing Fee Account, California Beverage Container Recycling	20,000,000
Ch 1604/90—Hazardous well mitigation	Hazardous and Idle-Deserted Well Abatement	100,000
Reimbursements	—	1,427,000
Total		<u>\$337,142,000</u>

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Facilities Operation. Withhold recommendation on \$2.5 million from various funding sources for building rent and related costs, pending receipt of the department's 1991-92 relocation proposal. 368
2. *Furniture Purchase. Reduce Item 3480-001-133 by \$408,000.* 368
Recommend deletion of funds for modular furniture that is not needed.

GENERAL PROGRAM STATEMENT

The Department of Conservation consists of four divisions:

- The Division of Mines and Geology functions as the state's geologic agent under the direction of the State Geologist.
- The Division of Oil and Gas regulates the development, operation, maintenance and abandonment of oil, gas and geothermal wells.
- The Division of Recycling administers the beverage container recycling program, which promotes the recycling of certain types of beverage containers.
- The Division of Administration provides the policy direction and administrative services required to meet the department's program objectives. The open-space subvention program (Williamson Act), soils resource protection unit, and farmland mapping and monitoring program also are part of this division.

The department has 528.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The department proposes expenditures totaling \$337.1 million in 1991-92, an increase of \$29.5 million, or 9.6 percent, from current-year estimated expenditures. The proposed increase is the net result of (1) program increases totaling \$30.6 million, mostly in the Division of Recycling, and (2) workload and administrative decreases totaling \$1.2 million.

Proposed expenditures in 1991-92 consist of (1) \$15.5 million from the General Fund, (2) \$9.7 million from various special funds and federal funds, (3) \$310.5 million from beverage container recycling fees, and (4) \$1.4 million in reimbursements.

DEPARTMENT OF CONSERVATION—Continued

Table 1 shows the department's expenditures and sources of funds for the past, current and budget years. Table 1 also shows that the department's staff will increase by 41.9 personnel-years in 1991-92.

Table 1
Department of Conservation
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	<i>Personnel-Years</i>			<i>Expenditures</i>			<i>Percent Change From 1990-91</i>
	<i>Actual 1989-90</i>	<i>Est. 1990-91</i>	<i>Prop. 1991-92</i>	<i>Actual 1989-90</i>	<i>Est. 1990-91</i>	<i>Prop. 1991-92</i>	
<i>Programs:</i>							
Geological hazards and mineral resources conservation	135.7	147.8	169.5	\$11,851	\$14,443	\$15,298	5.9%
Oil, gas and geothermal protection	122.5	122.9	124.0	9,194	9,740	10,094	3.6
Land resource protection	14.1	16.5	16.5	1,221	1,433	1,401	-2.2
Beverage container recycling and litter reduction	127.0	161.4	175.6	193,047	282,066	310,455	10.1
Administration (distributed to other programs)	71.6	80.2	85.1	(4,076)	(5,601)	(6,089)	(8.7)
Undistributed administration	—	—	—	10	—	—	—
Unallocated reduction	—	—	—	—	—	-106	— ^a
Totals	470.9	528.8	570.7	\$215,323	\$307,682	\$337,142	9.6%
<i>Funding Sources</i>							
General Fund				\$14,727	\$15,298	\$15,545	1.6%
California Beverage Container Recycling Fund (CBCRF)				152,600	249,816	263,955	5.7
Redemption Account, CBCRF				40,447	23,750	26,500	11.6
Glass Processing Fee Account, CBCRF				—	8,500	20,000	135.3
Strong-Motion Instrumentation Program Fund				3,157	4,067	3,513	-13.6
Surface Mining and Reclamation Account				1,846	2,098	2,125	1.3
Mine Reclamation Account				—	—	996	— ^a
Hazardous and Idle-Deserted Well Abatement Fund				—	—	100	— ^a
Seismic Hazards Identification Fund				—	—	1,316	— ^a
Soil Conservation Fund				1,082	1,162	1,128	-2.9
California Water Fund				12	12	12	—
State Highway Account, State Transportation				12	12	12	—
Methane Gas Hazards Reduction Account				190	—	—	—
Special Account for Capital Outlay				23	76	—	-100.0
Environmental License Plate Fund				—	50	—	-100.0
Insurance Fund				42	—	—	—
Federal funds				305	508	513	1.0
Reimbursements				880	2,333	1,427	-38.8

^a Not a meaningful figure.

Proposed Budget Changes

Table 2 provides a summary, by funding source, of the changes in the department's proposed 1991-92 budget. As the table shows, the primary increases include (1) \$26.2 million from additional recycling revenues (most of these revenues are continuously appropriated to the department for support of various beverage container recycling program activities), (2) \$2.3 million for additional recycling program staff and operating expenses, (3) \$1.9 million for new programs in the Division of Mining and

Table 2
Department of Conservation
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>Recycling Funds</i>			<i>Other State Funds</i>	<i>Federal Funds and Reimbursements</i>	<i>Totals</i>
	<i>General Fund</i>	<i>Support</i>	<i>Refund Values and Other^a</i>			
1990-91 expenditures:						
Budget Act	\$15,206	\$23,049	—	\$7,034	\$1,805	\$47,094
Statutory appropriations	—	207	\$237,840	—	—	238,047
Totals	\$15,206	\$23,256	\$237,840	\$7,034	\$1,805	\$285,141
Adjustments, 1990-91:						
<i>Employee compensation in-</i>						
creases	\$356	\$281	—	\$124	\$41	\$802
Retirement rate reduction	-79	-62	—	-31	-11	-183
Unallocated reduction (Sec. 3.80)	-185	—	—	—	—	-185
Increase in recycling revenues ..	—	—	\$11,932	—	—	11,932
Chaptered legislation	—	—	8,500	350	—	8,850
Increase in reimbursements for mine reclamation plan review.	—	—	—	—	1,142	1,142
Miscellaneous adjustments	—	319	—	—	-136	183
1990-91 expenditures (revised)	\$15,298	\$23,794	\$258,272	\$7,477	\$2,841	\$307,682
<i>Workload and administrative changes:</i>						
Deletion of one-time costs	-\$235	-\$403	—	-\$500	-\$1,386	-\$2,524
Employee compensation in-						
creases	256	207	—	96	30	589
Adjustment for deficiency	—	-319	—	—	—	-319
Pro rata adjustment	—	195	—	-43	1	153
Augmentation for rent and state police	106	188	—	52	8	354
Conversion of limited-term positions to permanent (Division of Oil and Gas)	209	—	—	—	—	209
Strong-Motion Instrumentation Program increases	—	—	—	182	250	432
Administration staff augmentations	—	37	—	222	29	288
Miscellaneous adjustments	-91	-35	—	-212	48	-290
Unallocated reduction	-106	—	—	—	—	-106
Subtotals	(\$139)	(-\$130)	(—)	(-\$203)	(-\$1,020)	(-\$1,214)
<i>Program changes:</i>						
Projected recycling revenue increase	—	—	\$26,225	—	—	\$26,225
Recycling program increases	—	\$2,294	—	—	—	2,294
Mines and Geology program increases	—	—	—	\$1,928	\$119	2,047
Increase for idle oil and gas well program	\$108	—	—	—	—	108
Subtotals	(\$108)	(\$2,294)	(\$26,225)	(\$1,928)	(\$119)	(\$30,674)
1991-92 expenditures (proposed) ..	\$15,545	\$25,958	\$284,497	\$9,202	\$1,940	\$337,142
Change from 1990-91 (revised):						
Amount	\$247	\$2,164	\$26,225	\$1,725	-901	\$29,460
Percent	1.6%	9.1%	10.2%	23.1%	-31.7%	9.6%

^a Includes refund values, grants for recycling activities, incentive payments, glass processing fees, and local advertising contracts.

DEPARTMENT OF CONSERVATION—Continued

Geology, and (4) \$589,000 due to the full-year effect of 1990-91 employee compensation costs. These increases are offset partially by various administrative adjustments and by an unallocated trigger-related General Fund reduction of \$106,000, which the administration proposes in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

ANALYSIS AND RECOMMENDATIONS**Facilities Operation**

We withhold recommendation on \$2.5 million from various funding sources requested for building rent and other facilities operation costs, pending receipt and analysis of the department's 1991-92 relocation proposal.

The budget requests \$2.5 million from various funding sources for facilities operations of the department in 1991-92. This amount includes a proposed increase of \$354,000 over estimated current-year expenditures to cover increases in state rental rates and police service costs.

The department indicates, however, that it plans to consolidate the headquarters offices of all its divisions by moving them to a new location in the Sacramento area in 1991-92. At the time this analysis was prepared, the Legislature had not received the department's proposal for this relocation. Consequently, there is no basis on which to determine whether the proposed allocation for the department's facilities operations is appropriate. Thus, we withhold recommendation on \$2.5 million requested for this purpose, pending receipt and analysis of the department's relocation proposal.

Specifically, we withhold recommendation on:

- \$1.2 million from the General Fund.
- \$95,000 from the Surface Mining and Reclamation Account.
- \$876,000 from the California Beverage Container Recycling Fund.
- \$60,000 from the Soil Conservation Fund.
- \$121,000 from the Strong-Motion Instrumentation Program Fund.
- \$72,000 from the Mine Reclamation Account.
- \$76,000 from the Seismic Hazards Identification Fund.
- \$9,000 from reimbursements.

Furniture Purchase

We recommend a reduction of \$408,000 from the California Beverage Container Recycling Fund requested for the purchase of modular furniture related to the department's relocation proposal. (Reduce Item 3480-001-133 by \$408,000.)

The department proposes to purchase \$408,000 in modular furniture for the Division of Recycling in conjunction with relocating the division from its current facilities. As discussed above, because the department has not submitted a relocation proposal, we are unable to evaluate the division's equipment needs in its as yet unidentified new facilities. Furthermore, because the division already has usable furniture, the purchase of new

modular pieces at a cost of over \$2,700 per position is likely to remain unjustified regardless of the facilities the division eventually occupies. While some expenditures for office space dividers may be necessary, the department has not specifically requested such funding. Consequently, we recommend elimination of the \$408,000 requested for the Division of Recycling's modular furniture purchase.

Status Report: Beverage Container Recycling Program

California's Beverage Container Recycling Program (BCRP) began in October 1987 (Ch 1290/86, AB 2020, Margolin) with the goal of reaching an overall beverage container recycling rate of 80 percent. By July 1990, the state's overall recycling rate had reached 72 percent.

The program was significantly modified in 1989 by Ch 1339/89 (SB 1221, Hart) and Ch 1342/89 (AB 1001, Sher). Under the revised program, beverage distributors pay the department two cents for each redeemable container they sell in the state. In turn, consumers may redeem any two eligible containers (including beer, soda, wine and distilled spirit cooler, and other containers) for a five-cent "refund value."

From the redemption payments made by beverage distributors, the department pays its administrative costs and the two-for-a-nickel refund value to recyclers. Unclaimed recycling revenues (from redemption payments on unrecycled containers) are used to fund (1) litter abatement and education grants (\$8 million) and (2) convenience incentive payments (up to \$18.5 million).

Chapter 1274, Statutes of 1990 (AB 1490, Sher), directed the department to calculate and impose a "processing fee." For any container for which the material's scrap value is less than the cost of recycling the container, the department charges the difference—the processing fee—to the container manufacturer. The department then makes processing fee payments to processors and recyclers to cover the costs of recycling. On January 1, 1991, the department imposed processing fees on glass (\$0.00659), plastic (\$0.00789), and nonaluminum (\$0.03789) containers.

Chapter 1274 also required the department to establish a Glass Market Development Program using revenues from the glass processing fee not required for processing fee payments. (Processing fees are paid on *all* containers sold in California while processing fee payments are made only for *recycled* containers. The glass recycling rate reached 58 percent as of July 1990.) Under this program, users of recycled California glass—including glass container manufacturers and certified processors who sell to other end users—can receive market development payments intended to encourage the reuse of glass.

Also in 1990, the Legislature enacted Ch 1094/90 (AB 2622, Eastin), which requires producers of glass food and drink containers to use 15 percent recycled glass in manufacturing new glass containers by 1992. (The required recycled content increases to 65 percent in 2005.) Like the glass market development payments, this requirement should increase the demand for recycled glass in California and thus aid the BCRP in meeting its goals.

DEPARTMENT OF CONSERVATION—Continued
1991-92 Budget Proposal for the BCRP

The 1991-92 Governor's Budget shows program expenditures of approximately \$310.4 million, including \$284.5 million in funds continuously appropriated to the department for various activities and an appropriation of \$25.9 million for program support costs. According to the DOC, the continuously appropriated funds will be used to (1) pay refund values and nonglass processing-fee payments (\$238 million), (2) support recycling incentive, contract and grant payments (\$26.5 million), and (3) make glass processing fee and market development payments (\$20 million).

The proposed appropriation for support includes an increase of \$2.3 million (22.1 personnel-years) over the current year to:

- Add positions to enforcement, certification, and economic analysis units to respond to increased recycling and increased risk of fraud (\$1.9 million).
- Add positions to implement the processing fee and glass market development program and to enforce the recycled glass content provisions (\$376,000).
- Increase administrative staff (\$53,000).

Our review indicates that, with the exception of the furniture purchase discussed above, the proposed 1991-92 budget for the BCRP generally is appropriate given the changes made to the program in the 1989-90 legislative session.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

Item 3540 from the General
 Fund and various funds

Budget p. R 67

Requested 1991-92.....	\$392,752,000
Estimated 1990-91	467,111,000
Actual 1989-90	354,567,000
Requested decrease \$74,359,000 (-15.9 percent)	
Total recommended reduction in General Fund.....	2,300,000
Total recommended increase in federal funds	2,300,000
Total recommended General Fund revenue increase.....	5,900,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3540-001-001—Support	General	\$234,865,000
3540-001-036—Support	Special Account for Capital Outlay (SAFCO)	11,703,000
3540-001-140—Support	Environmental License Plate	6,087,000
3540-001-164—Support	Outer Continental Shelf Lands Act, Section 8(g) Revenue	822,000

Item 3540

3540-001-235—Support	Public Resources Account, Cigarette and Tobacco Products Surtax	3,798,000
3540-001-300—Support	Professional Foresters Registration	165,000
3540-001-786—Support	Wildlife, Coastal, and Park Land Conservation	38,000
3540-001-890—Support	Federal Trust	5,832,000
3540-001-928—Support	Forest Resources Improvement	4,707,000
3540-001-965—Support	Timber Tax	25,000
3540-006-001—Emergency fire suppression	General	30,000,000
3540-011-928—Transfer to General Fund	Forest Resources Improvement	(1,674,000)
3540-101-786—Local assistance	Wildlife, Coastal, and Park Land Conservation	633,000
3540-490—Reappropriation	Special Account for Capital Outlay	5,000,000
Reimbursements	—	89,077,000
Total		<u>\$392,752,000</u>

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. **Federal Funds. Reduce Item 3540-001-001 by \$2.3 Million and Increase Item 3540-001-890 by the Same Amount.** Recommend funding shift to account for anticipated federal fire protection payments. Also recommend Budget Bill language requiring the department to use any additional funds it receives above the \$2.3 million to reduce General Fund costs. 377
2. **Butte County.** The department may face a budget shortfall of \$3.6 million due to Butte County's potential inability to pay its cooperative fire protection agreement costs. In order to ensure legislative involvement in any action affecting local government finances, we recommend Budget Bill language prohibiting use of the deficiency authorization process to "bail out" local jurisdictions. 378
3. **General Fund Reductions.** The effect on the department's operations of the proposed trigger-related reduction is unknown. A departmental analysis identifies alternatives to allocating reductions proportionately across programs. 380
4. **Timber Harvest Permit Fees. Increase General Fund Revenues by \$5.9 Million.** Recommend enactment of legislation to impose fees on timber operators to cover the General Fund costs of administering the Forest Practice Act. 382
5. **Wildlife Habitat Planning Assessment Program.** The department's proposal does not include a plan to charge fees for using the data base to be established under the program, as required by legislation. 383

GENERAL PROGRAM STATEMENT

The California Department of Forestry and Fire Protection (CDF) provides fire protection services directly or through contracts for 32.1 million acres of timber, range, and brushland owned privately or by the

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued

state or local agencies. In addition, CDF provides fire protection to 3.6 million acres of federal land under contracts with the U.S. Forest Service, the Bureau of Land Management (BLM), and other federal agencies. The department also provides local fire protection and paramedic services under contracts with 33 counties.

In addition, CDF (1) operates 46 conservation camps, five training centers, and one fire center, (2) regulates timber harvesting on private forestland, (3) provides advisory and financial assistance to landowners for forest and range management, (4) regulates and conducts controlled burning of brushlands, (5) manages eight state forests, and (6) operates three tree nurseries.

The nine-member Board of Forestry guides policies of the department. The board establishes forest practice rules and designates which wild lands are state responsibility lands for fire protection purposes. The Governor appoints members of the board. The department has 4,597.6 personnel-years in the current year.

MAJOR ISSUES

- The Legislature can shift some support costs from the General Fund to federal funds and free up \$2.3 million for other purposes.
- CDF may incur a shortfall of \$3.6 million in 1991-92 if Butte County cannot pay for fire suppression services.
- Legislative involvement in county bailouts would be insured if the administration is prohibited from using the deficiency process for such payments.
- Trigger-related reduction may result in increased emergency costs absent consideration of alternatives.
- The Legislature can impose fees for review of timber harvest plans and free up \$5.9 million from the General Fund for other purposes.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$392.8 million from the General Fund, various other state funds, federal funds, and reimbursements for support of the CDF in 1991-92. This is a decrease of \$74.4 million, or 16 percent, from estimated current-year expenditures. Table 1 shows the department's expenditures and staffing levels by program, and funding sources for the past, current, and budget years.

Table 1
Department of Forestry and Fire Protection
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Wildland fire protection and prevention	2,026.1	2,084.4	1,981.9	\$153,560	\$156,849	\$167,976	7.1%
Cooperative fire protection	1,048.3	1,207.0	1,279.2	87,154	110,648	110,725	0.1
Conservation camps	616.0	662.1	630.3	49,824	56,856	55,843	-1.8
Emergency fire suppression	— ^a	— ^a	— ^a	39,345	113,750	32,000	-71.9
Forest practice regulation	72.0	82.8	93.2	6,296	7,715	8,690	12.6
Other resource management programs	162.6	197.8	221.1	18,388	21,293	24,202	13.7
Administration (distributed to other programs)	346.1	363.5	367.7	(24,433)	(26,886)	(27,431)	(2.0)
Unallocated reduction	—	—	—	—	—	-6,684	— ^b
Totals	4,271.1	4,597.6	4,573.4	\$354,567	\$467,111	\$392,752	-15.9%
Funding Sources							
General Fund				\$259,514	\$317,214	\$264,865	-16.5%
Special Account For Capital Outlay				2,702	8,071	16,703	107.0
Environmental License Plate Fund				4,223	4,458	6,087	36.5
Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund				—	—	822	— ^b
Public Resources Account, Cigarette and Tobacco Products Surtax Fund (CTPSF)				1,256	3,147	3,798	20.7
Unallocated Account, CTPSF				300	—	—	—
Professional Foresters Registration Fund				140	157	165	5.1
California Wildlife, Coastal, and Park Land Conservation Fund				662	671	671	—
Forest Resources Improvement Fund				2,895	4,074	4,707	15.5
Timber Tax Fund				24	24	25	4.2
Federal funds				14,681	40,599	5,832	-85.6
Transfers from Departments of Corrections and the Youth Authority				4,702	—	—	—
Reimbursements				62,437	88,696	89,077	0.4
Natural disaster reimbursements—Loma Prieta				1,031	—	—	—

^a Not applicable.

^b Not a meaningful figure.

A direct comparison of proposed expenditures with those estimated for the current year is misleading because current-year expenditures include \$113.8 million for emergency fire suppression costs, while the budget for 1991-92 includes \$32 million for this purpose.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued

If the emergency fire suppression amounts are excluded from estimated 1990-91 expenditures and the 1991-92 budget, the department's expenditures would *increase* in 1991-92 by \$7.4 million, or 2.1 percent. The components of this net increase consist of:

- \$8.4 million for air fleet replacement, including \$5 million reappropriated from the current year for air tankers.
- \$6.1 million for the full-year cost of 1990-91 employee compensation increases.
- \$9.2 million for program changes, including \$4.7 million for fire suppression programs and \$3.6 million for resources management programs.
- A reduction of \$9.6 million for additional one-time, nonemergency fire suppression costs in 1990-91.
- An unallocated trigger-related reduction of \$6.7 million proposed in lieu of the reduction required by Ch 458/90 (AB 2348, Willie Brown).

Table 2 summarizes proposed budget changes for 1991-92 by funding source.

Table 2
Department of Forestry and Fire Protection
Proposed 1991-92 Budget Changes
By Program and Funding Source
(dollars in thousands)

	<i>General Fund</i>	<i>Special Funds</i>	<i>Federal Funds</i>	<i>Reimburse- ments</i>	<i>Total</i>
1990-91 expenditures (Budget Act).....	\$233,402	\$25,457	\$5,511	\$79,588	\$343,958
<i>Emergency fire suppression adjustments:</i>					
Control Section 12.3 allocation	\$10,000	—	—	—	\$10,000
Proposed deficiency	73,750	—	—	—	73,750
Section 28	—	—	\$28,000	—	28,000
Subtotals	(\$83,750)	—	(\$28,000)	—	(\$111,750)
<i>Nonemergency fire suppression adjustments:</i>					
Early fire season costs — Ch 494/90	\$5,977	—	—	—	5,977
Proposed deficiency — Butte County.....	3,600	—	—	—	3,600
Additional federal funds for base costs....	—7,000	—	\$7,000	—	—
Subtotals	(\$2,577)	—	(\$7,000)	—	(\$9,577)
<i>Other adjustments:</i>					
Reduction per Section 3.80	—\$7,002	—	—	—	—\$7,002
Elimination of vacant positions.....	—	—	—	—\$171	—171
Reduction per Section 3.60	—643	—\$16	—	—253	—912
Employee compensation increases	5,132	161	—	1,917	7,210
Cooperative Forestry Assistance Act grant	—	—	\$88	—	88
California Environmental Quality Act	—	—	—	156	156
Local government contracts.....	—	—	—	7,459	7,459
Deferral of air fleet replacement	—	—5,000	—	—	—5,000
Board of Control claims	—2	—	—	—	—2
Subtotals	(—\$2,515)	(—\$4,855)	(\$88)	(\$9,108)	(\$1,826)
Subtotals, all adjustments	(\$83,812)	(—\$4,855)	(\$35,088)	(\$9,108)	(\$123,153)
1990-91 expenditures (revised)	\$317,214	\$20,602	\$40,599	\$88,696	\$467,111

<i>Baseline adjustments:</i>					
Unallocated reduction	-\$6,684	—	—	—	-\$6,684
Transfer operating costs of new conservation camps	4,009	—	—	-\$3,767	242
Delete 1990-91 emergency fire suppression adjustments	-83,750	—	-\$28,000	—	-111,750
Delete 1990-91 nonemergency fire suppression adjustments	-2,577	—	-7,000	—	-9,577
Delete other 1990-91 one-time costs	2	—	-88	-550	-636
Full-year effect of 1990-91 employee compensation increases	4,731	\$115	—	1,219	6,065
Air fleet replacement	—	8,409	—	—	8,409
Emergency fire suppression funding	30,000	—	—	—	30,000
Administrative adjustments	-45	383	—	—	338
Subtotals	(\$54,314)	(\$8,907)	(\$35,088)	(\$3,098)	(\$83,593)
<i>Program change proposals:</i>					
Conservation camp expansion	—	—	—	-\$1,122	-\$1,122
Baseline cost increases	\$1,754	—	—	—	1,754
Workers' compensation increase	—	—	—	270	270
Negotiated uniform allowance	—	—	—	52	52
Add staff for fire cost recovery functions	—	—	\$233	—	233
Add staff for telecommunications	—	\$223	—	—	223
Add staff for forest pest management	—	464	—	—	464
Add staff for Forest Practice Program	211	499	—	—	710
Wildlife habitat planning and assessment	—	1,395	—	—	1,395
Jackson Demonstration State Forest silviculturist	—	66	—	—	66
Cooperative Forestry Assistance Act grant	—	—	88	—	88
Aid to the California Tahoe Conservancy	—	—	—	46	46
Local government contracts	—	—	—	4,233	4,233
Dutch Elm Disease	—	822	—	—	822
Subtotals	(\$1,965)	(\$3,469)	(\$321)	(\$3,479)	(\$9,234)
1991-92 expenditures (proposed)	\$264,865	\$32,978	\$5,832	\$89,077	\$392,752
Changes from 1990-91 (revised):					
Amount	-\$52,349	\$12,376	-\$34,767	\$381	-\$74,359
Percent	-16.5%	60.1%	-85.6%	0.4%	-15.9%

Reimbursements

Table 3 shows reimbursements totaling \$89.1 million that the department expects to receive during 1991-92. The largest amount, \$81.9 million, comes from local governments that receive fire protection and paramedic services from CDF on a contractual basis.

Table 3
Department of Forestry and Fire Protection
Budgeted Reimbursements
1991-92
(in thousands)

Local fire protection services	\$81,901
Camps program support	3,898
California Conservation Corps supervision and training of corpsmembers	691
California Department of Corrections camp construction	500
Employee payments for services	1,142
Miscellaneous	945
Total	<u>\$89,077</u>

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued

The department negotiates two types of contracts with local governments. Under Schedule A contracts, local governments reimburse the state for the full cost of year-round fire protection and emergency services. Under Amador Plan contracts, local governments reimburse the state for only the incremental costs of using CDF employees and equipment to provide local fire protection during the winter (nonfire season).

Schedule A reimbursements were increased by \$7.5 million in 1990-91 through the Section 28 process. The budget proposes to increase expenditure authority by an additional \$4.2 million in 1991-92. The changes are principally due to population increases in the central and southern regions of the state.

The department also receives reimbursements from (1) various federal agencies for fire protection services on federal lands, (2) the California Department of Corrections (CDC) and the California Youth Authority (CYA) for the first year of new conservation camps or expanded camp operations, (3) the California Conservation Corps (CCC) for supervising and training corps members in fire fighting, and (4) CDF personnel for housing, food, and other services.

ANALYSIS AND RECOMMENDATIONS**Change in Budgeting for Emergency Fund**

We recommend approval.

The budget proposes to change the method of budgeting for emergency fire suppression costs.

The department funds the majority of fire suppression costs through its support (or base) budget. The support budget includes funds for such items as salaries for permanent fire fighting personnel, and equipment purchase and maintenance. With these resources, the department can fight most fires (most fires do not progress beyond the initial attack phase) and deploy permanent staff and equipment during extended fires.

When a fire progresses beyond the initial attack phase, however, the department incurs additional costs for items such as overtime and contract equipment. These costs are not funded in the department's support budget. Instead, the department pays these costs using a departmental account called the Emergency Fire Suppression and Detection Fund ("E-Fund").

The current-year budget, consistent with past budgets, does not include a General Fund appropriation for E-Fund expenditures in state responsibility areas. (The federal government reimburses the state for any costs the state incurs to fight fires in federal responsibility areas.) Instead, General Fund costs are covered in two ways. First, Section 12.3 of the Budget Act authorizes the Department of Finance to transfer up to \$10 million from the Reserve for Economic Uncertainties in the General Fund for this purpose. Second, any costs exceeding \$10 million are covered through the deficiency process.

The budget estimates that current-year E-Fund expenditures in state responsibility areas will be \$83.8 million. The Department of Finance has

already allocated \$10 million pursuant to Section 12.3 to cover a portion of this amount. The budget proposes to cover the remaining costs with a General Fund deficiency appropriation of \$73.8 million.

In a departure from the previous budgeting method, the 1991-92 budget proposes a \$30 million General Fund appropriation for E-Fund costs. The budget proposes to continue language in Section 12.3 authorizing a \$10 million transfer in the event that the \$30 million amount is insufficient. The \$30 million appropriation is based on the average of E-Fund expenditures in state responsibility areas over the four years from 1986-87 through 1989-90.

Our analysis indicates that appropriating General Fund monies in the Budget Bill for emergency fire suppression costs is sound fiscal policy. By funding anticipated expenditures through the budget instead of the General Fund Reserve for Economic Uncertainties, this policy enhances the integrity of the reserve. In our view, the reserve should be held for *unanticipated* revenue and expenditure changes only.

Furthermore, we believe that the \$30 million amount is a reasonable estimate because it is based on historical average costs. We note that actual costs may vary significantly from the \$30 million proposed by the department. Expenditures over the four-year period from 1986-87 through 1989-90 in state responsibility areas have ranged from \$12.3 million in 1986-87 to \$49 million in 1988-89. We believe, however, that expenditures are more likely to exceed \$30 million than to be lower than \$30 million. This is because the factors that have caused increased expenditures over the past several years will continue to influence costs in 1991-92. These factors are: (1) increased per-acre costs due to development in foothill areas and (2) the drought. The department reports that, even if the state experiences above-average rainfall in the current year and/or 1991-92, the extensive damage to timber caused by the drought thus far makes it unlikely that actual costs would fall below the historical average.

Federal Funding Not Budgeted

We recommend that the Legislature schedule \$2.3 million in federal funding for base support costs, thereby allowing a like reduction in General Fund support, because federal funds for this purpose are not included in the budget. We further recommend that the Legislature adopt Budget Bill language in Item 3540-001-001 requiring the department to use any additional funds it receives above \$2.3 million to offset General Fund costs. (Increase Item 3540-001-890 and reduce Item 3540-001-001.)

As indicated in our discussion in the previous issue, the federal government reimburses the state for any costs the state incurs to fight fires in federal responsibility areas. The reimbursements have two components: funding for E-Fund costs and funding for base support costs.

Current Year. The budget estimates that current-year federal funding will exceed the amount anticipated in the 1990 Budget Act by \$35 million: \$28 million for E-Fund costs and \$7 million for base support costs. (The

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued

1990 Budget Act includes only \$2 million in federal funds for fire suppression—all for E-Fund costs.)

The department has obtained approval through the Section 28 process to spend the \$28 million to support E-Fund costs incurred in fighting federal fires. Because the department's General Fund support budget already covers base support costs, the \$7 million in federal funds are not needed to fund base support. The Department of Finance has not proposed spending the \$7 million through the Section 28 process. Instead, the budget shows the \$7 million as a Federal Trust Fund transfer to the General Fund.

Budget Year. Like the current-year budget, the proposed budget for 1991-92 does not include *any* federal funding for base support costs. Our review indicates, however, that the CDF will receive a minimum of \$2.3 million in federal funding for base costs in 1991-92. The actual amount that will be available in 1991-92 is uncertain and may vary significantly depending on the number and duration of fires on federal lands. Due to this uncertainty, we calculated our \$2.3 million estimate by taking *half* the minimum amount received during the past three years (the only years for which we have data). In these three years, federal funding for base costs has varied from \$4.6 million in 1989-90 to \$8.5 million in 1988-89.

Under the proposed budget, any federal funding for base costs that the department receives during 1991-92 would be available for any purpose through the Section 28 process. In order to maintain control over the budget, we recommend that the Legislature direct the department how to spend any federal base support funds it receives. Specifically, we recommend that the Legislature (1) schedule \$2.3 million in federal funds in the department's support item, thereby allowing a reduction of a similar amount from the General Fund and (2) adopt Budget Bill language requiring the department to use any additional federal funding it receives to offset the department's General Fund appropriation. Our recommended Budget Bill language is as follows:

The department shall use to offset its General Fund costs any federal funds it receives that are (1) in excess of the amount scheduled in the budget and (2) for base support costs.

Under our recommendation, the General Fund would benefit from any additional funds received by the department. Alternatively, the Legislature could direct the department to use any additional funds to restore unallocated reductions or augment particular programs.

Budget Assumes Butte County Will Pay Fire Costs

Our review indicates that CDF may face a budget shortfall of up to \$3.6 million due to Butte County's potential inability to pay for its cooperative fire protection agreement with the department. To ensure legislative involvement in any action affecting local government finances, we recommend that the Legislature adopt Budget Bill language in Item 3540-001-001 prohibiting the use of the deficiency authorization process to cover shortfalls in payments by local jurisdictions.

The budget assumes that in 1991-92 the CDF will continue providing fire protection services under an agreement with Butte County at a cost of \$3.6 million, the same level as the current year. Butte County is one of 33 counties where the CDF provides fire protection under cooperative agreements.

As a result of ongoing fiscal problems, Butte County has been unable to pay the state for cooperative fire services over the last two years. In 1989-90, the state permitted Butte County to defer payment of \$2.8 million it owed the state under its agreement with CDF. Chapter 1258, Statutes of 1990 (SB 1569, Keene), specified that Butte County would repay its 1989-90 fire contract costs through reductions in certain state subventions to the county over a 10-year period, beginning in 1991-92.

In the current year, the administration again approved deferral of the county's fire contract payment (\$3.5 million for 1990-91 fire costs). The Department of Finance proposes to fund these contract services through a General Fund deficiency appropriation for the CDF. At the time this analysis was prepared (January 1991), the terms for repaying the deferral had not been specified. Butte County staff advise that they consider payment of the 1990-91 fire contract amount to be a 1991-92 obligation.

These deferrals raise a number of issues with respect to the 1991-92 budget. First, our discussions with Butte County staff indicated that the county's fiscal situation has not improved. In fact, at the time that this analysis was prepared, county staff indicated that they project a county deficit of approximately \$19 million for 1991-92. Consequently, we believe that it is likely that the county will again be unable to pay the state under its fire protection agreement. If the county fails to meet its payment obligation, the CDF will incur a shortfall of \$3.6 million in 1991-92.

Second, the funding procedure proposed for the current year (a General Fund deficiency allocation to the CDF) raises a number of issues that should be considered by the Legislature. In our view, the approach taken in resolving Butte County's financial difficulties in the current year represents a misuse of the deficiency process. The deficiency process is intended for use in situations where *unanticipated costs* cause expenditures to be higher than the level contemplated in the Budget Act. In this case, the costs are no higher than had been anticipated; it is a reduction in resources available to fund them that is at issue. This use of the deficiency process allows the administration to redirect state resources to achieve results not contemplated by the Legislature under the deficiency authority granted in the Budget Act.

More basically, however, county fiscal distress is an ongoing (and potentially widespread) problem which should be addressed in a comprehensive fashion. The approach taken in the current year is one-time and available only to one county. Continuation of this policy will require repeated adjustments to county/state finances in future years because it does not address the fundamental problems with county fiscal health.

Finally, the current-year "solution" raises the issue of legislative involvement in addressing county fiscal problems. The Legislature tried to address the overall problem of county fiscal capacity by passing several

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued

measures intended to assist Butte and other counties with fiscal problems. However, all but one of these measures were vetoed by Governor Deukmejian, who then reached an agreement with Butte County without legislative involvement.

As the 1991-92 budget is currently structured, the new administration would still be able to act unilaterally with respect to the issues raised above. In order to ensure that the Legislature is involved in future state actions relating to county bailouts, we recommend that the Legislature adopt Budget Bill language in Item 3540-001-001 prohibiting the use of the deficiency process to cover shortfalls in payments by local jurisdictions. Our recommended language is as follows:

No deficiency shall be created pursuant to Section 27 of this act or Government Code Section 11006 to cover shortfalls in payments by local jurisdictions.

General Fund Reductions

The effect on the department's operations of the proposed trigger-related reduction is unknown. A departmental analysis identifies alternatives to allocating reductions proportionately across programs.

The CDF pays for 65 percent of its support costs (excluding emergency fire suppression) through the General Fund. As in other departments, the CDF's General Fund support appropriations are subject to unallocated reductions in the current and budget years. These include (1) a \$7 million reduction required by Section 3.80 of the 1990 Budget Act, which the budget proposes to continue in 1991-92, and (2) an additional \$6.7 million trigger-related reduction in 1991-92 proposed in lieu of the reduction required by Ch 458/90 (AB 2348, Willie Brown).

Current-Year Reduction Allocated Proportionately Among Programs. The CDF implemented its current-year reduction primarily by increasing salary savings (achieved by holding vacant some authorized fire protection positions) and by delaying equipment replacement and maintenance. Table 4 illustrates that the reductions affect program areas roughly in proportion to their share of the department's General Fund budget as a whole.

Table 4
California Department of Forestry and Fire Protection
Section 3.80 Reductions By Program
1990-91
(dollars in thousands)

<i>Program</i>	<i>General Fund Appropriations</i>	<i>Percent of Total</i>	<i>Section 3.80 Reduction</i>	<i>Percent of Total</i>	<i>Reduction as a Percentage of Appropriation</i>
Fire protection	\$217,471	93.1%	\$6,634	94.7%	3.1%
Resource management	15,993	6.9	368	5.3	2.3
Totals	\$233,464	100.0%	\$7,002	100.0%	3.0%

The budget proposes to continue the current-year reduction in 1991-92. However, the CDF proposes to revise its plan for achieving the reduction. The department's 1991-92 plan involves reducing staff for conservation camps and fire lookouts, postponing equipment replacement and maintenance, and reducing staff overtime. The effect of the revised plan is to place slightly more of the burden for absorbing cuts on resource management programs, fire detection, and training time and to rely less on leaving fire protection positions unfilled.

Effects of 1991-92 Reduction Unknown. At the time we prepared this analysis (January 1991), the department had not completed plans for allocating the additional trigger-related reduction of \$6.7 million. The department has convened an internal task force to address this issue. Department staff anticipate completion of a plan during the spring. As a starting point for this planning effort, department staff prepared in the fall of 1990 an analysis of the effects of potential future budget reductions. The analysis focuses on fire protection programs, which constitute 93 percent of the CDF's General Fund costs, and resource management programs that may reduce the risk of wildfire. These programs include control of forest pests and disease, and vegetation management. They are primarily funded from special funds. The analysis does not address other resource management programs.

The analysis raises the possibility that additional reductions may degrade the state's ability to prevent fires and to suppress fires during the initial attack phase. The report identifies three trends that have reduced and will continue to reduce the CDF's ability to suppress fires during initial attack, even without unallocated reductions. These are (1) increases in the rural population, (2) the extended drought, and (3) increased costs for workers' compensation, vehicle insurance, rent, and maintenance that have not been funded. (The 1991-92 budget proposal includes \$1.8 million from the General Fund for increased maintenance, workers' compensation, vehicle insurance and other basic costs in order to address the third problem.) The report concludes, first, that erosion of the CDF's initial attack capability will drive up the costs of fighting fires and, second, the department should consider alternatives to proportional reductions when it experiences budget constraints.

Alternatives to Proportional Reduction Could Reduce Fiscal Stress. The report identifies several methods of relieving General Fund constraints: (1) enhancing revenue by charging for burning permits and inspections or placing a surcharge on home fire insurance, (2) organizational changes, (3) lowering service levels, (4) contracting with more counties to protect state responsibility lands, and (5) abandoning specific activities, such as fire prevention, to free up funds for strengthening higher-priority programs.

An additional option, not addressed in the report, is to identify new funding sources for environmental and regulatory programs currently funded from the General Fund and redirect the monies to fire-related programs. We discuss one option for freeing up General Fund monies in the next section.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued
Timber Harvest Permit Fees

We recommend the enactment of legislation imposing fees on timber operators to cover the General Fund cost of administering the Forest Practice Act. (Increase General Fund revenues by \$5.9 million.)

The Forest Practice Act prohibits timber harvesting unless harvest operations comply with a timber harvesting plan (THP) prepared by a registered professional forester and approved by the CDF director. The THP covers such matters as harvest volume, cutting method, erosion control measures, and special provisions for unique areas or wildlife that would be affected by harvesting operations. The department reviews THPs to ensure conformity with state requirements and rules adopted by the State Board of Forestry. The CDF also inspects the harvesting sites at various stages of operations to make sure timber operators comply with the THP. In 1989, the department approved 1,360 THPs for 376,000 acres of timberland and conducted 7,885 field inspections.

The 1991-92 budget proposes expenditures of \$8.7 million for the forest practice regulatory program, including \$5.9 million from the General Fund; \$2.6 million from the Public Resources Account, Cigarette and Tobacco Products Surtax Fund; and the remainder from various special funds and license fees. If the department adopted a system of fees based on the acreage and type of timber covered by a THP, an average fee of around \$16 per acre would raise sufficient revenue to offset 1991-92 General Fund costs. A fee of this magnitude would be relatively small compared to the revenue generated from harvesting timber.

The Legislature has previously acted to impose fees for THP review. Specifically, control language in the 1981 Budget Act directed CDF to establish a system of permit fees to cover a portion of the department's cost of administering the Forest Practice Act. The control language was based on the department's assurances that the Legislature had the authority under the California Environmental Quality Act (CEQA) to charge the timber industry a portion of the state's costs to regulate timber harvesting. After enactment of the 1981 Budget Act, however, the Attorney General concluded that the department did not have the statutory authority to impose fees to finance the costs of the Forest Practice Act. Accordingly, the department never implemented the fees.

We recommend that legislation be enacted to impose fees in an amount sufficient to cover General Fund program costs. Enactment of legislation would (1) provide the department with the authority to impose the fees in accordance with the Attorney General opinion and (2) be consistent with the Legislature's actions in requiring that the cost of similar regulatory programs administered by other state agencies, such as the Department of Food and Agriculture and water quality control boards, be fully or partially reimbursed through industry fees and assessments. The legislation also would be consistent with the intent of the Legislature as expressed in the 1981 Budget Act. The General Fund revenues from fees would be \$5.9 million annually.

Expansion of Wildlife Habitat Planning and Assessment Program

The department's proposal does not include a plan to charge fees for using the data base to be established under this program, as required by legislation.

Chapter 1241, Statutes of 1989 (AB 1580, Willie Brown) created the Timberland Task Force and appropriated \$400,000 from the Public Resources Account (PRA) to, among other things, develop coordinated state data bases for use in developing and reviewing timber harvest plans. The bill designates the CDF as the lead agency for development of the data base. The 1990 Budget Act added 6.6 personnel-years and \$664,000 for the CDF, and 4 personnel-years and \$100,000 for the Department of Fish and Game (DFG), for this project. The CDF now believes the original estimate is not adequate. The budget proposes an additional 3.8 personnel-years and \$1.4 million from the PRA and Environmental License Plate Fund (ELPF). The CDF estimates ongoing costs of \$2 million annually for the program.

We believe the request is justified based on the complexity and workload of the project. The task force believes more detailed and accurate maps than currently available are necessary to fulfill the intent of the legislation. The work plan calls for satellite mapping, collection and verification of data, and analysis and interpretation of data.

The proposal does not include a plan to charge fees for using the data base. Chapter 1241 requires the CDF to charge fees for use of the data base, beginning January 1, 1992. The legislation also requires that the original appropriation of \$400,000 be repaid with fees. The CDF will not know the cost of developing and maintaining the data base until a pilot study is completed this summer. However, the department estimates that collection of fees averaging \$750 per timber harvest plan, or \$15 per acre, would be required to cover the cost of establishing the data base. The CDF bases its estimate on (1) the cost of compiling data on the 6 million acres in the first region it intends to map and assess and (2) the number of timber harvest plans submitted from the region. The CDF questions the willingness of timber operators to pay fees of that amount to use the data base for developing timber harvest plans.

The legislation does not appear to require that fees cover the full cost of the data base. However, the legislation *does* specify that the CDF begin charging fees in January 1992 and repay the original appropriation of \$400,000. The budget proposal does not include any plans for implementing these requirements.

Proposal to Balance State and Federal Responsibilities

We recommend approval.

The budget proposes 9.8 personnel-years and redirection of \$862,000 from the General Fund to establish fire protection capability for one million acres previously protected by the U.S. Forest Service. Under the current cooperative protection agreement, the CDF protects some federal lands, while the U.S. Forest Service protects some state-responsibility lands. The agreement originated as a means of streamlining

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued

fire protection services in areas where federal and state responsibility lands intermingle. The CDF pays a net amount of \$5 million annually to federal agencies for fire protection services. This payment is necessary because the amount of state-responsibility land protected by federal agencies has been greater than the amount of federal land protected by the CDF.

The department has entered into a new agreement that (1) eliminates payments between the state and federal agencies and (2) requires the state to assume direct responsibility for one million acres, primarily private lands, on January 1, 1992.

Because most fire costs in 1991-92 will be incurred before the new agreement becomes effective, only \$1.1 million (of the \$5 million) will be available for redirection in the budget year. The CDF proposes to use \$278,000 for workers' compensation costs and the balance, \$862,000, for staff and equipment to protect the additional acreage. The proposal also involves minor capital outlay for housing staff and equipment. (Please see our analysis of the capital outlay request for additional discussion of this issue.)

We believe both the new agreement and proposal for redirection are sensible. The resulting cooperative fire protection plan reduces the level of exchange of monies between the state and federal agencies. In addition, the CDF anticipates that after three years of start-up costs, operating costs to protect the additional acreage will be approximately \$3 million, or \$2 million less than the \$5 million paid under the current plan.

Capital Outlay

The Governor's Budget proposes an appropriation of \$9,154,000 in Item 3540-301-036 for capital outlay for CDF. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

STATE LANDS COMMISSION

Item 3560 from the General
Fund and various funds

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Requested 1991-92.....	\$18,909,000
Estimated 1990-91	19,705,000
Actual 1989-90	19,862,000
Requested decrease \$796,000 (-4 percent)	
Total recommended reduction.....	None
Recommendation pending	1,600,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3560-001-001—Support	General	\$14,579,000
3560-001-140—Support	Environmental License Plate	209,000
3560-001-164—Support	Outer Continental Shelf Lands Act, Section 8(g) Revenue	154,000
3560-001-320—Support	Oil Spill Prevention and Administration	1,600,000
Reimbursements	—	2,367,000
Total		\$18,909,000

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SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. Marine Facilities Management. Withhold recommendation on \$1.6 million from the Oil Spill Prevention and Administration Fund pending receipt and analysis of additional information on program needs in 1991-92. 388

GENERAL PROGRAM STATEMENT

The State Lands Commission is composed of the State Controller, the Lieutenant Governor and the Director of Finance. It is responsible for the management of sovereign and statutory 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 vacant state school lands. The commission:

- Leases land under its control for the extraction of oil, gas, geothermal and mineral resources.
- Exercises economic control over the oil and gas development of the tidelands granted to the City of Long Beach.
- Determines boundaries and ownership of tide and submerged lands.
- Oversees other land management operations, including appraisals, surface leases and timber operations, and maintains records concerning state lands.
- Administers tideland trusts granted by the Legislature to local governments.
- Administers regulations and policies for operation of all marine terminals in the state and other marine facilities on state lands to protect against harm to the environment or to public health and safety.

The commission has 237 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$18.9 million for support of the State Lands Commission in 1991-92. This is a decrease of \$796,000, or 4 percent, from estimated current-year expenditures. The decrease is the net result of (1) baseline reductions totaling \$3.1 million, (2) an unallocated trigger-related reduction of \$266,000 proposed in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348,

STATE LANDS COMMISSION—Continued

Willie Brown), and (3) employee compensation, workload, administrative and program increases totaling \$2.6 million.

Proposed expenditures consist of \$14.6 million from the General Fund, \$1.9 million from special funds and \$2.4 million in reimbursements. The reimbursements primarily consist of: (1) \$850,000 from fees to recover the costs to process lease applications and other commission agreements, (2) \$703,000 from the City of Long Beach for the Department of Justice to continue legal work for the commission, and (3) \$557,000 from project applicants for environmental impact reviews of projects on state lands.

The proposed General Fund appropriation of \$14.6 million overstates the General Fund's commitment to this program. This is due to existing law and provisions in the Budget Bill that entirely offset the General Fund appropriations to the commission with transfers to the General Fund of tidelands oil revenues (\$12.8 million) and state school lands revenues (\$1.7 million). The commission's cost, therefore, actually is at the expense of the Special Account for Capital Outlay (SAFCO) and the State Teachers' Retirement Fund, which otherwise would receive these revenues. The transfer from tidelands oil revenues covers the cost of overseeing oil and gas operations on state lands and the commission's general activities. The transfer from school lands revenues covers the cost of managing those lands.

Table 1
State Lands Commission
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Programs	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Extractive development:							
State leases	65.9	60.3	59.1	\$7,777	\$7,210	\$6,484	-10.1%
Long Beach operations	25.7	23.1	23.1	2,851	2,920	2,950	1.0
Land management and conservation:							
Ownership determination	54.4	54.6	57.0	4,556	4,832	4,847	0.3
Land management	33.6	29.4	32.5	4,678	3,143	3,294	4.8
Marine facilities management	—	11.7	23.1	—	1,600	1,600	—
Administration (distributed to other programs)	51.1	57.9	65.1	(3,126)	(3,449)	(3,834)	(11.2)
Unallocated reduction	—	—	—	—	—	-266	— ^a
Totals	230.7	237.0	259.9	\$19,862	\$19,705	\$18,909	-4.0%
Funding Sources							
General Fund				\$15,521	\$14,915	\$14,579	-2.3%
Environmental License Plate Fund				675	804	209	-69.0
Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund				71	100	154	54.0
Oil Spill Prevention and Administration Fund				—	1,600	1,600	—
Special Deposit Fund, Environmental Mitigation Trust Account				211	—	—	—
Land Bank Fund				60	—	—	—
Reimbursements				3,324	2,286	2,367	3.5

^a Not a meaningful figure.

Table 1 summarizes expenditures and sources of funds for the State Lands Commission from 1989-90 through 1991-92. The table shows that commission staff will increase by 22.9 personnel-years in the budget year.

Table 2 summarizes the commission's proposed budget changes for 1991-92 by funding source.

Table 2
State Lands Commission
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	Environ- mental Li- cense Plate Fund	OCS Lands Act, Sec. 8(g) Revenue Fund	Oil Spill Prevention and Ad- ministra- tion Fund	Reimburse- ments	Total
1990-91 expenditures (Budget Act)	\$15,052	\$804	\$100	—	\$1,893	\$17,849
<i>Adjustments, 1990-91:</i>						
Employee compensation increases...	397	—	—	—	19	416
Retirement rate reduction (Sec. 3.60).....	-82	—	—	—	-5	-87
Unallocated reduction (Sec. 3.80)....	-452	—	—	—	—	-452
Oil spill legislation, Ch 1248/90	—	—	—	\$1,600	—	1,600
Increased cost recovery through fees.....	—	—	—	—	379	379
1990-91 expenditures (revised)	\$14,915	\$804	\$100	\$1,600	\$2,286	\$19,705
<i>Baseline adjustments:</i>						
Deletion of one-time costs for 1990-91	-\$1,443	-\$804	—	—	-\$712	-\$3,013
Deletion of limited-term positions ...	-54	—	—	—	—	-54
Full-year costs of 1990-91 employee compensation increases	690	—	—	—	31	721
Pro rata adjustments.....	—	59	—	—	—	780
Miscellaneous adjustments	—	—	\$4	—	13	76
Subtotals	(-\$807)	(-\$745)	(\$4)	(—)	(-\$668)	(-\$2,216)
<i>Workload and administrative adjust- ments:</i>						
Long Beach computer system.....	\$463	—	—	—	—	\$463
Increased cost recovery through fees.....	—	—	—	—	\$376	376
Conversion of limited-term positions to permanent.....	54	—	—	—	373	427
Geothermal reservoir studies.....	110	—	—	—	—	110
Owens Lake dust mitigation plan....	—	\$150	—	—	—	150
Unallocated reduction	-266	—	—	—	—	-266
Subtotals	(\$361)	(\$150)	(—)	(—)	(\$749)	(\$1,260)
<i>Program changes:</i>						
Section 8(g) data analysis study.....	—	—	\$50	—	—	\$50
School lands program planning	\$110	—	—	—	—	110
Subtotals	(\$110)	(—)	(\$50)	(—)	(—)	(\$160)
1991-92 expenditures (proposed)	\$14,579	\$209	\$154	\$1,600	\$2,367	\$18,909
<i>Change from 1990-91 (revised):</i>						
Amount	-\$336	-\$595	\$54	—	\$81	-\$796
Percent.....	-2.3%	-74.0%	54.0%	—	3.5%	-4.0%

**STATE LANDS COMMISSION—Continued
ANALYSIS AND RECOMMENDATIONS****Marine Facilities Management Program**

We withhold recommendation on \$1.6 million from the Oil Spill Prevention and Administration Fund for support of the commission's marine facilities management program in 1991-92, pending receipt and analysis of additional information to be provided in the May budget revision.

The budget requests \$1.6 million from the Oil Spill Prevention and Administration Fund (OSPAF) in 1991-92 for the commission to continue implementation of certain provisions of Ch 1248/90 (SB 2040, Keene), the Lempert-Keene-Seastrand Oil Spill Prevention and Response Act. Specifically, the act requires the commission to:

- Oversee all existing and proposed marine terminals (used for transferring oil to or from tankers or barges) in the state and all other marine facilities on lands under lease from the commission, to protect the environment and public health and safety.
- Inspect on a regular basis all marine facilities in the state.
- Approve an operations manual required of each marine facility operator in the state.
- Review oil spill contingency plans for facilities and local governments within the coastal zone.
- Assist in studies to improve oil spill contingency planning and response.

The act appropriated \$1.6 million from the OSPAFA to the commission to begin implementation of the marine facilities management program in January 1991. As indicated above, the budget proposes the same amount of funding for the program in 1991-92. The Governor's Budget, however, states that "the total funding level to fulfill the Commission's responsibilities is still under review and the full funding of the program will be submitted to the Legislature for consideration in the spring revision of the budget."

Without this additional information, analysis of the budget's proposal for this program would be premature. Consequently, we withhold recommendation on \$1.6 million from the OSPAFA for support of the commission's marine facilities management program in 1991-92, pending receipt and analysis of information on actual program needs.

Tidelands Oil Revenues

The commission generates significant state revenue from the development and extraction of oil, gas, geothermal energy and other minerals on state lands. Most of this revenue is from oil (and some gas) production on state tide and submerged lands along the coast of southern California.

Long Beach Oil Production. The largest portion of the state's oil revenue comes from tidelands granted to the City of Long Beach. The city oversees the day-to-day operations of the consortium of oil companies that produce oil under the acronym of THUMS. The state receives the

net profits from the sale of the oil after deductions for operating expenses, taxes, investments, and distributions to the oil companies and the city. In order to protect the state's substantial financial interest at Long Beach, the commission has the authority to approve development and operating plans and budgets associated with the oil production there.

Royalty Production. In addition, the state has leased tidelands for oil production along the coasts of Orange, Ventura and Santa Barbara Counties. On these leases, the lessees pay a royalty to the state, based on the value of the oil produced.

Revenues in 1990-91. The budget estimates that the state will receive \$239.1 million in tidelands oil and gas revenues in the current year. The Department of Finance indicates that this estimate is based on actual oil prices through October 1990 and an average price for the remainder of 1990-91 of \$24.50 per barrel at Long Beach and Orange County and \$22 per barrel at Santa Barbara. The budget's current-year estimate is \$119 million higher than the oil revenues reflected in the 1990 Budget Act.

Revenues in 1991-92. The budget projects that tidelands oil revenues will total \$164.7 million in the budget year. This projection is based on Long Beach and Santa Barbara oil prices of \$19.65 and \$18 per barrel, respectively. In addition, these revenues reflect the commission's assumption that tidelands oil *production* will decline by 8 percent from 1990-91 to 1991-92, a rate consistent with past experience.

Because of events in the Middle East and other factors that can affect oil prices, commission staff advise that the future prices are uncertain. (Recent prices reflect the unstable nature of this market: the actual Long Beach oil price has ranged from \$10.50 per barrel in July 1990 to \$30 per barrel in October 1990.) Staff indicate that the commission will update its tidelands oil revenues estimates for both the current and budget years at the time of the May revision.

We discuss the proposed allocation of tidelands oil and gas revenues in our analysis of Section 11.50 of the Budget Bill, in the back portion of this document.

School Lands Revenues

The commission estimates that it will receive \$4.7 million in revenues from geothermal and other royalties and from land rentals in 1991-92 from "state school lands"—that is, lands that were granted by the federal government to the state in 1853 to help support public education. Essentially, all revenues from school lands, less the commission's cost to manage the lands, are deposited into the State Teachers' Retirement Fund (STRF). The budget proposes to deposit \$1.7 million of this revenue in the General Fund to cover the commission's cost of managing the state school lands in 1991-92. The remaining \$3 million will be deposited in STRF.

SEISMIC SAFETY COMMISSION

Item 3580 from the General Fund

Budget p. R 91

Requested 1991-92.....	\$982,000
Estimated 1990-91	1,342,000
Actual 1989-90	1,066,000
Requested decrease \$360,000 (-27 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3580-001-001-Support	General	\$977,000
Reimbursements	—	5,000
Total		\$982,000

GENERAL PROGRAM STATEMENT

The Seismic Safety Commission (SSC) was established to improve earthquake preparedness and safety in California. Specifically, the SSC is responsible for providing a consistent policy framework for earthquake-related programs and coordinating the administration of these programs throughout state government. The 17-member commission performs policy studies, reviews programs, investigates earthquake incidents, and conducts hearings on earthquake safety. The SSC advises the Legislature and the Governor on legislative proposals, the state budget, and grant proposals related to earthquake safety.

The commission has 12 personnel-years in the current year.

MAJOR ISSUES

- The commission's Policy on Acceptable Levels of Earthquake Risk in State-Owned Buildings has significant policy and fiscal implications which the Legislature must consider.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget requests \$977,000 from the General Fund and \$5,000 in reimbursements for the SSC in 1991-92. This amount is \$360,000, or 27 percent, less than estimated current-year expenditures. This net decrease is primarily the result of (1) a one-time expenditure of \$234,000 in the current year to complete the study of the effects of the Loma Prieta earthquake and (2) a one-time allocation of \$140,000 in the current

year from the Earthquake Safety and Public Buildings Rehabilitation Fund of 1990 to develop goals and priorities for the Proposition 122 Research and Development Program. The Governor's Budget includes an unallocated trigger-related reduction of \$7,000 in funding for the commission. This reduction is included in the proposed budget for the commission in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The estimate of current-year expenditures reported in the Governor's Budget (\$1,202,000) is in error as it does not reflect expenditure of the \$140,000 appropriation.

The proposed budget is consistent with the SSC's mission and appears reasonable.

State Policy on Acceptable Levels of Earthquake Risk

In accordance with Chapter 988, Statutes of 1989 (SB 920, Rogers), the commission, in cooperation with the Office of the State Architect, has recently submitted for legislative review a state policy on acceptable levels of earthquake risk for all state-owned buildings.

The stated goal of the policy is that all state government buildings shall withstand earthquakes to the extent that collapse is precluded, occupants can exit safely, and functions can be resumed or relocated in a timely manner consistent with the need for services after earthquakes. Under the commission's proposal, the responsibility for implementation of the policy would rest with the director of each state department, board, or commission. In accordance with the specific schedules detailed in the policy, each director would be required to complete the following with regard to state buildings under the director's control:

- Identify acceptable earthquake performance objectives for each building.
- Identify and evaluate earthquake hazards in each building.
- Eliminate or reduce unacceptable hazards to life and building functions.
- Develop and exercise earthquake emergency and recovery plans.

Furthermore, the policy stipulates that no funds for alterations or additions to any state building shall be expended until the building has been evaluated for earthquake hazards and all significant seismic safety hazards and other building hazards that are required by law to be mitigated have been addressed. It further stipulates that, by January 1, 2000, any state building not meeting acceptable earthquake performance objectives shall be vacated.

The commission's report was not received in time to provide other than this brief overview in our *Analysis of the 1990-91 Budget Bill*. Based on our preliminary review, however, we believe there are significant policy and fiscal implications associated with the policy document. These implications should be thoroughly reviewed by the Legislature and by the affected departments before the Legislature adopts the proposed policy. In order to assist the Legislature in the review of this policy, we will provide a supplemental analysis prior to budget hearings.

DEPARTMENT OF FISH AND GAME

Item 3600 from the General
Fund and various special
funds

Budget p. R 92

Requested 1991-92.....	\$145,465,000
Estimated 1990-91	142,364,000
Actual 1989-90	118,798,000
Requested increase \$3,101,000 (+2.2 percent)	
Total recommended reduction.....	313,000
Recommendation pending	5,100,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3600-001-001—Support, nongame species and environmental protection programs, maintenance and operation of ecological reserves and wildlife areas	General	\$4,934,000
3600-001-140—Support, nongame environmental protection programs, maintenance and operation of ecological reserves and wildlife areas	Environmental License Plate	12,663,000
3600-001-164—Support	Outer Continental Shelf Lands Act, Section 8(g) Revenue	500,000
3600-001-200—Support	Fish and Game Preservation	71,800,000
3600-001-200—Support, expenditures for free fishing licenses (transfer from General Fund)	Fish and Game Preservation	(17,000)
3600-001-207—Toxic spill cleanup program	Fish and Wildlife Cleanup and Abatement Account, Fish and Game Preservation	546,000
3600-001-211—Waterfowl support programs	Waterfowl Habitat Preservation Account, Fish and Game Preservation	189,000
3600-001-235—Support, protection, restoration, and enhancement of fish, waterfowl and wildlife	Public Resources Account, Cigarette and Tobacco Products Surtax	4,280,000
3600-001-320—Support, oil spill prevention programs	Oil Spill Prevention and Administration	4,554,000
3600-001-786—Support, fisheries restoration and enforcement programs	California, Wildlife, Coastal and Park Land Conservation (Bond)	6,091,000 ^a
3600-001-890—Support	Federal Trust	23,141,000
3600-001-940—Support	Renewable Resource Investment	341,000
3600-011-001—Transfer to the Fish and Game Preservation Fund for cost of free fishing licenses	General	17,000
3600-031-200—Shellfish monitoring program	Fish and Game Preservation	203,000
Ch 1681/90—Interest expense	Fish and Game Preservation	260,000
Reimbursements	—	15,946,000
Total		\$145,465,000

^a Budget Bill printed in error. Actual appropriation to DFG should be \$3,091,000. Department of Finance will make necessary technical change.

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

	<i>Analysis page</i>
1. Department Revenue Picture. The long-term revenue picture for the department's primary funding source looks bleak, given continued declines in the sale of hunting and fishing licenses.	398
2. Program Funding Realignment Proposal. The DFG proposes a major realignment of baseline funding patterns as a result of new fee authority.	401
3. Some Funding Realignments Are Problematic. Funding realignments proposed for Wildlife Management and Inland Fisheries Divisions are based on faulty accounting methods and lack a clear mandate from the Legislature regarding the use of new fees.	403
4. Legislation and Control Language Needed. Recommend Legislature enact legislation reconciling current statutory conflicts. Further recommend department provide Legislature with prospective work plans with measureable goals and objectives to ensure compliance with legislative intent.	404
5. <i>Streambed Alteration Agreement Workload. No net impact to Item 3600-001-200: reduce FGPF-ND appropriation by \$619,000 and increase FGPF streambed alteration permit dedicated account by \$619,000.</i> Recommend full support of program through permit fees in order to free up general environmental review revenues for other activities.	405
6. <i>Wildlife Area Management. Reduce Item 3600-001-140 by \$313,000.</i> Recommend deletion of \$313,000 from the Environmental License Plate Fund (ELPF) for wildlife area management activities, without prejudice to the merits of the proposals, because the department has not submitted a report that would allow the Legislature to review fully statewide staffing and management priorities for these areas.	407
7. Revenue Source to Sunset. Income Tax Check-Off program to expire at end of 1991. This program currently provides \$1 million annually for departmental activities related to endangered species.	408
8. Oil Spills Program. Withhold recommendation on \$5.1 million for support of the department's 1991-92 oil spill prevention and response program pending receipt of a specific funding proposal to be provided in a budget amendment letter.	409

GENERAL PROGRAM STATEMENT

The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish and wildlife resources of the state. The Fish and Game Commission, which is composed of five members appointed by the Governor, sets policies to guide the department in its activities, and regulates the sport taking of fish and game under a

DEPARTMENT OF FISH AND GAME—Continued

delegation of authority from the Legislature, pursuant to the Constitution. Although the Legislature has granted authority to the commission to regulate the sport taking of fish and game, it generally has reserved for itself the authority to regulate the commercial taking of fish and game.

The department currently manages approximately 160 ecological reserves, wildlife management areas, habitat conservation areas, and interior and coastal wetlands throughout the state.

The department has 1,791 personnel-years in the current year.

MAJOR ISSUES

- Hunting and fishing license sales are still falling but new fees from recent legislation may postpone a revenue shortfall if these fees materialize as reflected in the Governor's Budget.
- The budget proposes no new environmental programs with new environmental review fees. Instead the department opts for funding shifts to realign program expenditures with new funding sources.
- The department could free up over \$600,000 in new environmental review fees to be used for environmental program enhancements if it charged full costs for review of streambed alteration agreements.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$145.5 million from all sources for support of the DFG in 1991-92. This is an increase of \$3.1 million, or 2.2 percent, over estimated current-year expenditures. The department's proposed expenditure plan would be financed by \$106.4 million from state funds requested in the Budget Bill, \$15.9 million in reimbursements, and \$23.1 million in federal funds.

Table 1 shows the department's expenditures and staffing levels by program, and its funding sources for the past, current, and budget years. In the budget year the DFG plans to shift from a category budget to a program budget. Specifically, the DFG intends to (1) combine the Wildlife Management and Natural Heritage divisions into one program called "Wildlife and Natural Heritage Management" and (2) combine all fisheries programs (inland, anadromous, and marine). For purposes of comparison, we have grouped these programs together for the past and

current year, as well as the budget year to show how the department's program funding has changed over time.

Table 1
Department of Fish and Game
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Enforcement	386.2	376.0	338.1	\$28,614	\$28,021	\$31,031	10.7%
Administration (distributed to other programs)	266.9	289.2	332.1	(22,283)	(25,255)	(25,402)	0.6
Licensing	64.2	49.7	— ^a	3,834	3,906	— ^a	
Wildlife and Natural Heritage							
Management	243.4	274.1	283.6	27,587	28,860	26,579	-7.9
Wildlife management	(186.8)	(201.2)	—	(19,469)	(19,020)	—	
Natural heritage	(56.6)	(72.9)	—	(8,118)	(9,840)	—	
Fisheries Management	573.0	659.1	699.6	51,007	63,142	64,947 ^b	2.9
Inland fisheries	(233.2)	(257.4)	—	(23,330)	(20,727)	—	
Anadromous fisheries	(228.9)	(285.2)	—	(17,791)	(30,943)	—	
Marine resources	(110.9)	(116.5)	—	(9,886)	(11,472)	—	
Environmental services	80.2	127.9	161.3	7,756	12,039	17,698	47.0
Oil Spills Prevention and Re- sponse Program	—	15.0	29.7	—	6,062	5,054	-16.6
Loan repayment	—	—	—	—	334	260	-22.2
Unallocated reduction	—	—	—	—	—	-104	— ^c
Totals	1,613.9	1,791.0	1,844.4	\$118,798	\$142,364	\$145,465	2.2%
Funding Sources							
Fish and Game Preservation Fund (FGPF)				\$68,530	\$69,526	\$72,263	3.9%
Dedicated				9,651	12,801	10,554	-17.6
Nondedicated				58,879	56,725	61,709	8.8
Fisheries Restoration Account, FGPF				137	—	—	—
Fish and Wildlife Cleanup and Abatement Account, FGPF				117	463	546	17.9
Waterfowl Habitat Preservation Account, FGPF				—	90	189	110.0
General Fund				8,328	4,974	4,951	-0.5
Environmental License Plate Fund				11,359	16,866	12,663	-24.9
Public Resources Account, Cigarette and Tobacco Products Surtax Fund				3,811	7,128	4,280	-40.0
California Wildlife, Coastal, and Park Land Conservation Fund				2,128	3,071	6,091 ^b	98.3
Renewable Resources Investment Fund				—	—	341	— ^c
Federal Trust Fund				17,428	23,104	23,141	0.2
Outer Continental Shelf Lands Act Section 8(g) Revenue Fund				—	—	500	— ^c
Oil Spill Prevention and Response Fund				—	6,062	4,554	-24.9
Native Species Conservation and Enhancement Fund				—	118	—	-100.0
Reimbursements				6,960	10,962	15,946	45.5

^a Beginning in 1991-92, licensing expenditures are included in distributed administrative expenditures.

^b Budget Bill printed in error. Amounts should read \$3,000,000 less than the table indicates. With this correction, spending for Fisheries Management Division is proposed to decrease by 1.9 percent. Department of Finance plans to make adjustments.

^c Not a meaningful figure.

DEPARTMENT OF FISH AND GAME—Continued
Proposed Budget Changes for 1991-92

Table 2 summarizes, by funding source, the changes proposed in the department's budget for 1991-92. As shown in Table 2, the proposed net \$3.1 million increase in expenditures results primarily from (1) increased expenditures for fishery restoration, including work on the Trinity River (\$5.2 million), (2) implementation of the new oil spills prevention program (\$5.1 million), and (3) augmentations to various fish hatcheries (\$1.2 million). This increase is offset in part by deletion of one-time costs (\$6.7 million) and other administrative adjustments.

In addition, the Governor's Budget includes an unallocated trigger-reduction of \$104,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 2
Department of Fish and Game
Proposed Budget Changes
1991-92
(dollars in thousands)

	<i>Fish & Game Preser- vation Fund</i>	<i>General Fund</i>	<i>Environ- mental License Plate Fund</i>	<i>Public Resources Account</i>	<i>Other State Funds^a</i>	<i>Federal and Reimburse- ments</i>	<i>Totals</i>
1990-91 expenditures (Budget Act) ...	\$59,682	\$4,986	\$16,110	\$6,359	\$3,612	\$33,671	\$124,420
<i>Adjustments 1990-91:</i>							
Miscellaneous administrative adjust- ments.....	\$1,128	-\$12	\$227	\$56	\$12	\$275	\$1,686
Interest on loans.....	216	—	—	—	118	—	\$334
Chapered legislation.....	—	—	529	713	—	120	\$1,362
Implement oil spill program (Ch 1248/90).....	—	—	—	—	6,062	—	\$6,062
Restoration of baseline reductions ..	8,500	—	—	—	—	—	\$8,500
1990-91 expenditures (revised)	\$69,526	\$4,974	\$16,866	\$7,128	\$9,804	\$34,066	\$142,364
<i>Baseline adjustments, 1991-92:</i>							
Back out restoration of baseline re- ductions	-8,500	—	—	—	—	—	-\$8,500
Back out chapered legislation	—	—	-529	-713	-6,062	-120	-\$7,424
Miscellaneous administrative adjust- ments.....	-\$259	\$88	-\$1,025	-\$519	\$140	\$2,550	\$975
Delete one-time costs.....	-\$2,127	-\$7	-\$783	-\$1,616	-\$163	-\$2,023	-\$6,719
Interest on loans.....	44	—	—	—	—	—	\$44
Unallocated reduction	—	-104	—	—	—	—	-\$104
Subtotals, baseline adjustments ...	(\$-10,842)	(\$-23)	(\$-2,337)	(\$-2,848)	(\$-6,085)	(\$407)	(\$-21,728)
<i>Program changes:</i>							
<i>Funding realignments:</i>							
Permanent restoration of baseline reduction	\$11,483	—	-\$2,966	—	—	—	\$8,517
Fisheries restoration fundshift/ augmentation	—	—	56	—	341	-234	163
Hunting regulation EIR support....	253	—	—	—	—	—	253

Waterfowl habitat preservation program	—	—	—	—	82	523	605
Payments to counties for in-lieu fees	523	—	—	—	—	—	523
Management of wildlife areas	—	—	315	—	—	—	315
Water project evaluation	—	—	—	—	—	160	160
Elk management program	138	—	—	—	—	—	138
Threatened and endangered bird/mammal program	—	—	120	—	—	—	120
Fishery program enhancements	456	—	—	—	3,000	3,202	6,658
Spenceville toxic cleanup	384	—	—	—	—	—	384
Marine mammal programs	—	—	143	—	—	120	263
Oil spill program, (Ch 1248/90)	—	—	—	—	5,054	—	5,054
Miscellaneous program adjustments	732	—	466	—	25	843	2,066
Dedicated account adjustments	-390	—	—	—	—	—	-390
Subtotals, program changes	<u>(\$13,579)</u>	<u>—</u>	<u>(-\$1,866)</u>	<u>—</u>	<u>(\$8,502)</u>	<u>(\$4,614)</u>	<u>(\$24,829)</u>
1991-92 expenditures (proposed)	\$72,263	\$4,951	\$12,663	\$4,280	\$12,221	\$39,087	\$145,465
<i>Change from 1990-91 (revised):</i>							
Amount	\$2,737	-\$23	-\$4,203	-\$2,848	\$2,417	\$5,021	\$3,101
Percent	3.9%	-0.5%	-24.9%	-40.0%	24.7%	14.7%	2.2%

^a Fish and Wildlife Pollution Cleanup and Abatement Account, Fish and Game Preservation Fund; Waterfowl Habitat Preservation Account, Fish and Game Preservation Fund; Outer Continental Shelf Lands Act Section 8(g) Revenue Fund; and California Wildlife, Coastal, and Park Land Conservation Fund.

ANALYSIS AND RECOMMENDATIONS

Revenue Picture for the Budget Year

Last year, the Legislature received a budget proposal from the department that proposed to spend significantly more money from the nondedicated portion of the Fish and Game Preservation Fund (FGPF-ND) than the department would have available. This reflected the long standing approach of the department to overestimate revenues in order to support expenditures. For a number of years this approach worked because the FGPF-ND had large reserves that could be drawn down to support expenditures in excess of current revenues. By 1989-90, however, this approach had depleted the reserves in the FGPF-ND. As a result, in that year the department required an emergency loan from the Off Highway Vehicle Fund and the Environmental License Plate Fund (ELPF) in order to close its books without a deficit.

In response to criticism about the way in which the department had estimated revenues, in the Spring of 1990 the DFG developed a different trend-based revenue estimate methodology for the FGPF-ND. In order to ensure that FGPF-ND expenditures did not exceed estimated resources based on the new methodology program, reductions affecting 158 positions were included in the 1990 Budget Act. Since then, DFG staff have tracked monthly license sales against the revenue estimates generated by the trend-based model. So far, the model appears to function well. The DFG currently has received approximately \$600,000 more in FGPF-ND revenues than it had projected receiving by the end of December 1990. Because the bulk of the DFG revenues comes in the first half of the calendar year, however, it will be important to revisit these figures in the upcoming months, when most fishing license sales occur.

DEPARTMENT OF FISH AND GAME—Continued

Nonetheless, the basic assumptions underlying the DFG estimates for both the current year and the budget year appear reasonable, given the department's brief track record with the new methodology.

Department's New Fee Authority. Chapter 1706, Statutes of 1990 (AB 3158, Costa) allows the department to charge developers a fee to cover the costs of conducting the department's environmental reviews as well as engaging in general resource protection. The department estimates that this fee will generate as much as \$10.6 million annually (partial-year revenues of \$5.2 million in 1990-91). This estimate appears reasonable based on the department's sampling of environmental documents filed with counties. No revenue history exists, however, for these fees and, since enactment of AB 3158, there has been significant controversy concerning their implementation. As a result, there is uncertainty that the revenues will materialize as the department anticipates.

In addition, the DFG secured additional commercial fishing fee authority through Ch 1703/90 (AB 2126, Felando) which the department anticipates will bring in an additional \$3.3 million for commercial fishing regulation. These increases in commercial fishing fees will expire on January 1, 1992 unless reauthorized by legislation. The department's revenue estimate for the increased commercial fishing fees appears reasonable.

In a Section 28.00 notification letter for the current year, the department proposes to support departmental expenditures with these fees beginning in January 1991. (The ramifications of this notification letter are discussed in more detail later in this *Analysis*.) If the AB 2126 and AB 3158 fees do not materialize as the notification letter and the budget anticipate, however, the Legislature will be forced to make budget reductions in both the current and budget years. These reductions could prove substantial depending on the extent of any revenue shortfall.

Long-Term Revenue Outlook

Despite new commercial fishing and environmental review fees, the overall long-term revenue picture for the department looks bleak, given the continuing decline in the sale of fishing licenses and hunting permits.

Our analysis of the department's revenue and sales data indicates two things. First, the department's new estimate methodology appears to better protect—relative to the methodology the department used until the current year—the DFG's programs from built-in deficiencies. Based on these revenue estimates, the department is less likely to pursue program expansions for which it ultimately cannot pay. Second, independent of the department's new approach to estimating revenue, the long-term revenue outlook for the FGPF-ND is worsening. This is because sales continue to decline in all major license categories. We discuss below the trends in the three largest sales categories.

Sportfishing. The resident annual sportfishing license accounts for nearly 60 percent of the department's license sales revenues. Chart 1

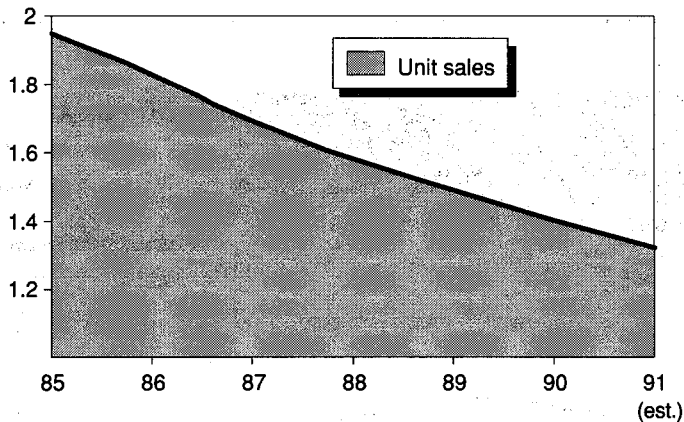
shows trends in the sales of annual sportfishing licenses. The DFG currently projects that sales of these licenses will decline by 6 percent in the budget year. This trend, which began in the early 1980s, is offset in part by the projected 10-percent increase in sales of one-day fishing licenses. Sales of the one-day licenses have increased steadily since its creation in 1986 and DFG staff are concerned that the one-day fee may undermine sales of annual licenses. This is because, at current prices, an individual can purchase two of the one-day licenses (\$8.25 each) for less than an annual license (\$22.50). Based on data provided by the DFG, it appears that the one-day license is not attracting new people to fishing, as the *total* number of inland sportfishing licenses sold (annual and one-day combined) is projected to decline by 3 percent in the budget year.

Chart 1

Department Of Fish And Game License Sales Continue to Fall

1985 through 1991 (in millions)

Number of annual
fishing licenses sold



Hunting. The DFG estimates that the total number of hunting license permits sold will fall by 6 percent in 1991-92. The annual hunting license permit accounts for 75 percent of all hunting license revenues. The DFG also predicts that the number of junior hunting licenses sold will continue their downward slide, falling 9 percent in the current year and 8 percent in the budget year. To the extent that junior hunting license sales patterns provide an indication of long term interest in this sport, it appears that the level of interest in sport hunting will continue to drop over time.

DEPARTMENT OF FISH AND GAME—Continued

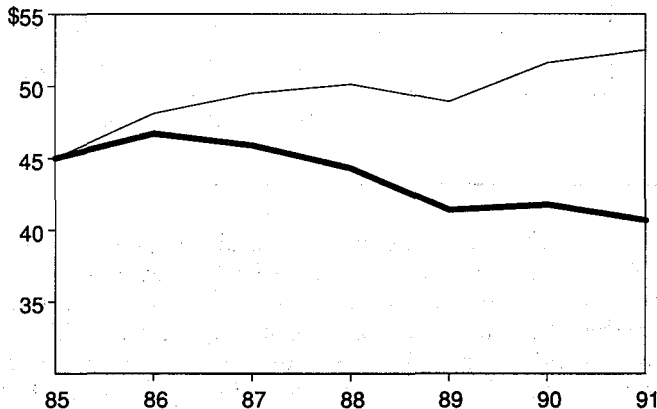
Commercial Fishing. Since the late 1970s, the number of licensed commercial fishermen has declined from approximately 20,000 to 15,000 in 1989 and the number of licensed commercial fishing vessels dropped from nearly 10,000 to 6,700 over the same period. Factors such as the development of world markets for fish, the availability of fish in coastal waters and technological developments in fishing techniques have led to (1) an overall reduction in the pounds of fish caught and (2) a significant shift in the composition of the catch in terms of poundage and value (for example, less tuna and anchovy and more sea urchin, swordfish, salmon and shrimp). These trends have not always translated directly into declining revenues to the DFG, as they have been offset by numerous changes in laws assessing various fees and license requirements on fishermen. This makes it difficult to predict the direction of future commercial fishing revenue to the department in the short run, but suggests that in the long term, revenues may decline.

Conclusion. As indicated by the revenue declines in the department's three largest license categories, the overall picture for departmental revenues looks bleak. Chart 2 compares total annual FGPF-ND revenues from 1985 to the present in current dollars against the same revenue stream adjusted for declines in purchasing power. As the chart shows, the revenue stream of the DFG has not kept pace with inflation. While the

Chart 2

**Department Of Fish And Game
License Revenue Has Not Kept Pace
With Inflation**

1985-86 through 1990-91^a (in millions)



^a LAO estimates based on calendar-year data.

DFG has the authority to adjust the price of a license for inflation (Fish and Game Code Section 713), Chart 2 shows that this inflation adjustment has not offset the loss in unit sales of licenses and permits. Thus, the total *real* revenue level from all license sales has declined.

Trends in the data suggest that the DFG continues to experience a decline in sales and revenues from its traditional hunting and fishing constituents. In the budget year, this decline in revenues in the FGPF-ND may be offset, in part, by the introduction of the new environmental review and increased commercial fishing fees. Based on the overall revenue and expenditure trends for the department, if revenues from these two fee sources materialize as the budget anticipates, we conclude that they will merely postpone the day the DFG will face yet another serious gap between revenues and expenditures.

Program Funding Realignment Proposal

The department proposes significant realignments of its programs and fund sources because of new fee authority enacted in the 1989-90 legislative session.

In a Section 28.00 notification letter for the current year, the DFG informed the Legislature of its intent to permanently restore 123 of the 158 positions eliminated in the 1990 Budget Act. The department stated its intention to shift funding authority among a number of programs in order to realign program expenditures with different—arguably more appropriate—fund sources.

To accomplish the realignment, the DFG substituted 1990-91 partial year revenues from the new AB 3158 and AB 2126 fees in some existing programs for the current program funding (FGPF-ND and ELPF). For example, the department funded Environmental Services Division programs from the new environmental fee. This program previously had been funded by the ELPF. The fund shift “freed up” \$1.9 million from the ELPF in the current year. The DFG redirected these ELPF funds to existing warden activities previously funded from the FGPF-ND and which the DFG asserts are nongame related. This in turn freed up \$1.9 million from the FGPF-ND which the DFG transferred to other divisions to restore hunting and fishing programs that were identified for reduction in the 1990 Budget Act. In addition, the department used all of the AB 2126 commercial fishing revenues to replace sportfishing and hunting funding in the Marine Resources Division.

For the budget year, the department proposes to (1) continue permanently the current year budget restoration and realignments, and (2) make further program funding realignments using full-year revenues from AB 3158 and AB 2126. The additional realignments in 1991-92 would occur primarily in the Marine Resources Division and the Environmental Services Division. The fund sources currently used for these two divisions would be redirected to fund wardens and biologists in the Wildlife Management and Inland Fisheries Divisions.

DEPARTMENT OF FISH AND GAME—Continued**Net Impacts of Realignment Proposal**

The impact of all of the proposed fund displacements and fund shifts on the DFG's budget is varied:

- **Net Position Reductions.** The DFG would permanently restore 123 of the 158 positions reduced in the 1990-91 budget year, either from new fees from AB 3158 and AB 2126, or from funds displaced by these new fees. The net impact on departmental staffing is a permanent *baseline* reduction of 35 positions. This reduction, however, is more than offset by proposals to increase positions for other activities.
- **General Program Impact.** The funding base of the Wildlife Protection Division—wardens—would change from its current reliance on the FGPF-ND to reliance on more nongame related funds. The Environmental Services Division would become dependent largely upon the new fees in AB 3158 rather than on the ELPF. Substituting AB 3158 revenues (for which no revenue history exists at this time) puts these programs at greater risk if revenues do not materialize as currently projected.
- **Environmental Review and Commercial Fishing Program Impact.** The department does not propose to apply the AB 3158 environmental review fees to enhancing the department's environmental review program. Nor does the department propose to use the new revenues from AB 2126 to expand its commercial fishing regulatory efforts. Rather, the department proposes to (1) displace exiting departmental baseline funding with the new fee revenue and (2) use the displaced *existing funding* to initiate new or expanded programs in areas largely unrelated to either environmental review or commercial fishing.
- **FGPF-ND Impact.** The DFG would free up \$6.3 million from the FGPF-ND by substituting the new fees for support of current FGPF-ND baseline expenditures. The department proposes to use these funds to: (1) restore Wildlife Management Division positions (\$2.2 million), (2) implement new program initiatives (\$2.6 million), and (3) increase the FGPF-ND fund reserve by \$1.5 million.
- **ELPF Impact.** The DFG also would free up \$4.9 million from the ELPF by substituting new fees for support of current ELPF baseline expenditures. The administration proposes to use these funds to (1) restore warden positions in the Wildlife Protection Division (\$1.9 million), (2) implement new nongame programs and projects (\$1.1 million), and (3) redirect \$1.9 million of ELPF money from the DFG to other departments.

Our review of the proposed shifts and the back-up detail provided by the department indicates that some of the funding realignments proposed over the two-year period appear justified. Specifically, the realignments that appear to be fully justified include:

- **Marine Resources Division (Various Activities).** With \$2.8 million in commercial fishing fees generated by AB 2126, the department

intends to (1) restore all positions eliminated from the Marine Resources Division in the 1990 Budget Act and (2) displace \$285,000 in current FGPF-ND baseline funding for the division.

- **Environmental Services Division (Various Activities).** The DFG proposes to use \$5.1 million from the new AB 3158 fees to (1) restore positions eliminated from the Environmental Services Division in the 1990 Budget Act (\$580,000) and (2) displace FGPF-ND (\$92,000), ELPF (\$4.1 million) and General Fund (\$400,000) baseline expenditures.
- **Administration.** The DFG plans to bill \$766,000 in baseline administrative costs to AB 3158 and AB 2126.

Inadequate Justification for Some Proposed Fund Shifts

Our analysis indicates that the funding realignments proposed for the Wildlife Management and Inland Fisheries Divisions (1) are based on a flawed accounting methodology and (2) lack a clear mandate from the Legislature regarding the use of AB 3158 fees.

Accounting for Wildlife and Fishery Biologist Time. As the basis for program funding realignment for both the Wildlife Management and Inland Fisheries Divisions (WMD and IFD, respectively), the WMD conducted a statewide survey of its field wildlife biologists. The survey found that the percentage of biologists' time spent on environmental review activities in 1989-90 varied widely, from a low of 12 percent to a high of 90 percent. The average time spent by wildlife biologists statewide for these activities was 46 percent.

The department's proposal to realign program funding assumes that IFD biologists also spent an average of 46 percent of their time on environmental review activities. We see no reason why the results of a survey of wildlife biologists that have responsibility for all the *terrestrial* regions of the state should necessarily generate a figure that is applicable to fishery biologists which have responsibility for *streams and rivers*. The range of activities of these biologists is different enough to warrant a division-specific analysis, rather than relying on survey results from a different division.

Potential Conflicts Between Section 711 and AB 3158. Section 711 of the Fish and Game Code, states legislative intent that activities primarily benefiting game species or related to game programs be supported by hunting and fishing license revenue, and activities primarily benefiting nongame species or programs be supported from other funds. While Section 711 clearly segregates fund sources and program expenditures into two camps—game and nongame, AB 3158 allows the new environmental review fees to be used, among other things, for "activities protecting those trust resources identified in the review pursuant to the California Environmental Quality Act." Since these trust resources may include both game and nongame species, AB 3158 appears to allow a nongame revenue source—the new environmental review fees—to be used to support game as well as nongame program expenditures. As AB 3158 was under consideration by the Legislature, however, specific

DEPARTMENT OF FISH AND GAME—Continued

proposals to amend the current language of Section 711 were considered and rejected by the Legislature.

An illustration of this conflict can be found in the department's proposal to realign funds for the WMD and the IFD. The 46 percent figure derived from the survey includes the time WMD biologists devoted to collecting baseline data on game species—work that is conducted in support of the department's hunting program. Although the department makes use of the data collected on game species by WMD when reviewing projects, the immediate and *primary* purpose of the data collection and the choice of species to count is driven by hunting program needs. This also applies to the IFD where biologists spend time counting game fish for purposes of managing fishing programs. Given the requirements of Section 711, these activities—driven by hunting and fishing program needs—may be funded more appropriately by hunting and fishing license revenues in the FGPF, rather than by fees assessed for review of environmental documents. Given the conflicts between AB 3158 and Section 711, however, we have no clear basis for advising the Legislature as to the appropriateness of funding certain IFD and WMD activities from the new environmental fees.

Legislative Action Needed

We recommend the Legislature enact legislation that reconciles existing conflicts in Fish and Game Code Section 711 and AB 3158. We further recommend that the department provide the Legislature with prospective work plans with measurable goals and objectives for the biologist staff in order to ensure that the department complies with legislative intent.

The conflict between Section 711 and AB 3158 and the difficulty it poses in developing spending plans consistent with legislative intent will be an ongoing dilemma for both the Legislature and the department. Consequently, we recommend the Legislature enact legislation reconciling the conflicts between Section 711 and AB 3158 in order to give the department clear direction as to the appropriate use of AB 3158 fees. If the Legislature determines that the game-nongame split required by Section 711 should continue, then the Legislature should reject all or a part of the department's proposal to use AB 3158 fees for support of the traditional activities of wildlife and fishery biologists. If the Legislature rejected the department's proposal in its entirety, it would free up \$3.3 million in AB 3158 fees for new programs or enhanced efforts focusing on environmental review and nongame data collection. In implementing this decision, the Legislature could pursue several options. Specifically, it could:

- Eliminate up to 56 positions in the WMD and the IFD.
- Preserve the IFD and WMD positions, fund them from AB 3158, and direct that their activities have a nongame focus.
- Redirect \$3.5 million in FGPF-ND funding to these positions. This redirection could be funded by a combination of drawing down the

FGPF-ND fund balance (currently with a reserve of \$3.1 million) and deleting departmental requests for funding of new proposals totalling \$2.2 million.

Once the Legislature makes a decision regarding the extent to which AB 3158 fees should be used to support departmental activities that primarily benefit game species or programs, the Legislature will need some means to ensure that the department will track expenditures in a manner that is consistent with legislative direction. Given that the department (1) will no longer use the current cost allocation methodology (CAM) system after conversion to the Department of Finance cost allocation system (CALSTARS) in the budget year and (2) has no current detailed plan to implement a workload tracking or planning system, we are concerned that no information system will be available to ensure that expenditures are targeted appropriately. Our review indicates that the department could provide such information by providing the Legislature with prospective work plans with measurable goals and objectives that show how the department will allocate biologist time. This planning effort should function as a pilot project with eventual application in all divisions and for all staff activities.

Department Should Increase Fees for Streambed Alteration Agreements

We recommend (1) deleting \$619,000 proposed from the FGPF-ND to fund streambed alteration agreements, (2) adding \$619,000 from the FGPF streambed alteration permit dedicated account to fund this activity, and (3) adopting of Budget Bill language to ensure that these activities are funded solely from dedicated account monies. This recommendation would ensure that the department sets its 1991-92 fee schedule for streambed alteration agreements to reflect total costs of the program. (No net impact on Item 3600-001-200: reduce FGPF-ND expenditure authority by \$619,000 and increase expenditure authority in the FGPF streambed alteration permit dedicated account by \$619,000.)

Background. Since 1961 the DFG has drafted agreements with landowners and other individuals who wish to alter a lake or streambed. In 1982, the Legislature enacted, Ch 1469/82 (SB 1195, Presley) providing the department with the authority to charge fees sufficient to meet one-half of the costs incurred by the department in (1) preparing and submitting streambed alteration agreements, (2) conducting streambed alteration investigations and (3) administering and enforcing the streambed alteration agreements. The department placed these fees in the streambed alteration permit dedicated account within the FGPF to be used solely for covering the costs of the streambed alteration agreement program.

Department Undercharged in the Past. The fee schedule adopted by the DFG in 1982 remained unchanged until 1989. By 1989, the fund condition of the dedicated account displayed annual deficits, indicating that the revenues from the fees failed to keep pace with the costs of the program. Each year, costs not covered by fees in the dedicated account

DEPARTMENT OF FISH AND GAME—Continued

were absorbed by the FGPF-ND. In response to legislative concerns about this deficit financing, the department conducted a review of the costs of the streambed alteration agreement program and estimated that it would incur program costs of \$720,000 in the 1989-90 fiscal year. Based on this estimate, the DFG altered its fee schedule.

Our analysis of actual expenditures for 1989-90 indicates, however, that even with this amended fee schedule, the department failed to recover 50 percent of its costs as allowed by the 1982 legislation. The department received only \$316,000 in streambed alteration fee revenues for 1989-90, while the department's data for that year suggest that actual expenditures just for *drafting and issuing* agreements totaled approximately \$1 million, or over three times the revenue level. Moreover, due to limitations with the CAM, this expenditure *potentially understates* the total amount that the department spent on *all* activities related to its streambed alteration agreement program.

New Legislative Fee Authority in 1990. In 1990, the Legislature passed AB 3158 which provided, among other things, that if the department chooses to fund its streambed alteration program through fees, the fees charged by the department "shall be established in an amount necessary to pay the total costs incurred by the department...." In response to this legislation, the DFG has amended the streambed alteration fee schedule by doubling the existing fee levels and adding an inflation adjustment factor. Based on the new fee schedule, the department now anticipates receiving approximately \$681,000 annually in fee revenue for the program.

Department Still Undercharging for the Program. As part of its funding realignment proposal discussed earlier in this analysis, the department proposes to shift \$1.3 million in streambed alteration program expenditures from hunting and fishing fees deposited in the FGPF-ND to AB 3158 fees which also are deposited in the FGPF-ND. The department proposes this shift because (1) the CAM indicated that this is the full cost of the program and (2) under Section 711 of the Fish and Game Code hunting and fishing revenues should not be used to support these activities. The department's current program fee schedule, however, will offset only \$681,000 of these costs. Under the department's proposal, the remaining program costs—\$619,000—would be made up from fees developers pay for California Environmental Quality Act (CEQA) review of projects unrelated to streambed alterations. Given the specific requirements of AB 3158 that any fees charged for streambed alteration agreements should cover full program costs, we see no justification for the DFG's proposal to use the CEQA review fees in place of specifically targeted fees. Moreover, by covering all streambed alteration program costs through specific fees, the Legislature can free up \$619,000 in other AB 3158 fees that can be used for (1) a broad array of departmental *nongame* activities under the Section 711 restrictions or (2) most departmental activities under the broader language of AB 3158.

Accordingly, we recommend that the Legislature delete the proposed expenditure of \$619,000 of FGPF-ND monies for streambed alteration agreements and increase the streambed alteration dedicated account expenditure authority by the same amount. Because of the way the Fish and Game Preservation Fund is reflected in the Budget Bill, this will have no net impact on Item 3600-001-200. Consequently, we further recommend that the Legislature adopt the following Budget Bill language to ensure that expenditures for the streambed alteration agreements program is funded from the appropriate subsidiary account:

Of the amount provided in this item, \$1,300,000 shall be (a) used for the support of the department's streambed alteration agreements program and (b) funded from the streambed alteration permit dedicated account.

Habitat Management Planning Still Pending

We recommend deletion of \$313,000 from the ELPF proposed to fund management activities at three wildlife areas because the department has not yet provided a report required by the Legislature to justify these expenditures. (Reduce Item 3600-001-140 by \$313,000.)

Background. In the 1989-90 Governor's Budget the DFG requested \$1.2 million and 16.1 personnel-years to begin establishing nine regional roving fish and wildlife habitat crews. The Legislature rejected this proposal because the department had not (1) justified the number of personnel requested, (2) provided assurance that the work would address first the highest priority problems, and (3) provided assurance that funding would continue to be available on an ongoing basis. In addition, the Legislature required the department to submit by September 15, 1990, a comprehensive operation and management plan for the properties it manages. This plan was intended to (1) allow the Legislature to review staffing proposals for the 1991-92 budget year and beyond based on relative statewide staffing needs at the department's properties and (2) provide the department with a rational system for justifying increases in staffing in its five regions.

For the current year, the DFG requested \$2.8 million and 36.4 personnel-years to support the same roving habitat crews. Again, the Legislature rejected the proposal, as the study had not yet been completed. At the time of the preparation of this *Analysis*, the report had not been published.

Budget-Year Proposal and Our Concerns. For 1991-92, the DFG requests a total of \$313,000 from the ELPF to fund management activities at (1) Upper Butte Sink Wildlife Area, (2) North Grasslands Wildlife Area and (3) Grizzly Island Wildlife Area. These areas are multipurpose regions used by both nonconsumptive and consumptive users. Two of the properties (Upper Butte Sink and North Grasslands) recently were acquired by the DFG.

We have two concerns with the department's proposal. First, the proposal does not link to the required plan. The department has not yet submitted its habitat management plan to the Legislature for review. Moreover, none of the three proposals show how the staff increases in

DEPARTMENT OF FISH AND GAME—Continued

these areas fall within the framework of a statewide plan. Although we recognize the need for improved habitat management, the department has not shown that these requests meet that need in the most effective way.

Second, the Legislature has no basis for determining wildlife property management priorities without the plan. Without a chance to review the plan, we have no basis to recommend approval of these three proposals, because we cannot ascertain how the needs in these areas (particularly the newly acquired areas) weigh against the needs in other wildlife areas managed by the department.

Because the Legislature has twice rejected habitat management proposals in the absence of an overall statewide plan, we recommend that the Legislature continue to delete funding for these proposals until the administration provides the Legislature with the required plan. Consequently, we recommend deletion of \$313,000 that the DFG proposes to spend on new habitat management efforts with the understanding that the department may resubmit them, without prejudice, for legislative review when the habitat management plan also is made available to the Legislature.

Income Tax Check-Off Program to Expire on January 1, 1992

Without reauthorization during 1991 of an income tax check off program, the department will lose \$1 million annually, beginning in 1992-93, for the support of its endangered species activities.

The income tax check-off program, created in 1983 (Ch 1053/83, AB 384, Campbell) and reauthorized in 1986 (Ch 897/86, AB 2754, Vicencia) enables taxpayers to contribute to the Endangered and Rare Fish, Wildlife, and Plant Species Conservation and Enhancement Account in the FGPF. The program generates approximately \$1 million annually to support some of the department's activities in implementing the California Endangered Species Act. For example, the department has used these funds as its primary funding source for contracts to conduct baseline research on endangered or threatened species such as the Catalina Island bald eagle and the peregrine falcon. In addition, the funds have been spent on (1) development of management plans for habitat restoration for specified species and (2) public education, public relations and promotional campaigns for the check-off program (approximately \$150,000 each year).

Under Chapter 897, the Income Tax Check-Off program will sunset on January 1, 1992. The expenditures which the department proposes from this fund source in 1991-92 would be supported from check-off collections for the 1991 tax year. Consequently, the sunset date of the legislation will not affect budget-year operations. In the absence of any reauthorizing legislation, however, all or a portion of the programs currently funded from the tax check-off could not be funded beginning in 1992-93 without displacing other programs funded by the department's various nongame fund sources.

Oil Spill Prevention and Response Program

We withhold recommendation on \$4.6 million from the Oil Spill Prevention and Administration Fund and \$500,000 from the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund for support of the department's oil spill prevention and response program in 1991-92, pending receipt and analysis of a specific funding proposal to be provided in a budget amendment letter.

The budget requests a total of \$5.1 million from the Oil Spill Prevention and Administration Fund (OSPAF—\$4.6 million) and the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund (\$500,000) for the department to continue implementation of the Lempert-Keene-Seastrand Oil Spill Prevention and Response Act (Ch 1248/90—SB 2040, Keene) in 1991-92. The act requires the Governor to appoint an administrator for oil spill response, who will serve as a chief deputy director of the department. The administrator's duties include establishment of a marine safety program for the prevention of oil spills, oversight of oil spill contingency planning, coordination of cleanup activities in the event of a marine oil spill, and establishment of wildlife rescue and rehabilitation stations.

The act appropriated \$5.1 million from the OSPAFA to the department to begin implementation of the program in January 1991. As indicated above, the budget proposes the same amount of funding for the program in 1991-92. The budget change proposal for the program, however, states that (1) pending the appointment of the administrator in 1990-91, only key positions and temporary help have been established to begin implementation and (2) a budget amendment letter will be sent in the spring detailing the allocation of resources, so that the administrator has an opportunity to develop a specific funding proposal.

Without this information, analysis of the budget's proposal for this program would be premature. Consequently, we withhold recommendation on \$4.6 million from the OSPAFA and \$500,000 from the Section 8(g) Fund proposed for support of the department's marine oil spill program in 1991-92.

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 3600-301-200 for capital outlay expenditures for the DFG. Please see our analysis of the proposed DFG Capital Outlay Program in the capital outlay section of this *Analysis* which is in the back of this document.

WILDLIFE CONSERVATION BOARD

Item 3640 from the Wildlife
Restoration Fund and other
special funds

Budget p. R 127

Requested 1991-92.....	\$8,060,000
Estimated 1990-91	1,381,000
Actual 1989-90	1,007,000
Requested increase \$6,679,000 (+ 484 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3640-001-235—Support	Public Resources Account, Cigarette and Tobacco Products Surtax	\$60,000
3640-001-262—Support	Habitat Conservation	7,113,000
3640-001-447—Support	Wildlife Restoration	630,000
3640-011-140—Revenue transfer for funding Proposition 117 requirements	Environmental License Plate	(4,940,000)
3640-011-235—Revenue transfer for funding Proposition 117 requirements	Public Resources Account, Cigarette and Tobacco Products Surtax	(1,963,000)
Public Resources Code Section 5907 (Proposition 70)—Support	California Wildlife, Coastal, and Park Land (Bond)	257,000
Total		\$8,060,000

Analysis page

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. Proposition 117 Implementation. The budget proposes to process certain expenditures of other departments through the board in order to comply with Proposition 117 (“Mountain Lion Initiative”) funding requirements. 413

GENERAL PROGRAM STATEMENT

The Wildlife Conservation Board was created in 1947 to acquire property to protect and preserve wildlife and to provide fishing, hunting, and recreational access facilities.

The board is composed of the Directors of the Departments of Fish and Game and Finance, and the Chairman of the Fish and Game Commission. In addition, three Members of the Senate and three Members of the Assembly serve in an advisory capacity to the board.

The board’s ongoing support activities are financed primarily through appropriations from the Wildlife Restoration Fund, which annually receives \$750,000 in horseracing license revenues. The Wildlife Restoration Fund also receives reimbursements for those projects that are eligible for grants from the federal Land and Water Conservation Fund.

The board has 17.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$8.1 million from the Habitat Conservation Fund (\$7.1 million), the Wildlife Restoration Fund (\$631,000), the California Wildlife, Coastal, and Park Land Conservation (Bond) Fund (\$257,000), and the Public Resources Account (PRA) (\$60,000) to support the Wildlife Conservation Board (WCB) in 1991-92. This is \$6.7 million, or 484 percent, more than estimated current-year expenditures.

The proposed increase is attributable primarily to implementation of the California Wildlife Protection Act of 1990 (Proposition 117). This increase is offset, in part, by the deletion of \$250,000 provided in the current year from the Environmental License Plate Fund to pay certain landowners for wetlands enhancement and management on their property.

The California Wildlife, Coastal, and Park Land Conservation Act of 1988 (commonly known as Proposition 70) continuously appropriates \$81.3 million directly to the board for capital outlay purposes. The act authorizes the board to use up to \$1.2 million of these funds for state administrative costs. The budget reflects expenditures from these continuously appropriated funds of \$252,000 in the current year and \$257,000 in the budget year for support of the board.

ANALYSIS AND RECOMMENDATIONS**Proposition 117 Implementation**

In June 1990 the voters of California approved Proposition 117, entitled the "California Wildlife Protection Act of 1990" and often referred to as the "Mountain Lion Initiative." This act (1) established a program to fund wildlife habitat acquisitions and improvements and (2) created the Habitat Conservation Fund (HCF) with guaranteed annual revenue of \$30 million to fund the habitat program.

Program Expenditures. Proposition 117 specifies the agencies and allocations to be funded each year from the HCF. Specifically, the proposition requires that:

- The Santa Monica Mountains Conservancy receive \$10 million each year for five years.
- The Department of Parks and Recreation receive \$4.5 million each year (\$1.5 million for projects in the Santa Lucia Mountain Range in Monterey County, \$1 million for additions to state parks, and \$2 million for matching grants to local agencies).
- The State Coastal Conservancy receive \$4 million annually.
- The California Tahoe Conservancy receive \$500,000 annually.
- The Wildlife Conservation Board receive the balance of the funds in the HCF each year.

These agencies must use the funds to purchase lands for (1) protection of deer and mountain lions, (2) protection of rare and endangered species, (3) enhancement of wetlands, and (4) expansion of parks and

WILDLIFE CONSERVATION BOARD—Continued

park programs. The measure requires that, to the extent possible, half of the funds be spent in northern California and half of the funds be spent in southern California.

Funding the HCF Program. In order to support the required annual expenditure level, Proposition 117 requires the annual transfer of \$30 million from the General Fund, less a transfer of 10 percent of the monies in the Unallocated Account of the Cigarette and Tobacco Products Surtax Fund. In addition, Proposition 117 allows the Legislature to substitute for the General Fund share the transfer of any other appropriate funds. These substituted funds may include, among others: the Public Resources Account (PRA) from the Cigarette and Tobacco Products Surtax Fund, the Environmental License Plate Fund (ELPF), the Wildlife Restoration Fund, and bond funds that are designated for the same purposes as those specified in Proposition 117.

Implementation of Proposition 117. Table 1 compares how the Legislature implemented Proposition 117 in 1990-91 and how the Governor's Budget proposes to meet the measure's requirements in 1991-92. To implement Proposition 117 in the current year, the Legislature (1) appropriated 10 percent of the Unallocated Account and (2) applied

Table 1
Implementation of Proposition 117
Habitat Conservation Fund Revenues and Expenditures
1990-91 and 1991-92
(dollars in thousands)

	<i>1990-91</i> <i>Estimated</i>	<i>1991-92</i> <i>Proposed</i>
Revenues		
Unallocated Account, Cigarette and Tobacco Products Surtax Fund	\$13,658	\$13,268
Fish and Wildlife Enhancement Fund (1984 bond fund)	1,800	1,000
Wildlife and Natural Areas Conservation Fund (1988 bond fund)	7,700	—
California Wildlife, Coastal, and Park Land Conservation (Bond) Fund of 1988	4,300	400
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	200	10,087
Environmental License Plate Fund	2,342 ^a	5,440
State Coastal Conservancy Fund of 1976	—	100
Carry over reserve from current year	—	52
Totals	<u>\$30,000</u>	<u>\$30,347</u>
Expenditures		
Wildlife Conservation Board	\$11,000	\$11,295
Reimburse Department of Fish and Game	(—)	(5,298)
Reimburse Department of Water Resources	(—)	(1,605)
Santa Monica Mountains Conservancy	10,000	10,000
Department of Parks and Recreation	4,500	4,552
State Coastal Conservancy	4,000	4,000
Tahoe Conservancy	500	500
Totals	<u>\$30,000</u>	<u>\$30,347</u>

^a Current-year estimate assumes enactment of legislation to make up difference resulting from unexpected shortfall in revenues to the Unallocated Account of the Cigarette and Tobacco Products Surtax Fund.

existing bond fund appropriations toward the requirements of the measure. The Legislature processed these funds through the HCF in order to (1) avoid using the General Fund to meet the \$30 million requirement and (2) avoid reducing existing programs funded from sources that could be used to meet the \$30 million requirement.

The Governor's Budget proposal applies the same principle of minimizing any impact on the General Fund as well as on existing programs. However, the proposal for the budget year shifts from the current-year reliance on bond funds to a budget-year reliance on the PRA and the ELPF. (This is due in part to the relative scarcity of bond funds in the budget year.)

New Role for WCB

The budget proposes to "process" certain Department of Fish and Game and Department of Water Resources expenditures through the board's budget in order to meet the fund transfer and expenditure requirements of Proposition 117 without using General Fund money.

Table 1 shows that the budget proposes to count within the board's required allocation \$7 million in new and existing programs and projects administered by the Department of Fish and Game (DFG) and the Department of Water Resources (DWR). To accomplish this, the budget proposes to (1) increase the board's expenditure authority by \$7 million and (2) make necessary adjustments in the expenditure and reimbursement authority of the DFG and the DWR. The WCB then would contract through interagency agreements with the DFG and the DWR for program and project administration.

The programs and projects that would be administered through these interagency agreements include: (1) projects that restore salmon and steelhead trout habitat, (2) acquisition projects on the Upper Sacramento River, (3) wetland restoration, and (4) research on threatened salmonids. Our review of these programs and projects indicates that they meet the requirements for funding under Proposition 117. In addition, based on information provided by the WCB, we estimate that the board can absorb any workload increases resulting from this budgeting method.

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 3640-301-262 for capital outlay expenditures in the Wildlife Conservation Board. Please see our analysis of the proposed Wildlife Conservation Board Capital Outlay program in the capital outlay section of this *Analysis*, which is in the back portion of this document.

DEPARTMENT OF BOATING AND WATERWAYS

Item 3680 from the General
Fund and various other funds

Budget p. R 134

Requested 1991-92.....	\$58,157,000
Estimated 1990-91	43,159,000
Actual 1989-90	39,854,000
Requested increase \$14,998,000 (+ 35 percent)	
Total recommended reduction.....	14,300,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3680-001-001—Support	General	\$270,000
3680-001-516—Support	Harbors and Watercraft Revolving	5,476,000
3680-001-890—Support	Federal Trust	1,648,000
3680-101-516—Local assistance, boating facilities and enforcement	Harbors and Watercraft Revolving	49,898,000
3680-101-890—Local assistance, boating enforce- ment	Federal Trust	850,000
3680-121-890—Transfer to Harbors and Water- craft Revolving Fund	Federal Trust	1,700,000
Transfer from federal funds	Harbors and Watercraft Revolving	-1,700,000
Reimbursements	—	15,000
Total		\$58,157,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

- | | |
|---|--------------------------|
| | <i>Analysis
page</i> |
| 1. <i>Local Assistance Grants and Loans. (Reduce Item 3680-101-516 by \$14.3 million.)</i> Recommend (a) deletion of augmentation from the Harbors and Watercraft Revolving Fund (HWRF) because additional funding is not justified and (b) enactment of legislation authorizing the transfer of \$14.3 million from the HWRF to the General Fund. Further recommend that the department report at budget hearings on which local assistance projects it would fund in 1991-92 without this augmentation. | 417 |
| 2. Commission Approvals. Recommend adoption of supplemental report language stating legislative intent that the Boating and Waterways Commission review and approve public marina loan and grant proposals prior to their inclusion in the budget. | 419 |

GENERAL PROGRAM STATEMENT

The Department of Boating and Waterways:

- Constructs boating facilities for the state park system and State Water Project reservoirs.
- Makes loans to public and private marina operators to finance the development of small craft harbors and marinas.

- Makes grants to local agencies to finance boat launching facilities, boating safety and enforcement programs, and beach erosion control projects.
- Conducts a boating education program.
- Licenses yacht and ship brokers and for-hire vessel operators.
- Coordinates the work of other state and local agencies and the U.S. Army Corps of Engineers in implementing the state's beach erosion control program.
- Serves as the lead state agency in controlling water hyacinth in the Sacramento-San Joaquin Delta and the Suisun Marsh.

The Boating and Waterways Commission, which is composed of seven members appointed by the Governor, advises the department on matters within the department's jurisdiction, such as changes in regulations or policy. In addition, existing law requires the department to present all proposed marina loans and grants to the commission for its advice and consent.

The department has 58.4 personnel-years in the current year.

MAJOR ISSUES

- The budget proposes an augmentation of \$14.3 million from the Harbors and Watercraft Revolving Fund for boating facility grants and loans. The department has not justified this additional level of local assistance funding. We recommend enactment of legislation transferring these funds to the General Fund for expenditure on other priorities.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures for the Department of Boating and Waterways totaling \$58.2 million from state funds, federal funds and reimbursements for support and local assistance in 1991-92. This is an increase of \$15 million, or 35 percent, from estimated current-year expenditures. The proposed increase is attributable primarily to (1) a \$12.1 million increase in loans for public and private marinas, (2) a \$2.2 million increase in grants to local governments for boat launching facilities and (3) workload and program increases totaling \$1.7 million. These increases are offset partially by a \$1.1 million decrease from the elimination of beach erosion control grants.

Table 1 summarizes the staffing and expenditures for the department from 1989-90 through 1991-92. The budget proposes to fund 95 percent of the department's support and local assistance programs from the Harbors and Watercraft Revolving Fund (HWRF), which consists primarily of revenues from motorboat gas taxes, boat registration fees, and loan

DEPARTMENT OF BOATING AND WATERWAYS—Continued

repayments and interest. The budget projects that gas tax revenues to the HWRP in 1991-92 will increase by \$9.4 million, or 60 percent, from actual revenues in 1989-90. This increase is attributable primarily to the gas tax rate increase authorized under Proposition 111, which was approved by the voters in June 1990.

Table 1
Department of Boating and Waterways
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	
<i>Programs:</i>							
Boating facilities.....	19.7	21.9	26.8	\$28,786	\$34,875	\$50,834	45.8%
Boating operations.....	16.2	16.4	16.4	5,843	6,944	7,053	1.6
Beach erosion control.....	2.5	2.0	2.0	5,225	1,340	273	-79.6
Administration (distributed).....	16.5	18.1	18.1	(845)	(1,067)	(1,135)	(6.4)
Unallocated reduction.....	—	—	—	—	—	-3	— ^a
Totals.....	54.9	58.4	63.3	\$39,854	\$43,159	\$58,157	34.8%
<i>Funding Sources</i>							
General Fund.....				\$573	\$270	\$270	—
Harbors and Watercraft Revolving Fund.....				33,434	40,072	55,374	38.2%
<i>Public Resources Account, Cigarette and Tobacco Products</i>							
<i>Surtax Fund</i>				3,592	1,000	—	-100.0
<i>Special Account for Capital Outlay</i>				1,060	70	—	-100.0
<i>Federal funds</i>				1,160	1,732	2,498	44.2
<i>Reimbursements</i>				35	15	15	—

^a Not a meaningful figure.

Table 2 identifies proposed budget changes, by funding source, for the department in 1991-92.

Table 2
Department of Boating and Waterway
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	Harbors and Watercraft Revolving Fund	Other State Funds ^a	Federal Funds and Reimburse- ments	Totals
1990-91 expenditures (revised)	\$270	\$40,072	\$1,070	\$1,747	\$43,159
Baseline adjustments.....	3	22	—	16	41
<i>Workload and administrative changes:</i>					
Coastal data studies augmentation.....	—	90	—	650	740
Water hyacinth control program.....	—	259	—	—	259
Grant and loan administration.....	—	136	—	—	136
Safety and education publications.....	—	100	—	—	100
Miscellaneous workload adjustments.....	—	51	—	—	51
Unallocated reduction.....	-3	—	—	—	-3
Subtotals.....	(-\$3)	(\$636)	(—)	(\$650)	(\$1,283)

<i>Support program changes:</i>					
Additional coastal studies.....	—	\$115	—	\$100	\$215
Marina design study	—	200	—	—	200
Subtotals.....	(—)	(\$315)	(—)	(\$100)	(\$415)
<i>Changes in loan and grant programs:</i>					
Loans to public agencies for marina development	—	\$8,105	—	—	\$8,105
Loans to private recreational marinas	—	4,000	—	—	4,000
<i>Grants to local governments:</i>					
Boat launching facilities	—	2,224	—	—	2,224
Beach erosion control.....	—	—	—\$1,070	—	—\$1,070
Subtotals.....	(—)	(\$14,329)	(—\$1,070)	(—)	(\$13,259)
1991-92 expenditures (proposed)	\$270	\$55,374	—	\$2,513	\$58,157
<i>Change from 1990-91 (revised):</i>					
Amount.....	—	\$15,302	—\$1,070	\$766	\$14,998
Percent.....	—	38.2%	—100.0%	43.8%	34.8%

^a Public Resources Account, Cigarette and Tobacco Products Surtax Fund; and Special Account for Capital Outlay.

ANALYSIS AND RECOMMENDATIONS

Loan and Grant Program Funding

We recommend (1) deletion of \$14.3 million requested from the Harbors and Watercraft Revolving Fund (HWRF) for marina loans and public boat launching facility grants because the additional funding is not justified and (2) the enactment of legislation authorizing the transfer of this amount from the HWRF to the General Fund in 1991-92. (Reduce Item 3680-101-516 by \$14.3 million.) We further recommend that the department report at budget hearings on which public projects it would fund in 1991-92 under our recommended funding level.

The budget proposes an appropriation of \$46.4 million from the HWRF for the department's three primary local assistance programs in 1991-92. This is an increase of \$14.3 million, or 44 percent, from estimated current-year expenditures. The specific proposals for each of these programs are as follows.

Loans for Public Marinas. The budget requests \$26.4 million in 1991-92 from the HWRF for loans to local governments to help finance the construction or improvement of public marinas. This is an increase of \$8.1 million, or 44 percent, from estimated current-year expenditures. The requested amount consists of \$26 million for eight harbor development projects and \$350,000 for statewide planning and emergency repair loans.

Loans for Private Marinas. The budget requests \$12 million from the HWRF to provide loans to private marina owners to develop, expand or improve recreational marinas. This is an increase of \$4 million, or 50 percent, from estimated current-year expenditures, and an increase of \$8.6 million, or 253 percent, from actual expenditures in 1989-90.

In previous years, the amount of any single loan was limited to no more than 25 percent of the funds budgeted for this program in a given year. Thus, the largest loan amount in the current year is \$2 million. Following

DEPARTMENT OF BOATING AND WATERWAYS—Continued

the enactment of Ch 1500/90 (AB 3005, Mojonner), the largest loan amount is limited to 50 percent of the funds budgeted, beginning in 1991-92. The department indicates that it requests increasing the funding for the program to \$12 million in the budget year because there is a demand for larger loans.

As in past years, the budget does not identify (1) the specific projects the department expects to fund or (2) the expected cost of individual projects. It has been the Legislature's practice to grant the department this unusual degree of budget flexibility.

Public Boat Launching Facility Grants. The budget requests \$8.1 million from the HWRF for grants to public agencies for construction of boat launching ramps, restrooms and parking areas. This amount is \$2.2 million, or 38 percent, above estimated current-year expenditures. The requested amount consists of \$7.5 million for 19 specific project grants, \$300,000 for statewide floating restroom grants and \$300,000 for statewide repair grants for ramps previously constructed with funds from the department. The amount of funding needed for launching facility grants varies from year to year, depending on the number of projects proposed by public agencies. The amount requested for 1991-92 would support about the same number of grants as in the current year.

Budget-Year Augmentations Have Not Been Justified. The department has not provided justification for any of the augmentations proposed for the above local assistance programs, beyond the fact that more money will be available in the HWRF for these general purposes in 1991-92. The HWRF has increased funds available primarily due to increases in taxes on gasoline. Under current law, the HWRF receives a certain percentage of gasoline tax revenues, based on the amount of gasoline purchased for use on boats.

We do not believe availability of additional funds is sufficient justification for the proposed funding increases. Although under existing law, funds in the HWRF can be expended only for specific boating-related purposes, the Legislature could make these funds available for other purposes by changing existing law. These funds are not protected by the Constitution because, unlike most gasoline tax revenues, they are collected from nonhighway users.

Without programmatic justification, we believe that increases above the current-year level of funding for the programs are not warranted. Accordingly, we recommend deletion of \$14.3 million from the HWRF proposed for local assistance. This would leave funding of \$32.1 million for this purpose. We further recommend the enactment of legislation to transfer the \$14.3 million from the HWRF to the General Fund in 1991-92. This would give the Legislature additional flexibility to accomplish its priority objectives.

The budget identifies the specific public agency grants and loans proposed for 1991-92. If our recommendations regarding funding levels are adopted, the department will not be able to fund some of these projects. The department, however, has not indicated the priority order

of the proposed projects. Consequently, we further recommend that the department report at budget hearings on how it would allocate grant and loan funds under our recommendation in 1991-92.

Earlier Involvement Needed By Boating and Waterways Commission

We recommend the adoption of supplemental report language expressing legislative intent that the department obtain the Boating and Waterways Commission's advice and consent on proposals for public marina loans and grants prior to submitting these proposals for inclusion in the Governor's Budget.

As discussed above, existing law requires the department to present all proposed marina loans and grants to the Boating and Waterways Commission for its advice and consent. The law, however, does not specify the timing of the department's presentation of these proposals to the commission. It has been the department's practice to obtain the commission's advice and consent *after* the Legislature and the Governor have approved these projects and appropriated funding for them in the Budget Act—that is, during the fiscal year the projects are funded.

This approach is appropriate for the *private* marina loan program, since the specific projects the department expects to fund under this program are not identified in the Budget Act, and thus should be reviewed subsequently by the commission. In contrast, the individual projects under the *public* marina loan and grant programs, are scheduled individually in the Budget Act. In enacting Harbors and Navigation Code Section 82, the Legislature presumably intended the commission to review and approve proposed projects as a way to screen the department's actions. Under the current system, the proposals are not scrutinized in advance by the commission and the Legislature does not benefit from any input the commission could have provided on them.

Accordingly, we recommend the adoption of the following supplemental report language:

It is the intent of the Legislature that the department obtain the commission's advice and consent on proposals for (1) loans for public marinas and (2) grants for public boat launching facilities prior to submitting of these proposals for inclusion in the 1992-93 Governor's Budget.

Capital Outlay

The Governor's Budget proposes an appropriation of \$1.6 million in Item 3680-301-516 for capital outlay expenditures by the Department of Boating and Waterways. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

CALIFORNIA COASTAL COMMISSION

Item 3720 from the General
Fund and other funds

Budget p. R 142

Requested 1991-92.....	\$9,932,000
Estimated 1990-91	9,771,000
Actual 1989-90.....	8,498,000
Requested increase \$161,000 (+1.6 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3720-001-001—Support	General	\$6,766,000
3720-001-140—Support	Environmental License Plate	1,110,000
3720-001-890—Support	Federal Trust	1,746,000
3720-101-890—Local assistance	Federal Trust	250,000
Reimbursements	—	60,000
Total		\$9,932,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

- | | <i>Analysis
page</i> |
|---|--------------------------|
| 1. Commission Budget Proposes Significant Funding Restoration. The increased level of funding requested for the commission in 1991-92 will assist it in carrying out its required regulatory activities. | 422 |
| 2. <i>Coastal Development Permit Fees. Increase General Fund Revenues by \$360,000.</i> Recommend adoption of Budget Bill language directing the commission to increase its permit application fee schedule in 1991-92 to recover at least 20 percent of permit processing costs. | 423 |

GENERAL PROGRAM STATEMENT

The California Coastal Commission administers the state's coastal management program, pursuant to the 1976 Coastal Act (as amended). The two principal elements of this program are: (1) the review and approval of local coastal programs (LCPs) and (2) the regulation of development in the 72 local jurisdictions within the coastal zone.

The Coastal Commission also administers the federal Coastal Zone Management Act (CZMA) as the designated state coastal management agency. Under the CZMA, California receives federal funding from the Office of Coastal Resource Management (in the U.S. Department of Commerce) to develop and implement the federally certified California Coastal Management Program (CCMP). The CZMA also delegates to the commission authority over some federal activities that otherwise would not be subject to state control.

The commission has 15 members, consisting of six public members, six elected local officials, and three nonvoting ex officio members representing state agencies. The commission is headquartered in San Francisco and

maintains four district offices in coastal areas. The commission has 111.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures for the commission totaling \$9.9 million in 1991-92. This is an increase of \$161,000, or 1.6 percent, above estimated current-year expenditures.

Proposed expenditures in 1991-92 consist of \$7.9 million from state funds, \$2 million of federal CZMA money, and \$60,000 in reimbursements. The commission proposes to retain \$1.2 million, or 60 percent, of the CZMA money it expects to receive in 1991-92. The remaining \$819,000 will be passed through to (1) the State Coastal Conservancy (\$369,000) and the San Francisco Bay Conservation and Development Commission (\$200,000) and (2) local agencies (\$250,000) under the LCP grant program.

Table 1 provides a summary of the commission's expenditures, staff levels, and funding sources from 1989-90 through 1991-92.

Table 1
California Coastal Commission
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change From 1990-91
Coastal management program.....	88.8	88.4	92.9	\$8,006	\$9,261	\$9,511	2.7%
Coastal energy program	6.0	6.0	6.0	452	470	495	5.3
Administration.....	16.9	16.9	16.9	1,007	1,086	1,268	16.8
Distributed administration.....	(14.9)	(14.9)	(14.9)	-967	-1,046	-1,208	24.9
Unallocated reduction.....	—	—	—	—	—	-134	— ^a
Totals.....	111.7	111.3	115.8	\$8,498	\$9,771	\$9,932	1.6%
Funding Sources							
General Fund.....				\$5,958	\$6,036	\$6,766	12.1%
Environmental License Plate Fund.....				429	1,102	1,110	0.7
Federal funds.....				2,071	2,593	1,996	-23.0
Reimbursements.....				40	40	60	50.0

^a Not a meaningful figure.

Table 2 identifies proposed budget changes, by funding source, for the commission in 1991-92. As shown in Table 2, the proposed increase in the commission's budget is the net result primarily of (1) proposed program changes totaling \$656,000, (2) a \$597,000 reduction in federal funds, and (3) an unallocated trigger-related reduction of \$134,000 proposed in lieu of the reduction established by Ch 458/90 (AB 2348, Willie Brown).

The commission's requested program changes include proposals to reestablish a north coast area office and restore other funding reductions experienced over the last several years. The program changes are all funded from the General Fund. The decrease in federal funds shown in Table 2 is from the elimination in the budget year of pass-through funding for the Tijuana River National Estuarine Sanctuary program.

CALIFORNIA COASTAL COMMISSION—Continued

Table 2
California Coastal Commission
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Environ- mental License Plate Fund</i>	<i>Federal Funds and Reimburse- ments</i>	<i>Total</i>
1990-91 expenditures (Budget Act)	\$6,091	\$1,093	\$2,598	\$9,782
<i>Adjustments, 1990-91:</i>				
Employee compensation adjustments	166	12	—	178
Retirement rate reduction (Sec. 3.60)	-38	-3	—	-41
Unallocated reduction (Sec. 3.80)	-183	—	—	-183
Miscellaneous adjustments	—	—	35	35
1990-91 expenditures (revised)	\$6,036	\$1,102	\$2,633	\$9,771
<i>Baseline adjustments:</i>				
Full-year costs of 1990-91 employee compen- sation increases	\$131	\$8	—	\$139
Deletion of one-time costs	-37	—	—	-37
Subtotals	(\$94)	(\$8)	(—)	(\$102)
<i>Workload and administrative changes:</i>				
Federal funds reduction	—	—	-\$597	-\$597
Rent increase	\$114	—	—	114
Increase in reimbursements	—	—	20	20
Unallocated reduction	-134	—	—	-134
Subtotals	(-\$20)	(—)	(-\$577)	(-\$597)
<i>Program changes:</i>				
Reestablishment of north coast area office	\$264	—	—	\$264
Permit and enforcement workload increase	146	—	—	146
Increase in operating funds and equipment	197	—	—	197
Conservation education and public informa- tion	49	—	—	49
Subtotals	(\$656)	(—)	(—)	(\$656)
1991-92 expenditures (proposed)	\$6,766	\$1,110	\$2,056	\$9,932
Change from 1990-91 (revised):				
Amount	\$730	\$8	-\$577	\$161
Percent	12.1%	0.7%	-21.9%	1.7%

ANALYSIS AND RECOMMENDATIONS**Budget Proposes Significant Funding Restoration for the Commission**

Our analysis indicates that the increased level of funding requested for the commission in 1991-92 will assist it in carrying out its required regulatory activities.

Last year, in our *Analysis of the 1990-91 Budget Bill*, we noted that budget and staff reductions at the Coastal Commission had adversely affected the commission's ability to carry out its statutory mandates. The Legislature attempted to address this situation in the 1990 Budget Act by augmenting the commission's budget by \$651,000 from the Environmental License Plate Fund. This amount, which was approved by the Governor, represented a restoration of Governor Deukmejian's 10 per-

cent unallocated General Fund reduction in 1989-90. However, the commission indicated that these additional funds were not sufficient to compensate for the budget reductions it experienced since 1982-83.

For 1991-92, the budget proposes a General Fund increase of \$656,000, which is about 12 percent over estimated current-year expenditures, to address the commission's workload problems. (This increase is offset by an unallocated reduction of \$134,000.) The commission advises that the General Fund augmentation proposed for 1991-92 will improve its ability to process its existing permit, enforcement and public education workload. Most significantly, the proposed augmentation will enable the commission to reestablish a north coast area office to serve the northern one-third of the state. Since August 1985, when the office was closed at Governor Deukmejian's request, this area has been served by staff in the commission's San Francisco headquarters.

Coastal Development Permit Fees

We recommend that the Legislature adopt Budget Bill language directing the commission to increase its permit application fee schedule so that it recovers at least 20 percent of the permit processing costs. (Increase General Fund revenues by \$360,000).

The 1976 Coastal Act authorizes the commission to require applicants for coastal development permits to pay fees for filing and processing these applications. Currently, the commission has a variable fee schedule for various development permits. For example, residential development permits range from \$25 for a single-family dwelling to \$2,500 for a multiple dwelling of 167 units or more. Commercial permits range from \$250 for projects under 10,000 square feet to \$2,500 for projects over 100,000 square feet. These rates have remained unchanged since the commission first adopted them in 1977.

Cost Recovery Has Been Historically Low. Throughout the history of the commission's coastal development regulatory program, fee collections have never recovered more than 22 percent of the General Fund costs of the program. As Chart 1 shows, the proportion of program costs offset by fee revenues actually has declined substantially since the fee's inception—from about 20 percent in 1977-78 to about 5 percent projected for 1991-92.

According to the commission, this decline has occurred because the average processing cost per application has increased while fees have remained constant. The commission's average cost to process an application has increased primarily due to inflation, more complexity in the regulatory environment, and submittal of larger projects for approval.

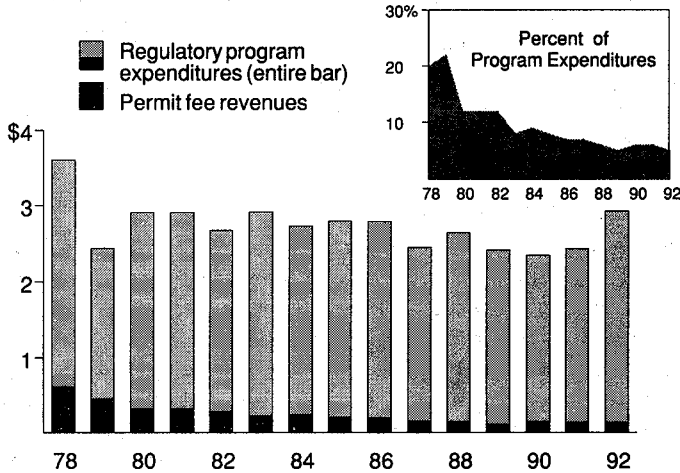
In staying constant from 1978-79 through 1990-91, the commission's fee schedule has not kept pace with its cost increase during the period. For example, current economic figures indicate that the state and local governments have experienced an increase of over 100 percent since 1977-78 in their costs for goods and services. Thus, the commission would have to double its current fees simply to account for the effect of inflation. For 1991-92, doing so would mean the commission could recover about 10 percent of its processing costs through fee revenues.

CALIFORNIA COASTAL COMMISSION—Continued

Chart 1

California Coastal Commission
Permit Fee Revenues Have Declined

1977-78 through 1991-92 (in millions)



Source: Governor's Budgets. Data are for fiscal years ending in years shown.

Fees Should Be Increased. Given these figures, it appears that the commission should reexamine its application fee schedule. While we have no firm analytical basis on which to recommend *specific* fees, we believe that the fees should be increased so that at a *minimum* the commission can recover the same proportion of its administrative costs as when it instituted the fee schedule in 1977-78. In addition, the commission should review the fee schedule periodically so that appropriate adjustments can be made for any future inflation.

Based on the proposed 1991-92 expenditures for this program, at the original 20 percent cost-recovery level the commission would receive an additional \$430,000 in annual fee revenues. Additional revenues would be \$360,000 in 1991-92 assuming the commission implements the new fee schedule September 1, 1991. Under existing practice, any additional revenues from increased fees will go to the General Fund.

Accordingly, we recommend adoption of the following Budget Bill language in Item 3720-001-001:

The commission shall increase its coastal development permit application fee schedule in 1991-92 so that it can recover a reasonable level of its costs in administering the permit program, in accordance with Public Resources Code Section 30620(c). Furthermore, the schedule shall be increased such that at least 20 percent of General Fund administrative costs are recovered through fees. Any additional fee revenues that the commission receives from these fee increases shall be deposited in the General Fund. In addition, it is the intent of

the Legislature that the commission periodically review the fee schedule and adjust it for inflation.

STATE COASTAL CONSERVANCY

Item 3760 from the Coastal
Conservancy Fund and
various funds

Budget p. R 147

Requested 1991-92.....	\$4,149,000
Estimated 1990-91	6,777,000
Actual 1989-90	3,376,000
Requested decrease \$2,628,000 (-38.8 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3760-001-565—Support	1976 State Coastal Conservancy (Bond)	\$1,549,000
3760-001-730—Support	1984 State Coastal Conservancy (Bond)	400,000
3760-001-786—Support	1988 California Wildlife, Coastal, and Park Land Conservation (Bond)	1,000,000
3760-101-565—Local assistance	1976 State Coastal Conservancy (Bond)	125,000
Public Resources Code Section 5907(d) —Support	1988 California Wildlife, Coastal, and Park Land Conservation (Bond)	700,000
Reimbursements	—	375,000
Total		\$4,149,000

GENERAL PROGRAM STATEMENT

Chapter 1441, Statutes of 1976 (AB 3544, Wornum), established the State Coastal Conservancy in the Resources Agency. The conservancy is authorized to acquire land, undertake projects, and award grants for the purposes of (1) preserving agricultural land and significant coastal resources, (2) consolidating subdivided land, (3) restoring wetlands, marshes, and other natural resources, (4) developing a system of public accessways, and (5) improving coastal urban land uses.

In general, the projects must conform to California Coastal Act policies and be approved by the conservancy governing board. The conservancy's geographic jurisdiction coincides with the coastal zone boundaries established for the California Coastal Commission. An exception is the San Francisco Bay and the Suisun Marsh areas where the conservancy has jurisdiction but the Coastal Commission does not. At the request of a local government, the conservancy can undertake a project outside of the coastal zone provided the project is related to enhancing areas within the coastal zone.

STATE COASTAL CONSERVANCY—Continued

The conservancy governing board consists of the Chairperson of the Coastal Commission, the Secretary for Resources, the Director of Finance, and four public members.

The conservancy has 48.5 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of \$4.1 million from the 1988 California Wildlife, Coastal, and Park Land Conservation (Bond) Fund (Proposition 70—\$1.7 million), various other bond funds (\$1.9 million) and reimbursements (\$375,000) for support of the Coastal Conservancy in 1991-92. Reimbursements primarily consist of federal funds from the federal Coastal Zone Management Act (CZMA) passed through to the conservancy by the Coastal Commission (the commission is the state agency designated to receive CZMA funds).

In addition, the budget proposes \$125,000 from the Violation Remediation Account in the 1976 State Coastal Conservancy (Bond) Fund for one local assistance grant by the conservancy in 1991-92.

Table 1 provides a three-year summary of the conservancy's expenditures by program and funding source. As shown in Table 1, the requested amount is \$2.6 million, or 39 percent, less than estimated current-year expenditures. The decrease primarily reflects: (1) the deletion of five

Table 1
State Coastal Conservancy
Summary of Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Agricultural land preservation....	4.5	5.3	5.3	\$411	\$583	\$639	9.6%
Coastal restoration	5.0	4.7	4.7	471	500	493	-1.4
Public access	4.0	5.5	5.5	471	1,577	708	-55.1
Resource enhancement	10.4	9.4	8.4	1,012	1,941	1,359	-30.0
Site reservation	3.0	1.3	1.3	270	147	161	9.5
Urban waterfront restoration	5.1	6.0	6.0	471	1,882	628	-66.6
Nonprofit organizations	1.2	1.3	1.3	270	147	161	9.5
Administration (distributed).....	15.6	15.0	15.0	(1,080)	(1,517)	(1,246)	(-17.9)
Totals	48.8	48.5	47.5	\$3,376	\$6,777	\$4,149	-38.8
Funding Sources							
State Coastal Conservancy (Bond) Fund of 1976.....				\$111	\$974	\$1,674	71.9%
Parklands (Bond) Fund of 1980				172	—	—	—
State Coastal Conservancy (Bond) Fund of 1984.....				—	500	400	-20.0
Fish and Wildlife Habitat (1984 Bond) Fund.....				250	247	—	-100.0
California Wildlife, Coastal, and Park Land Conservation (Bond) Fund of 1988				2,468	2,581	1,700	-34.1
Public Resources Account, Cigarette and Tobacco Products							
Surtax Fund				—	750	—	-100.0
Environmental License Plate Fund				—	350	—	-100.0
Reimbursements				375	1,375	375	-72.7

current-year local assistance grants totaling \$1.8 million and (2) the elimination of \$1 million in reimbursements provided on a one-time basis in the current year, pursuant to Ch 1002/88 (AB 2605, Seastrand) for loans for staging and repair space for commercial fishing vessels and gear. These reductions are offset partially by various administrative adjustments and the proposed local assistance grant.

The budget proposes an extension of two limited-term positions in 1991-92. These positions are associated with the continuation of increased project workload related to Proposition 70. The cost of the two positions is offset by salary savings and other budget adjustments.

The conservancy's request appears reasonable and consistent with its statutory mandates.

Capital Outlay

The Governor's Budget proposes several appropriations in Item 3760 totaling \$11.3 million for capital outlay expenditures by the Coastal Conservancy. Please see our analysis of the conservancy's proposed capital outlay program in the capital outlay section of this *Analysis* which is in the back portion of this document.

DEPARTMENT OF PARKS AND RECREATION

Item 3790 from the General
Fund and various funds

Budget p. R 157

Requested 1991-92.....	\$205,599,000
Estimated 1990-91	358,343,000
Actual 1989-90	325,898,000
Requested decrease \$152,744,000 (-43 percent)	
Total recommended reduction.....	1,426,000
Recommended transfer to the General Fund.....	9,800,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3790-001-001—Support	General	\$72,666,000
3790-001-235—Support	Public Resources Account, Cigarette and Tobacco Products Surtax	4,067,000
3790-001-263—Support	Off-Highway Vehicle	11,860,000
3790-001-392—Support	State Parks and Recreation	71,534,000
3790-001-394—Support	Fines and Forfeitures Account, State Parks and Recreation	805,000
3790-001-449—Support	Winter Recreation	96,000
3790-001-463—Support	Roberti-Z'berg-Harris Urban Open-Space and Recreation Program Account	508,000
3790-001-516—Support	Harbors and Watercraft Revolving	398,000
3790-001-721—Support	1980 Parklands (Bond)	223,000

DEPARTMENT OF PARKS AND RECREATION—Continued

3790-001-722—Support	1984 Parklands (Bond)	2,511,000
3790-001-733—Support	1974 State Beach, Park, Recreational and Historical Facilities (Bond)	37,000
3790-001-742—Support	State, Urban and Coastal Park (1976 Bond)	1,565,000
3790-001-768—Support	1990 Earthquake Safety and Public Buildings Rehabilitation (Bond)	106,000
3790-001-786—Support	1988 California Wildlife, Coastal, and Park Land Conservation (Bond)	723,000
3790-001-890—Support	Federal Trust	1,779,000
3790-011-062—Revenue transfer for maintenance of park roads	Highway Users Tax Account, Transportation Tax	(1,500,000)
3790-011-235—Revenue transfer for 1986 park bond fund local assistance grants	Public Resources Account, Cigarette and Tobacco Products Surtax	2,220,000
3790-101-262—Local assistance grants	Habitat Conservation	3,500,000
3790-101-263—Local assistance grants	Off-Highway Vehicle	9,925,000
3790-101-786—Local assistance grants	1988 California Wildlife, Coastal, and Park Land Conservation (Bond)	11,510,000
3790-101-890—Local assistance grants	Federal Trust	5,325,000
3790-111-235—Transfer to Habitat Conservation Fund for local assistance grants	Public Resources Account, Cigarette and Tobacco Products Surtax	(3,500,000)
3790-491—Reappropriation, local assistance	Environmental License Plate	19,000
3790-496—Reversion	Off-Highway Vehicle	(439,000)
Prior year balance available—grants administration	Public Resources Account, Cigarette and Tobacco Products Surtax	129,000
Prior year balance available—grants administration	Habitat Conservation	52,000
Prior year balance available—grants administration	1974 State Beach, Park, Recreational and Historical Facilities (Bond)	47,000
Public Resources Code Section 5907(b) (1) and (3)—grants administration	1988 California Wildlife, Coastal, and Park Land Conservation (Bond)	607,000
Ch 1241/89—Grants administration	General	24,000
Ch 1241/89—Grants administration	Environmental License Plate	6,000
Ch 1241/89—Grants administration	Public Resources Account, Cigarette and Tobacco Products Surtax	171,000
Reimbursements	—	5,406,000
Transfer from Public Resources Account to 1986 park bond fund for local assistance grants	—	—2,220,000
Total		<u>\$205,599,000</u>

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS		<i>Analysis page</i>
1. Update on Park User Fees. Recommend that the department report at budget hearings on its (1) current- and budget-year fee revenue estimates and (2) contingency plans to address any shortfalls in fee revenues.		434
2. <i>Off-Highway Vehicle (OHV) Fund. Increase General Fund Transfers by \$9.8 Million.</i> Recommend the enactment of legislation authorizing the transfer of \$9.8 million from the reserve in the OHV Fund to the General Fund in 1991-92, because these funds could be used for other priorities while leaving an adequate reserve in the OHV Fund.		436
3. <i>1986 Park Bond Fund Loan Interest. Reduce Item 3790-011-235 by \$1,220,000.</i> Recommend a reduction of \$1.2 million from the Public Resources Account because this amount will not be needed to offset interest costs in the budget year. Further recommend the adoption of supplemental report language stating legislative intent to provide additional funds for this purpose in future years.		437
4. Diverted Funding and Deferred Maintenance. Recommend that the department report at budget hearings on (1) funding redirections in the current year and (2) diversions of deferred maintenance appropriations for other purposes. Further recommend the adoption of Budget Bill language specifying that funds appropriated for deferred maintenance be used only for that purpose.		439
5. <i>Earthquake Safety Bond Funds. Reduce Item 3790-001-768 by \$106,000.</i> Recommend the deletion of \$106,000 requested from the Earthquake Safety and Public Buildings Rehabilitation (Bond) Fund of 1990 for historic building reviews because the funds will not be needed in the budget year.		440
6. <i>Hearst San Simeon Tour Bus Contract Costs Overbudgeted. Reduce Item 3790-001-235 by \$100,000.</i> Recommend a reduction of \$100,000 from the Public Resources Account because the department has overbudgeted the amount needed for an operations contract.		441
7. State Park Concession Contracts. Recommend the adoption of supplemental report language expressing legislative intent that the term of the new concession contract for the Hearst San Simeon theater be no longer than 10 years. Further recommend the adoption of supplemental report language expressing approval of the department's six other proposed concession contracts.		442

GENERAL PROGRAM STATEMENT

The Department of Parks and Recreation acquires, develops, preserves, interprets, and manages the natural, cultural and recreational resources in the state park system and in the State Vehicular Recreation

DEPARTMENT OF PARKS AND RECREATION—Continued

Area and Trail System (SVRATS). New programs and projects for the state park system are undertaken with the advice or approval of the nine-member California State Park and Recreation Commission. The seven-member Off-Highway Motor Vehicle Recreation Commission is responsible for establishing general policies for the guidance of the department in the planning, development, operation and administration of the SVRATS.

In addition, the department administers state and federal grants to cities, counties, and special districts that help provide parks and open-space areas throughout the state.

The state park system consists of 270 units, including 38 units administered by local and regional park agencies. The system contains approximately 1.4 million acres of land with 290 miles of ocean and bay frontage and 806 miles of lake, reservoir, and river frontage. During 1991-92, more than 79 million visitations are anticipated at state parks and beaches operated by the department. In addition, an unknown number of people will visit state parks and beaches operated by local and regional park agencies during the same period.

The SVRATS consists of approximately 53,000 acres in seven units. The department estimates that more than 1.4 million visitations to these units will occur during 1991-92.

The department has 2,963 personnel-years in the current year.

MAJOR ISSUES

- The Department of Parks and Recreation may not collect the full \$16 million in current-year park user fee increases that was required in the 1990 Budget Act. It also may not realize all of its projected budget-year fee revenues.
- We recommend enactment of legislation transferring \$9.8 million from the reserve in the Off-Highway Vehicle (OHV) Fund to the General Fund for expenditure on other priorities.
- The department has diverted significant amounts of funding in prior years for purposes not explicitly approved by the Legislature, including \$8.3 million appropriated in the past five years specifically for deferred maintenance in state parks.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures for the Department of Parks and Recreation totaling \$205.6 million for support and local assistance in 1991-92. This is a decrease of \$152.7 million, or 43 percent, from estimated current-year expenditures from all sources, as discussed in detail below.

State Operations. The budget requests a total of \$175.3 million from the General Fund (\$72.7 million), the State Parks and Recreation Fund (\$71.5 million), various other state special and bond funds (\$23.9 million), federal funds (\$1.8 million) and reimbursements (\$5.4 million) for support of the department in 1991-92. This is a net increase of \$296,000, or 0.2 percent, above total estimated current-year support costs. The increase primarily reflects augmentations for planning and operation of state off-highway vehicle parks and baseline adjustments to maintain the department's current level of activity. These adjustments are offset by a decrease from elimination of various one-time costs. In addition, the Governor's Budget includes an unallocated reduction of \$932,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Local Assistance. The department requests appropriations totaling \$30.3 million for local assistance grants in 1991-92. Most of these funds are for (1) per capita grants from the 1988 California Wildlife, Coastal, and Park Land Conservation (Bond) Fund (\$11.5 million), (2) various grants from the Off-Highway Vehicle (OHV) Fund (\$9.9 million) and (3) grants from the Habitat Conservation Fund (\$3.5 million) created by Proposition 117.

The total amount proposed for local assistance in 1991-92 represents a decrease of \$152.4 million, or 83 percent, from estimated current-year expenditures for local assistance. This decrease primarily reflects (1) elimination of one-time spending from the Public Resources Account, Cigarette and Tobacco Products Surtax Fund (PRA) and (2) a reduction in the amounts remaining in the various bond funds that are available for appropriation.

Proposed Budget Changes

Table 1 provides a summary of the department's expenditures, by program, for 1989-90 through 1991-92. As Table 1 indicates, the department requests a net increase of 17.7 personnel-years in the budget year. This reflects the proposed addition of 31.5 new positions, primarily to provide permanent staff at Prairie City State Vehicular Recreation Area, conduct additional ranger cadet training and provide various administrative services. These increases are offset by reductions due to changes in salary savings and other budget adjustments.

DEPARTMENT OF PARKS AND RECREATION—Continued

Table 1

Department of Parks and Recreation
 Summary of Expenditures and Funding Sources
 1989-90 through 1991-92
 (dollars in thousands)

Programs	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Support:							
Statewide planning.....	23.0	23.9	23.0	\$1,300	\$1,978	\$1,759	-11.1%
Acquisition.....	25.7	25.2	25.3	1,496	1,606	1,661	3.4
Property management.....	—	—	—	493	596	596	—
Facilities development.....	77.6	81.6	81.8	5,423	5,890	6,079	3.2
Resources preservation and interpretation.....	111.8	93.3	88.1	6,193	7,872	7,373	-6.3
Historic preservation.....	18.6	18.7	20.8	1,099	1,190	1,339	12.5
Park system operations.....	2,397.7	2,386.3	2,387.9	134,042	144,752	144,381	-0.3
Off-highway vehicle (OHV) recreation.....	114.9	118.4	129.7	8,837	10,363	11,860	14.4
Grants administration (non- OHV).....	20.0	19.8	18.9	1,390	1,388	1,223	-11.9
Departmental administration (distributed costs).....	200.4	195.6	205.0	(18,658)	(18,207)	(21,051)	(15.6)
Unallocated reduction.....	—	—	—	—	—	-932	— ^a
Subtotals.....	2,989.7	2,962.8	2,980.5	(\$160,273)	(\$175,635)	(\$175,339)	(-0.2%)
Local assistance:							
Local assistance grants.....				\$145,922	\$167,366	\$20,010	-88.0%
OHV local assistance grants.....				7,989	14,129	9,925	-29.8
Historic preservation grants.....				11,714	1,213	325	-73.2
Subtotals.....				(\$165,625)	(\$182,708)	(\$30,260)	(-83.4%)
Totals.....				\$325,898	\$358,343	\$205,599	-42.6%
Funding Sources							
General Fund.....				\$86,615	\$72,995	\$72,690	-0.4%
State Parks and Recreation Fund (SPRF).....				47,924	74,395	71,534	-3.8
Fines and Forfeitures Account, SPRF.....				343	771	805	4.4
Public Resources Account, Cigarette and Tobacco Products Surtax Fund.....				8,024	16,689	6,587	-60.5
Special Account for Capital Outlay.....				2,582	—	—	—
Environmental License Plate Fund.....				665	1,637	25	-98.5
Habitat Conservation Fund.....				—	3,448	3,552	3.0
Off-Highway Vehicle Fund.....				16,816	24,492	21,785	-11.1
Winter Recreation Fund.....				88	93	96	3.2
Roberti-Z'berg-Harris Urban Open-Space and Recreation Program Account.....				400	514	508	-1.2
Harbors and Watercraft Revolving Fund.....				358	376	398	5.9
Earthquake Safety and Public Buildings Rehabilitation Fund of 1990.....				—	—	106	— ^a
Park bond funds.....				154,751	149,752	15,003	-90.0
Federal funds.....				2,306	7,277	7,104	-2.4
Reimbursements.....				5,026	5,904	5,406	-8.4

^a Not a meaningful figure.

Table 2 identifies, by funding source, proposed budget changes for the department for 1991-92. As shown in Table 2, the budget proposes funding most of the department's significant workload and program changes from the OHV Fund, park bond funds and various other state special funds (primarily the PRA). There are no such increases proposed from the General Fund or the State Parks and Recreation Fund (SPRF).

Table 2
Department of Parks and Recreation
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	State Parks and Rec- reation Fund	Off- Highway Vehicle Fund	Park Bond Funds	Other Funds ^a	Federal Funds and Re- imburse- ments	Total
1990-91 expenditures (Budget Act) ...	\$70,509	\$63,669	\$22,036	\$32,833	\$20,175	\$10,012	\$219,234
<i>Adjustments, 1990-91:</i>							
Allocation for employee compensa- tion.....	1,878	1,695	270	—	71	—	3,914
Retirement reduction (Section 3.60).....	-272	-266	-39	—	—	—	-577
Park fee increases.....	—	5,297	—	—	—	—	5,297
Carryover appropriations.....	907	4,000	2,225	121,519	3,659	3,169	135,479
Unexpended balances.....	-24	—	—	-4,600	-377	—	-5,001
Payment of claims.....	-3	—	—	—	—	—	-3
1990-91 expenditures (revised).....	\$72,995	\$74,395	\$24,492	\$149,752	\$23,528	\$13,181	\$358,343
<i>Baseline adjustments:</i>							
Back out one-time costs.....	—	-\$4,000	-\$399	-\$1,137	—	-\$756	-\$6,292
Deletion of limited-term positions ..	—	—	—	-164	—	—	-164
Pro rata adjustment.....	—	—	118	—	\$65	-4	179
Full-year costs of 1990-91 programs ..	\$24	134	—	—	226	—	384
Full-year costs of 1990-91 employee compensation increases.....	1,483	1,005	200	—	305	—	2,993
Back out transfer for 1986 park bond deficiency.....	—	—	—	2,750	-2,750	—	—
Miscellaneous adjustments.....	3	—	—	—	—	—	3
Unallocated reduction.....	-932	—	—	—	—	—	-932
Subtotals.....	(\$578)	(\$2,861)	(\$81)	(\$1,449)	(\$2,154)	(\$760)	(\$3,829)
<i>Workload and administrative changes:</i>							
Transfer for 1986 park bond defi- ciency.....	—	—	—	-\$2,220	\$2,220	—	—
Permanent staffing for Prairie City ..	—	—	\$919	—	—	—	\$919
Off Highway Vehicle (OHV) plan- ning increase.....	—	—	325	—	—	—	325
Additional ranger cadet training....	—	—	—	—	421	—	421
Peace officer hiring cost increase....	—	—	—	—	282	—	282
Hearst San Simeon bus contract cost increase.....	—	—	—	—	229	—	229
Interpretive Services rent increase ..	—	—	—	—	165	—	165
State police service cost increase....	—	—	—	—	82	—	82
Extension of limited-term positions ..	—	—	96	79	—	—	175
Subtotals.....	(—)	(—)	(\$1,340)	(\$2,141)	(\$3,399)	(—)	(\$2,598)

DEPARTMENT OF PARKS AND RECREATION—Continued

Table 2—Continued
 Department of Parks and Recreation
 Proposed 1991-92 Budget Changes
 (dollars in thousands)

	General Fund	State Parks and Rec- reation Fund	Off- Highway Vehicle Fund	Park Bond Funds	Other Funds ^a	Federal Funds and Re- imburse- ments	Total
<i>Program changes:</i>							
Big Sur multi-agency facility opera- tion.....	—	—	—	—	\$330	\$258	\$588
OHV public awareness and educa- tion study.....	—	—	\$125	—	—	—	125
California statewide motorized trail.....	—	—	113	—	—	—	113
Historic building earthquake safety.....	—	—	—	—	106	—	106
Local assistance grants.....	—883	—	—4,204	—134,057	—13,132	—169	—152,445
Subtotals.....	<u>(—883)</u>	<u>(—)</u>	<u>(—83,966)</u>	<u>(—8134,057)</u>	<u>(—812,696)</u>	<u>(889)</u>	<u>(—8151,513)</u>
1991-92 expenditures (proposed).....	\$72,690	\$71,534	\$21,785	\$15,003	\$12,077	\$12,510	\$205,599
Change from 1990-91 (revised):							
Amount.....	—\$305	—\$2,861	—\$2,707	—\$134,749	—\$11,451	—\$671	—\$152,744
Percent.....	—0.4%	—3.8%	—11.1%	—90.0%	—48.7%	—5.1%	—42.6%

^a Environmental License Plate Fund; Harbors and Watercraft Revolving Fund; Winter Recreation Fund; Fines and Forfeitures Account, State Parks and Recreation Fund; Roberti-Z'berg-Harris Urban Open-Space and Recreation Program Account; Public Resources Account, Cigarette and Tobacco Products Surtax Fund; Habitat Conservation Fund; and Earthquake Safety and Public Buildings Rehabilitation Fund of 1990.

ANALYSIS AND RECOMMENDATIONS

Update on Park User Fees

We recommend that the department report at budget hearings on its (1) current- and budget-year fee revenue estimates and (2) contingency plans to address any shortfalls in fee revenues.

The Governor's Budget projects that revenues from park user fees to the State Parks and Recreation Fund (SPRF) will total \$60 million in 1991-92. This is an increase of \$5.5 million, or 10 percent, from estimated current-year fee revenues, and an increase of \$22.2 million, or 59 percent, from actual 1989-90 fee revenues.

Background. Last year, as part of the package to balance the 1990-91 budget, the Legislature reduced the department's General Fund appropriation by \$16 million and increased its SPRF appropriation by the same amount. The Legislature also adopted Budget Bill language stating the intent of the Legislature and the Governor that the department increase state park fees to obtain \$16 million in new revenues to the SPRF in 1990-91. In signing the 1990 Budget Act, however, Governor Deukmejian reduced the SPRF appropriation by \$5.3 million to reflect what he believed was a more attainable revenue increase, given that the department would be unable to put higher fees in place until after the major revenue-producing summer months of 1990 had passed. The Governor left intact the Budget Bill language regarding the \$16 million in new fee revenues.

To comply with the Budget Act language, the department developed a new fee schedule that went into effect on September 1, 1990. This schedule included increases of \$2 in the basic fee for vehicle day-use (from \$3 to \$5) and developed campsites (from \$10 to \$12 per night), as well as various new fees such as a "walk-in" fee of \$2 per individual and metered parking in some high-use park locations.

In January 1991 the Department of Finance (DOF) submitted a deficiency notification letter to the Legislature, stating that the Department of Parks and Recreation estimated it could achieve the full \$16 million in additional revenues in 1990-91. Accordingly, the DOF approved a restoration of expenditure authority for the \$5.3 million vetoed from the 1990 Budget Act, thus lessening the likelihood that the parks department would have to cut back on park services due to insufficient appropriations in the current year.

Table 3 summarizes the department's fee revenue plan. As indicated in Table 3, the department expects to (1) obtain the \$16 million in additional current-year fee revenues from all five of its regions and from a variety of sources and (2) generate another \$800,000 in fee revenues from new activities that were specifically approved in the 1990 Budget Act, primarily evening tours at Hearst San Simeon State Historical Monument. Thus, the budget estimates that park fee revenues will total \$54.5 million in 1990-91.

Table 3
Department of Parks and Recreation
Fee Revenue Summary
1989-90 and 1990-91
(in thousands)

	<i>Actual Revenues 1989-90</i>	<i>Estimated Revenues 1990-91</i>	<i>Increase from 1989-90</i>
<i>Fees for existing services (by region):</i>			
Northern.....	\$4,900	\$6,200	\$1,300
Central Coast.....	7,400	10,500	3,100
Inland.....	5,200	7,300	2,100
Southern.....	11,900	19,300	7,400
San Simeon.....	8,300	10,400	2,100
Subtotals.....	(\$37,700)	(\$53,700)	(\$16,000)
Fees for new services.....	—	800	800
Totals.....	\$37,700	\$54,500	\$16,800
<i>Additional Fee Revenue Sources</i>			
<i>Fees for existing services:</i>			
Increases in existing fees.....			\$10,500
New collection locations.....			3,000
Extended entrance kiosk operations.....			1,400
Coastal park units collection equipment ^a			500
Miscellaneous changes.....			600
New Services.....			800

^a Includes "iron ranger" fee receptacles and parking ticket dispensers.

Our analysis indicates that the department may not collect the full \$16 million of fee revenue for existing services in the current year, for several reasons. First, at its January 1991 meeting, the California Coastal Com-

DEPARTMENT OF PARKS AND RECREATION—Continued

mission denied the department's permit applications for installation of coastal park fee collection devices and denied the associated parking fees. As shown in Table 3, the department estimated that these fees would total \$500,000 in 1990-91. At the time this analysis was prepared, the commission was deciding whether to reconsider the permit applications and parking fees and the eventual outcome was uncertain. Second, the department's revenue estimate for June 1991 appears to be overly optimistic: it shows almost \$11 million in fee revenues, or 20 percent of the annual total, compared to about 12 percent for the same month in past years. Third, the effect of the fee schedule changes on park visitor attendance still is unknown.

Budget-Year Projection. As indicated above, the department projects that fee revenues to the SPRF will total \$60 million in 1991-92, an increase of \$5.5 million, or 10 percent, from estimated current-year revenues. This increase is due to the full-year effect of the September 1990 fee adjustments.

We also have concerns about the accuracy of the department's fee revenue projections for 1991-92, primarily because they are based directly on the uncertain current-year estimates.

The department continues to be confident that it can obtain the additional fee revenues assumed in the 1990 Budget Act and projected for 1991-92. The department also advises, however, that it is looking at other ways to generate SPRF revenues in case fee revenues fall short of projections, such as selling additional property easements in state parks and restricting its park fee cancellation refund policy. At the time this analysis was prepared, the department could not provide any specific information on these revenue-generation possibilities. In addition, it could not describe what steps it would take to reduce expenditures if actual SPRF revenues fall short in 1991-92.

We believe that for the fiscal committees to be able to evaluate the appropriateness of the department's SPRF revenue figures and their effect on proposed expenditures for park operation, the department needs to provide updated information at the time of budget hearings on its current and possible future actions related to these revenues. Accordingly, we recommend that the department report at budget hearings on (1) the status of its efforts to raise \$16 million of additional revenues in the current year, (2) the prospects for reaching the total projected revenues for the budget year and (3) what its contingency plans are for overall SPRF revenues and expenditures in 1991-92, in case actual fee revenues fall short of projections.

Off-Highway Vehicle (OHV) Fund

We recommend the enactment of legislation authorizing the transfer of \$9.8 million from the reserve in the OHV Fund to the General Fund in 1991-92, because these funds could be used for other priorities while leaving an adequate reserve in the OHV Fund. (Increase General Fund transfers by \$9.8 million.)

The budget projects that revenues and transfers to the OHV Fund in 1991-92 will total \$27.2 million. This is an increase of \$7.7 million, or 34 percent, from actual revenues and transfers in 1989-90. The increase is attributable primarily to the gas tax rate increases authorized under Proposition 111, which was approved by the voters in June 1990. Under current law, the OHV Fund receives a certain percentage of gasoline tax revenues, based on the amount of gasoline purchased for use in off-highway vehicles. The OHV Fund also receives revenues from off-highway vehicle registration fees and investment interest.

Although under existing law, money in the OHV Fund can be expended only for specific OHV-related purposes, the Legislature could make these funds available for other purposes by changing existing law. These funds are not protected by the Constitution because, unlike most gasoline tax revenues, they are collected from *nonhighway* users.

The budget projects that the OHV Fund will have a reserve of \$10.6 million at the end of the budget year, or about 42 percent of proposed OHV expenditures. We believe that this reserve level could be reduced to 3 percent, consistent with the percent-of-expenditure level proposed for the General Fund reserve in the Governor's Budget, and still provide an adequate protection against economic uncertainties. Accordingly, we recommend the enactment of legislation to transfer \$9.8 million from the OHV Fund to the General Fund in 1991-92. This would give the Legislature additional flexibility to accomplish its priority objectives.

1986 Park Bond Fund Loan Interest

We recommend a reduction of \$1.2 million proposed for transfer from the Public Resources Account (PRA), Cigarette and Tobacco Products Surtax Fund, to the 1986 park bond fund for loan interest payments, because this amount will not be needed in the budget year. (Reduce Item 3790-011-235 by \$1,220,000.) We further recommend the adoption of supplemental report language stating legislative intent to provide additional transfers for this purpose in future years.

The budget requests \$2.2 million from the PRA for transfer to the 1986 park bond fund in 1991-92. The current-year budget authorizes a similar transfer in the amount of \$2.8 million.

Background. In 1986, the voters approved the Community Parklands Act, which authorized the sale of \$100 million in bonds to fund population-based grants for local parks and recreation projects. At the time the measure was approved, interest costs for the Pooled Money Investment Account (PMIA) loans needed to fund bond programs prior to sale of the bonds were paid from the General Fund. In 1988, however, the Legislature enacted legislation requiring that any interest due on PMIA loans be paid from bond funds themselves.

The department determined the allocation of the 1986 bond funds for each local grant recipient prior to enactment of this law, and the Legislature appropriated the entire amount available based on these allocations. The department had not set aside any funds from the bonds to pay PMIA loan interest costs. The need to set aside some of the bond

DEPARTMENT OF PARKS AND RECREATION—Continued

funds to pay the loan interest presented a dilemma to the Legislature in constructing the 1990 Budget Act: it had to (1) direct the department to reduce the amounts of individual local assistance grants that already had been appropriated for local agency expenditure or (2) find an outside source of funds for these grants.

Current-Year Transfer. The 1990-91 budget requested \$5.5 million from the PRA as a transfer to the Community Parklands (1986 Bond) Fund to provide for interest payments on PMIA loans for the bond fund. The Legislature halved this amount to \$2.8 million, with the understanding that although such a transfer to the bond fund was needed, not all the requested funds were necessary for transfer in 1990-91. The Legislature also adopted language in the *Supplemental Report of the 1990 Budget Act* stating its intent that sufficient funds be transferred in 1991-92, and in future years if necessary, from an appropriate funding source to allow the bond fund to pay the PMIA loan interest.

Budget-Year Request. The 1991-92 request is consistent with the intent language adopted in the current year. Other than the General Fund, there does not appear to be any funding source available for this purpose that could be used instead of the PRA.

Our analysis indicates, however, that as in the current year, not all of the \$2.2 million requested from the PRA will be necessary for transfer in 1991-92. The Treasurer's Office advises that as of January 1991 it had sold only \$33 million of the \$100 million in bonds authorized under the 1986 bond act. The office indicates that it may sell up to \$15 million more in the current year, which still would leave \$52 million in bonds for sale in 1991-92 and future years. As the department continues to borrow from the PMIA for grant disbursements prior to the bond sales, it will continue to accrue loan interest costs. The Treasurer's Office estimates that about \$7.1 million in interest costs will have accrued to the bond fund by the end of 1991-92. Thus, after accounting for the \$2.8 million current-year transfer from the PRA, the bond fund still would owe \$4.3 million in interest costs. However, the department will not need to offset fully these costs with other funds until the bond fund nears depletion, which at the current rate of bond sales will not happen in 1991-92.

Thus, additional transfers from the PRA or other funds can be spread out over several years. Slowing the rate of transfer to offset the interest costs will have *no* effect on the local agencies that have not yet received their 1986 bond fund allocations, because the department disburses grant moneys to these agencies from the PMIA loans, not from the bond fund itself.

Although we have no firm analytical basis on which to determine the specific amount, a transfer of \$1 million to the bond fund in 1991-92 appears reasonable. Accordingly, we recommend (a) a reduction of \$1.2 million in the proposed transfer from the PRA to the bond fund and (b) adoption of supplemental report language reiterating legislative intent that additional transfers for the same purpose be provided in future years. Adoption of these recommendations would give the Legislature additional flexibility over the use of funds in the PRA in 1991-92.

Details Needed on Diverted Funding and Deferred Maintenance

We recommend that the department report at budget hearings on (1) funding redirections in the current year and (2) why it has used its deferred maintenance appropriations for other purposes and how it proposes to reduce the existing deferred maintenance backlog. We further recommend the adoption of Budget Bill language specifying that funds appropriated for deferred maintenance be used only for that purpose.

The department requests a total of \$758,000 from the Public Resources Account (PRA) for the following purposes in 1991-92:

- Peace officer hiring cost increases (\$282,000).
- Hearst San Simeon bus contract cost increase (\$229,000).
- Rent on additional space for the Office of Interpretive Services (\$165,000).
- State police service cost increases (\$82,000).

Our review indicates that on a program basis these requests are warranted (with the exception of the specific amount of the bus contract, which we discuss elsewhere in this analysis). The department, however, actually experienced *current-year* cost increases that prompted these requests. It has diverted funding from other areas to pay for these unavoidable increases in the current year, as indicated in each of the budget change proposals for the above requests. Apparently, these redirections have not yet affected park visitor services. The department indicates, however, that failure to approve these proposals in the budget year would require visitor service reductions.

Real Purpose of Requested Funds is Unclear. We are concerned that the department has used significant amounts of certain funds for purposes other than those approved by the Legislature, including the deferred maintenance program, which we discuss below. The department apparently identified various low-priority activities in the current year that it could defer or eliminate. In effect, the \$758,000 augmentation would be used to restore funds for those activities, rather than for the budget-year requests. Because the requests do not identify these specific activities, however, it is not clear what the Legislature is being requested to fund.

We believe that the Legislature needs additional information before it can determine if these requests are appropriate. Accordingly, we recommend that the department report to the fiscal committees on (1) what activities would be restored with the \$758,000 requested from the PRA for various cost increases and (2) any current-year redirections for which the department is *not* requesting budget-year augmentations.

Deferred Maintenance Funds Diverted. While the department is unable to identify the specific funds that it diverted, it has indicated that a significant portion came from the deferred maintenance program. This is despite the fact that the Legislature has provided the department large increases in funding in past years in an effort to reduce the backlog of projects in this program. We raised concerns with similar diversions in our *Analysis of the 1987-88 Budget Bill* (pages 432-433). In response to

DEPARTMENT OF PARKS AND RECREATION—Continued

those diversions, the Legislature adopted language in the 1987 Budget Act restricting the expenditure of funds appropriated for deferred maintenance to that express purpose only.

Our review indicates that rather than decreasing, the deferred maintenance backlog has grown substantially, from \$8.7 million in 1987-88 to an estimated \$24 million in 1990-91. Part of this increase is due to repeated diversion of funds from the department's deferred maintenance program. As Table 4 indicates, in the past five years the department has used only \$10.4 million of \$18.7 million appropriated for this purpose (primarily from the SPRF).

Table 4
Department of Parks and Recreation
Deferred Maintenance Program Summary
1985-86 through 1989-90
(in thousands)

<i>Fiscal Year</i>	<i>Amount Appropriated</i>	<i>Actual Expenditures</i>	<i>Difference</i>
1985-86.....	\$3,255	\$1,047	\$2,208
1986-87.....	2,282	1,185	1,097
1987-88.....	3,283	2,189	1,094
1988-89.....	3,466	2,419	1,047
1989-90.....	6,449 ^a	3,586	2,863
Totals.....	\$18,735	\$10,426	\$8,309

^a Includes one-time augmentation of \$3 million from SAFCO.
 Source: Budget Acts and Governor's Budgets.

The department's failure to use large portions of its annual deferred maintenance appropriation for the intended purpose indicates that the department did not comply with the 1987 Budget Act control language, or in subsequent years with the legislative policy that the language embodied. Accordingly, we recommend that the department advise the fiscal committees on why it disregarded this directive and what steps it is taking to reduce the deferred maintenance backlog. In addition, we recommend that the Legislature once again adopt Budget Bill language in Item 3790-001-001 to restrict the funding provided for deferred maintenance, as follows:

Of the amount appropriated in this item, \$2,942,000, as transferred from Item 3790-001-392, is for deferred maintenance projects. None of the \$2,942,000 shall be spent for any purpose other than deferred maintenance projects.

Request for Earthquake Safety Bond Funds Is Without Foundation

We recommend the deletion of \$106,000 requested from the Earthquake Safety and Public Buildings Rehabilitation (Bond) Fund of 1990 for historic building reviews because the funds will not be needed in the budget year. (Reduce Item 3790-001-768 by \$106,000.)

The department requests \$106,000 from the Earthquake Safety and Public Buildings Rehabilitation (Bond) Fund of 1990 and two personnel-years for the Office of Historic Preservation (OHP) to perform its duties

under Proposition 122, approved by the voters in June 1990. This measure primarily authorizes the sale of bonds for replacement, relocation, retrofitting or other seismic hazard reductions for state and certain local government buildings, and for associated administrative costs.

The bond act requires the Office of the State Architect (OSA) to establish criteria for funding seismic safety work on these buildings. If the building is designated as historic, the OSA must consult with the OHP before (1) proposing to demolish the building, in the case of state buildings, or (2) agreeing to a local request to demolish a local government building. The staff proposed in the budget would respond to OSA consultation requests.

The OSA has requested that all state departments complete a survey of their state buildings to allow it to assess the need for seismic safety improvements. Based on the survey results, the OSA then will hire consultants to perform more detailed investigations of specific buildings. According to the OSA's schedule, it is unlikely that the OSA will propose specific building projects for funding of either seismic repairs or demolition in 1991-92. In addition, the OSA does not plan to begin reviewing local government requests until June 1992. (For additional discussion of this program, please see our analysis of the OSA's budget in Item 1760.)

Because of the OSA's schedule for implementing the bond act, it will not need to consult with the OHP on proposed demolition of historic government buildings until after 1991-92. Accordingly, we recommend deletion of \$106,000 requested from the 1990 earthquake safety bond fund because the department will not need the funds in the budget year.

Hearst San Simeon Tour Bus Contract Costs Overbudgeted

We recommend a reduction of \$100,000 from the Public Resources Account because the department has overbudgeted the amount needed for an operations contract. (Reduce Item 3790-001-235 by \$100,000.)

The department requests an augmentation of \$229,000 from the Public Resources Account in 1991-92 to pay increased costs for bus service at Hearst San Simeon State Historical Monument. The buses transport Hearst Castle visitors from the visitor center to the castle.

In the current year, the department budgeted \$960,000 for bus contract expenses. The current contract expires on September 30, 1991 and the department has bid a new contract that it expects to award before the end of the current year. The department estimates that it will need \$229,000 more in 1991-92 to pay (1) the cost of the existing contract through September 1991 and (2) the projected cost of the new contract beginning in October 1991. Thus, the department projects that the total cost for the bus operation will be \$1.2 million in 1991-92.

Our review indicates that the additional amount requested for the bus operation is \$100,000 too high, based on the phase-out of the existing contract in the budget year and the cost of the low bid received for the new contract. Accordingly, we recommend a reduction of \$100,000 in Item 3790-001-235.

DEPARTMENT OF PARKS AND RECREATION—Continued**State Park Concession Contracts**

We recommend the adoption of supplemental report language expressing legislative intent that the term of the new concession contract for the Hearst San Simeon State Historical Monument theater be no longer than 10 years. We further recommend the adoption of supplemental report language expressing approval of the department's six other proposed concession contracts.

The Public Resources Code generally authorizes the department to contract for the operation of concessions within the park system. The department is required to prepare an annual report on its concession operations. Table 5 summarizes the findings of the department's draft 1989-90 annual concessions report.

Table 5
Department of Parks and Recreation
Summary of Concession Operations
1988-89 and 1989-90
(dollars in thousands)

	1988-89	1989-90	Change from 1988-89	
			Amount	Percent
Number of concession contracts.....	150	139	-11	-7.3%
Gross sales.....	\$48,351	\$48,200	-\$151	-0.3
Revenues to the SPRF.....	\$5,026	\$5,400	\$374	7.4

As shown in Table 5, concession revenues to the State Parks and Recreation Fund increased by \$374,000, or 7.4 percent, from 1988-89 to 1989-90. Two concessions accounted for 58 percent of the rental revenues to the state in 1989-90: (1) ARA Food Service at Hearst San Simeon State Historical Monument (SHM)—\$1.8 million; and (2) Bazaar del Mundo in Old Town San Diego State Historic Park (SHP)—\$1.3 million. The number of concession contracts declined slightly during this period, primarily due to consolidations of some existing concessions and transfer of some concessions to local agencies under new operating agreements with the department.

New Concession Proposals. Public Resources Code Section 5080.20 requires that, as part of the budget process, the Legislature review and approve any proposed new or amended concession contract that involves a total investment or estimated annual gross sales in excess of \$250,000. Traditionally, the Legislature expresses its approval by adopting supplemental report language describing each approved concession. The department has submitted seven proposals for legislative review.

Contract Term for Hearst Visitor Center Theater Should Be Shorter. The department proposes to negotiate a 20-year concession contract for construction and operation of a 350-seat movie theater as part of the existing visitor center at Hearst San Simeon SHM. Under Public Resources Code Section 5080.16(d), the department may suspend the usual bid process and negotiate directly with potential concessionaires when a particular interpretive purpose requires special experience or skills. The department estimates that the contract will require the concessionaire to invest about \$2.4 million for development of the theater and \$1.2 million

for the film. The theater will become property of the state at the end of the contract term. The department proposes a minimum acceptable annual rent of \$100,000 or 12 percent of gross sales, whichever is greater. The estimated minimum annual rental is \$180,000, based on estimated gross sales of \$1.1 million in the first year.

This proposal appears to be consistent with the Public Resources Code Section 5080.16(d), because the concessionaire for the theater must have (a) experience in developing and operating large screen movie theaters as interpretive concessions and (b) rights to historic film footage of Hearst Castle. The proposed 20-year contract term, however, does not appear to be appropriate. An economic feasibility study of the proposed concession by the California State University at Sacramento concluded that the contract term should extend only for 10 years. According to the study, this term would provide an attractive rate of return for the concessionaire and allow for adequate investment depreciation and amortization.

Our review indicates that the study's conclusion appears to be valid. In addition, a shorter term would allow for an earlier review of the contract for possible renewal upon expiration. Accordingly, we recommend that the Legislature adopt supplemental report language expressing approval of this concession proposal, with a contract term not to exceed 10 years.

Other Proposals. Our review indicates that the department's six other concession proposals are reasonable and that the rental terms are appropriate. Accordingly, we recommend that the Legislature adopt supplemental report language expressing approval of these 1991-92 concession proposals:

1. **Columbia SHP—Columbia Mercantile General Store.** The department proposes to bid a new five-year concession contract for the existing general store facility known as the Columbia Mercantile at Columbia SHP in Tuolumne County. The department proposes a minimum acceptable rent of 3.5 percent of gross sales, which it estimates at \$325,000 in the first year. Consequently, the estimated minimum annual rental is \$11,375.
2. **Corona Del Mar State Beach (SB)—Beach Stand.** The department proposes to allow the City of Newport Beach to bid a new five-year concession contract for an existing beach stand for food sales and beach equipment rentals at Corona Del Mar SB. The city has operated this park unit under an agreement with the state since 1949 and under the agreement is fully responsible for operation and maintenance of the park, including concessions. Based on projected first-year gross sales of \$300,000 and a minimum rental rate of 33.2 percent of the gross (or \$85,000 annually, whichever is greater), the estimated minimum annual rent revenues are \$99,600. Under the state's operating agreement with the city, these revenues would be used by the city for continued operation and maintenance of the park, in accordance with Public Resources Code Section 5080.32.
3. **McArthur-Burney Falls Memorial State Park—Campground Store and Boat Rental.** The department proposes to bid a new five-year

DEPARTMENT OF PARKS AND RECREATION—Continued

contract for an existing campground store and boat rental concession at McArthur-Burney Falls Memorial State Park in Shasta County. The department proposes a minimum acceptable rent of 7 percent of the first \$8,000 of monthly gross sales and 8 percent of monthly gross sales exceeding \$8,000. The estimated minimum annual rental is \$21,000, based on estimated gross sales of \$300,000 in the first year.

4. ***Old Town San Diego SHP—Trolley Shuttle and Ticket Office.*** The department proposes to negotiate a new five-year concession contract for an existing trolley tour office in the Old Town Opera House and shuttle service at Old Town San Diego SHP, pursuant to Public Resources Code Section 5080.16(d). As indicated above, this section authorizes the department to negotiate directly a contract for special interpretive concession services. This proposal appears to be consistent with this provision since possible concessionaires must have experience in providing park visitors with particular interpretive information as well as parking lot shuttle services.

The department has contracted for a study to determine the proposed minimum acceptable annual rent. It estimates on a preliminary basis that the fair market rent will be 5 percent to 10 percent of gross ticket sales, or \$25,000 to \$50,000 based on estimated gross sales of \$500,000 in the first year. However, the department indicates that it will lower the rental rate to compensate for the value of the interpretive services that the concessionaire will provide.

5. ***Old Town San Diego SHP—Wells Fargo Express Office Museum.*** The department proposes to negotiate a 20-year concession contract with Wells Fargo Bank for reconstruction of the Colorado House building at Old Town San Diego SHP and subsequent operation of the facility as a Wells Fargo Express Office museum, pursuant to Public Resources Code Section 5080.16(d). This proposal appears to be consistent with this provision, because possible concessionaires must have experience in recreating historical settings and in interpretation of an historical Wells Fargo office. The department estimates that development of the museum will require the concessionaire to invest about \$500,000. State revenues are projected to be minimal, if any. The department proposes that rental consideration to the state be the building reconstruction and the interpretive services the concessionaire will provide to the public.
6. ***San Buenaventura SB—Group Picnic and Snack Bar Facility.*** The department proposes to bid a 10-year concession contract for a new group picnic facility and an existing snack bar at San Buenaventura SB in Ventura County. The department estimates that the concessionaire will be required to invest about \$350,000 to develop the picnic facility. The department proposes a minimum acceptable rent of 3 percent of gross sales, which it estimates at \$250,000 in the first year. Consequently, the estimated minimum annual rental is \$7,500.

Capital Outlay and Local Assistance

The Governor's Budget proposes several appropriations in Item 3790 for capital outlay and local assistance expenditures in the Department of Parks and Recreation. Please see our analysis of the department's proposed capital outlay and local assistance programs in the capital outlay section of this *Analysis* which is in the back portion of this document.

SANTA MONICA MOUNTAINS CONSERVANCY

Item 3810 from the General

Fund and Santa Monica

Mountains Conservancy Fund

Budget p. R 192

Requested 1991-92.....	\$663,000
Estimated 1990-91	654,000
Actual 1989-90	655,000
Requested increase \$9,000 (+1.4 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3810-001-001—Support	General	\$199,000
3810-011-941—Support	Santa Monica Mountains Con- servancy	424,000
Reimbursements	—	40,000
Total		\$663,000

GENERAL PROGRAM STATEMENT

Chapter 1087, Statutes of 1979 (AB 1512, Berman), established the Santa Monica Mountains Conservancy (SMMC) and assigned to it the responsibility for implementing the land acquisition program in the Santa Monica Mountains that was prepared by its predecessor, the Santa Monica Mountains Comprehensive Planning Commission. The conservancy was scheduled to sunset on July 1, 1990, but Ch 696/89 (SB 1323, Rosenthal) extended it for five years, until July 1, 1995.

The conservancy purchases lands and provides grants to state and local agencies and nonprofit organizations to further (a) the purposes of the federal Santa Monica Mountains Comprehensive Plan and (b) similar purposes in the "Rim of the Valley Corridor" adjacent to the San Fernando Valley. It promotes the objectives of these programs by (1) acquiring and consolidating subdivided land, (2) acquiring land for eventual sale or transfer to other public agencies, (3) creating buffer zones surrounding federal and state park sites, and (4) restoring natural resource areas. The conservancy has a governing board of seven voting members and two ex officio members.

The conservancy, located in Malibu, has 10.2 personnel-years in the current year.

**SANTA MONICA MOUNTAINS CONSERVANCY—Continued
ANALYSIS AND RECOMMENDATIONS**

We recommend approval.

The budget requests a total of \$663,000 from the General Fund (\$199,000), the Santa Monica Mountains Conservancy Fund (SMMCF—\$424,000) and reimbursements (\$40,000) for support of the conservancy in 1991-92. Funds in the SMMCF primarily come from reimbursements from the Mountains Recreation and Conservation Authority (MRCA) and sales of conservancy property. The MRCA is a joint powers authority made up of the conservancy and two local recreation and park districts in the Santa Monica Mountains area.

Table 1 shows the conservancy's program funding and staffing for the past, current and budget years. As shown in Table 1, the requested amount is \$9,000, or 1.4 percent, more than estimated current-year expenditures. This increase primarily reflects employee compensation adjustments and is entirely from the SMMCF.

Table 1
Santa Monica Mountains Conservancy
Summary of Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

	Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Operating expenditures.....	\$655	\$654	\$663	1.4%
Staff (personnel-years).....	8.4	10.2	10.2	—
Funding Sources				
General Fund.....	\$212	\$199	\$199	—
Santa Monica Mountains Conservancy Fund...	387	415	424	2.2%
1988 California Wildlife, Coastal, and Park Land Conservation (Bond) Fund.....	47	—	—	—
Reimbursements.....	9	40	40	—

Our analysis indicates that the budget request for the conservancy is reasonable.

Capital Outlay

The Governor's Budget proposes an appropriation of \$10 million in Item 3810-301-262 for capital outlay expenditures by the Santa Monica Mountains Conservancy. Please see our analysis of that item in the capital outlay section of the *Analysis* which is in the back portion of this document.

SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION

Item 3820 from the General Fund and Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund

Budget p. R 181

Requested 1991-92.....	\$2,075,000
Estimated 1990-91	1,961,000
Actual 1989-90	1,964,000
Requested increase \$114,000 (+5.8 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3820-001-001—Support	General	\$1,675,000
3820-001-164—Support	Outer Continental Shelf Lands Act, Section 8(g) Revenue	200,000
Reimbursements	—	200,000
Total		\$2,075,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Permit Fees. Increase General Fund revenues by \$70,000. 448

Recommend adoption of Budget Bill language directing the commission to increase its permit application fee schedule in 1991-92 to (1) recover at least 20 percent of permit processing costs and (2) offset the effects of inflation.

GENERAL PROGRAM STATEMENT

The San Francisco Bay Conservation and Development Commission (BCDC) was created by the Legislature in 1965. The commission consists of 27 members representing citizens and all levels of government in the Bay Area. The BCDC implements and updates the San Francisco Bay Plan and the Suisun Marsh Protection Plan. Under these plans, the BCDC regulates:

1. All filling and dredging activities in the San Francisco, San Pablo, and Suisun Bays including specified sloughs, creeks, and tributaries.
2. Changes in the use of salt ponds and other “managed wetlands” adjacent to the bay.
3. Significant changes in land use within the 100-foot strip inland from the bay.

The BCDC is located in San Francisco and has 26.2 personnel-years of staff in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total expenditures of \$2,075,000 for support of the BCDC in 1991-92. This is an increase of \$114,000 or 5.8 percent, from total

SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION—Continued

estimated current-year expenditures. Proposed expenditures include \$1.7 million from the General Fund, \$200,000 from Outer Continental Shelf Lands Act, Section 8(g) revenues (known as "8(g) revenues") and \$200,000 in reimbursements. The reimbursements received by the BCDC are from federal Coastal Zone Management Act (CZMA) funds allocated by the Coastal Commission. The Coastal Commission is the single state agency designated to receive CZMA funds.

The \$114,000 net increase in the BCDC's 1991-92 budget results from: (1) a \$200,000 augmentation from 8(g) revenues intended to maintain the commission's ongoing permit, enforcement, and planning activities; (2) elimination of \$78,000 in one-time costs; and (3) increased salary costs of approximately \$33,000. The Governor's Budget also includes an unallocated trigger-related reduction of \$41,000 in funding for the commission. This reduction is included in the proposed budget for the commission in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Permit Fees Lag Program Costs and Need Updating for Inflation

We recommend that the Legislature adopt Budget Bill language directing the BCDC to increase its current permit application fee schedule to (1) recover at least 20 percent of permitting costs and (2) offset the effects of inflation. (Increase General Fund revenues by \$70,000.)

The McAteer-Petris Act (Chapter 1162, Statutes of 1965) gave the BCDC the authority to "require a reasonable filing fee and reimbursement of expenses for processing and investigating a permit application from all applicants...." Fees range from \$10 for a permit extension to \$2,500 for projects with costs greater than \$1 million. Revenues from fees go directly to the General Fund and not to the BCDC. The fees were approved by the commission over 20 years ago and have not been revised since they first were adopted.

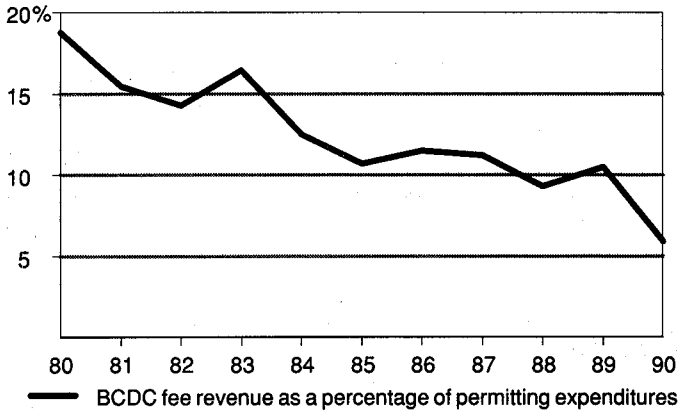
We have identified three problems with the commission's current fees. First, the fees recover only a small percentage of the BCDC's ongoing permitting costs. Second, the fees have not kept pace with inflation. Third, the commission does not regularly review the fee schedule in order to periodically revise fees.

Cost Recovery. Chart 1 shows the percentages of the BCDC's permit processing costs recovered as fees. As the chart shows, the BCDC's fee revenues have declined from approximately 19 percent of permitting costs in 1979-80 to approximately 6 percent in 1989-90. While data for earlier years are not available, it is reasonable to assume that fee revenues made up even larger percentages of the commission's costs prior to 1979-80. Under current law, the commission could choose to increase fees to recover 20 percent—or more—of its permitting costs if it finds that the resulting fees are "reasonable."

Chart 1

Bay Conservation and Development Commission Fee Revenues Have Declined as a Percentage of Permitting Expenditures

1979-80 through 1989-90



Source: Governor's Budgets and BCDC. Data are for fiscal years ending in years specified.

Inflation Effects. The commission's fees have not been adjusted to reflect the lower purchasing power of today's dollars as compared to the purchasing power the fees had when adopted. For example, today's \$2,500 fee has roughly the equivalent purchasing power of a \$735 fee in 1970. Conversely, the \$2,500 fee charged in 1970 would total nearly \$8,900 today when adjusted for inflation over the 20-year period.

Fees Should Be Updated. Given these figures, it appears that the commission should reexamine its application fee schedule. While we have no firm analytical basis on which to recommend *specific* fees, we believe that the fees should be increased so that, at a *minimum*, the commission can recover 20 percent of its administrative costs—or approximately the same percentage of costs as it recovered over 20 years ago. In addition, the commission should regularly update the permit fee schedule both to offset inflation and to maintain a reasonable level of cost-recovery.

Based on the proposed 1991-92 expenditures for permitting, restoring fee revenues to 20 percent of permitting costs would raise approximately an additional \$70,000 annually. This amount could be somewhat lower in 1991-92 depending on when the commission implements the new fee schedule after July 1, 1991 and on the actual number of permit applications.

Accordingly, we recommend adoption of the following Budget Bill language in Item 3820-001-001:

1. The commission shall increase its permit fee schedule in 1991-92 to (1) recover a more reasonable level of its costs in processing permits in

SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION—Continued

accordance with Public Resources Code Section 66632(c) and (2) offset fully the effects of inflation on the fees. The schedule shall be increased such that the percent of General Fund permitting costs recovered through fees is *at least* at the 20 percent level. In addition, it is the intent of the Legislature that the commission regularly update the fee schedule to offset the effects of inflation and to maintain a reasonable level of cost-recovery.

DEPARTMENT OF WATER RESOURCES

Item 3860 from the General
Fund and various funds

Budget p. R 192

Requested 1991-92.....	\$989,190,000
Estimated 1990-91	867,897,000
Actual 1989-90	754,514,000
Requested increase \$121,293,000 (+14 percent)	
Total recommended General Fund revenue increase	1,000,000
Total recommended General Fund reduction	1,000,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3860-001-001—Support	General	\$33,134,000
3860-001-036—Support	Special Account for Capital Outlay, General	100,000
3860-001-140—Urban streams restoration program	Environmental License Plate	300,000
3860-001-176—Delta flood protection	Delta Flood Protection	1,400,000
3860-001-244—Support	Environmental Water	1,199,000
3860-001-740—Water conservation	1984 State Clean Water Bond	61,000
3860-001-744—Water conservation, groundwater recharge	1986 Water Conservation and Water Quality Bond	255,000
3860-001-790—Water conservation	1988 Water Conservation Bond	679,000
3860-001-890—Support	Federal Trust	1,981,000
3860-001-940—Water conservation	Renewable Resources Investment	2,281,000
3860-005-144—Support	California Water	(12,000,000)
3860-006-144—Support	California Water	(8,000,000)
3860-490—Reappropriation	Delta Flood Protection	457,000
Water Code Section 11821—Support	Central Valley Water Project Revenue	1,627,000
Water Code Section 13861 (a)—Support	California Safe Drinking Water	626,000
Water Code Section 13861 (a)—Support	California Safe Drinking Water (1988)	1,555,000
Water Code Section 12938—Support	California Water	2,183,000
Reimbursements	—	10,080,000
Less: Amounts shown under State Water Project	Various	-1,999,000
Subtotal, support excluding State Water Project		(\$55,919,000)

Item 3860

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3860-101-036—Local assistance flood control subventions	Special Account for Capital Outlay, General	\$42,500,000
3860-101-176—Local assistance flood control subventions	Delta Flood Protection	10,600,000
3860-101-244—Local assistance, Mono Lake	Environmental Water	6,800,000
3860-101-744—Water conservation, groundwater recharge loans	1986 Water Conservation and Water Quality Bond	25,000,000
3860-101-786—Local assistance, urban streams grants	Wildlife, Coastal, and Park Land Conservation (Bond)	1,000,000
3860-101-790—Water conservation loans	1988 Water Conservation Bond	15,807,000
3860-490—Reappropriation	Delta Flood Protection	4,351,000
Water Code Section 13861 (a)—Safe drinking water loans and grants	California Safe Drinking Water	37,347,000
Water Code Section 13861 (a)—Safe drinking water loans and grants	California Safe Drinking Water (1988)	25,308,000
Loan repayments	California Water	<u>-1,196,000</u>
Subtotal, local assistance		(\$167,517,000)
3860-001-001—Support, State Water Project portion	General	\$227,000
3860-001-144—Support, State Water project portion	California Water	695,000
3860-001-890—Support, State Water Project portion	Federal Trust	700,000
Reimbursements, State Water project portion	—	377,000
Water Code Sections 12937 (b) and 12938	California Water Resources Development Bond	271,825,000
Water Code Section 11814	Central Valley Water Project Construction	176,191,000
Water Code Section 11821	Central Valley Water Project Revenue	317,366,000
Less: amount shown under support		<u>-1,627,000</u>
Subtotal, State Water Project		<u>(\$765,754,000)</u>
Total		\$989,190,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

- | | |
|---|-----|
| 1. <i>Dam Safety Program Fee Increase. Increase General Fund Revenues by \$1 million.</i> Recommend the enactment of legislation authorizing the Department of Water Resources to set program fees to cover a minimum of 25 percent of program costs in 1991-92 and 70 percent of program costs by 1996-97. | 455 |
| 2. <i>Proposed Funding Shift. Reduce Item 3860-001-001 by \$1 Million and Increase Item 3860-001-244 by \$1 million.</i> Recommend the Legislature appropriate \$1 million from the California Water Fund for department support, thereby freeing up \$1 million in General Fund dollars for other legislative priorities. Also recommend related Budget Bill language. | 457 |

GENERAL PROGRAM STATEMENT

The Department of Water Resources (DWR) (1) protects and manages California's water resources; (2) implements the State Water Resources Development System, including the State Water Project; (3) maintains public safety and prevents damage through flood control

*Analysis
page*

DEPARTMENT OF WATER RESOURCES—Continued

operations, supervision of dams, and safe drinking water projects; and (4) furnishes technical services to other agencies.

The California Water Commission, consisting of nine members appointed by the Governor and confirmed by the Senate, serves in an advisory capacity to the department and Director.

The Reclamation Board, which is within the department, consists of seven members appointed by the Governor. The board has various responsibilities for the construction, maintenance, and protection of flood control levees within the Sacramento and San Joaquin River valleys. The department has 2,669.4 personnel-years in the current year.

MAJOR ISSUES

- Dam safety inspection fees should be raised to a level consistent with comparable safety programs. This would result in additional General Fund revenues of at least \$1 million beginning in 1991-92.
- The Legislature can free up \$1 million from the General Fund by funding a portion of department support from the California Water Fund.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$989.2 million in 1991-92, an increase of \$121.3 million, or 14 percent, from total estimated current-year expenditures. The total includes \$764.1 million in expenditures financed with State Water Project (SWP) funds and \$107.6 million in other continuously appropriated funds (primarily bond funds for drinking water and water conservation loans and grants). Appropriations in the Budget Bill provide the remaining \$117.5 million, of which \$33.1 million is from the General Fund. The General Fund amount is \$868,000, or 2.7 percent, above the estimated current-year expenditures. The Governor's Budget includes an unallocated trigger-related reduction of \$633,000 in funding for the department. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The \$121.3 million increase in the department's budget primarily consists of (1) \$42.5 million for the flood control subventions program to provide some of the state's share of costs in flood control projects, (2) a \$17.4 million increase in the safe drinking water and water conservation programs to provide additional loans and grants, and (3) a \$49.6 million increase in expenditures for SWP activities.

Table 1 summarizes the staffing and expenditures for the department from 1989-90 through 1991-92. Table 2 shows the department's proposed budget changes, by funding source, excluding SWP activities, in 1991-92.

Table 1
Department of Water Resources
Budget Summary ^a
1989-90 through 1991-92
(dollars in thousands)

	Personnel-Years			Expenditures			Change From 1990-91
	Actual	Est.	Prop.	Actual	Est.	Prop.	
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	
Safety, flood control and water management programs:							
Continuing formulation of the California Water Plan.....	206.0	196.5	219.4	\$31,484	\$59,118	\$75,358	27.5%
Public safety and prevention of damage (flood control) and dam safety.....	244.2	243.4	252.2	58,850	89,819	145,616	62.1
Services.....	208.7	205.0	146.6	2,725	5,052	4,291	-15.1
Management and administration (distributed).....	515.8	514.5	553.7	(40,276)	(46,080)	(47,672)	(3.5)
Loan repayments.....	—	—	—	-1,022	-1,159	-1,196	3.2
Unallocated reduction.....	—	—	—	—	—	-633	— ^b
Subtotals.....	(1,174.7)	(1,159.4)	(1,171.9)	(\$92,037)	(\$152,830)	(\$223,436)	(46.2%)
State Water Project.....	1,533.8	1,503.0	1,566.7	\$662,477	\$715,067	\$765,754	7.1%
Totals.....	2,708.5	2,662.4	2,738.6	\$754,514	\$867,897	\$989,190	14.0%
Funding Sources							
Safety, flood control and water management programs:							
General Fund.....				\$20,142	\$32,034	\$32,907	2.7%
Special Account for Capital Outlay.....				—	108	42,600	— ^b
Environmental License Plate Fund.....				610	2,771	300	-89.2
California Water Fund.....				25,228	2,431	1,488	-38.8
Delta Flood Protection Fund.....				7,207	12,000	16,808	40.1
State Water Project funds.....				999	963	1,627	69.0
1984 State Clean Water (Bond) Fund.....				697	27	61	125.9
1986 Water Conservation and Water Quality (Bond) Fund.....				9,452	16,731	25,255	50.9
Safe Drinking Water (Bond) Fund.....				16,312	41,531	37,973	-8.6
1988 Water Conservation (Bond) Fund.....				137	16,411	16,486	0.5
1988 Safe Drinking Water (Bond) Fund.....				52	14,323	26,863	87.6
Federal Trust Fund.....				1,163	1,243	1,281	3.1
Renewable Resources Investment Fund.....				2,052	1,785	2,281	27.8
1988 California Wildlife, Coastal, and Park Land (Bond) Fund.....				762	1,248	1,000	-19.9
Public Resources Account, Cigarette and Tobacco Products Surtax Fund.....				—	427	—	-100.0
Environmental Water Fund.....				—	999	7,999	700.7
Reimbursements.....				8,246	8,957	9,703	8.3
Loan repayments.....				-1,022	-1,159	-1,196	3.2
State Water Project:							
General Fund.....				136	232	227	-2.2%
California Water Fund.....				37,115	681	695	2.1
California Water Resources Development (Bond) Fund.....				275,872	278,877	271,825	-2.5
Central Valley Water Project Construction Fund.....				137,582	166,902	176,191	5.6
Central Valley Water Project Revenue Fund.....				211,280	267,601	315,739	18.0
Federal Trust Fund.....				228	549	700	27.5
Public Resources Account, Cigarette and Tobacco Products Surtax Fund.....				200	—	—	—
Reimbursements.....				64	225	377	67.6

^a Excludes flood control capital outlay.

^b Not a meaningful figure.

Table 2
Department of Water Resources
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Calif. Water Fund</i>	<i>Bond Funds^a</i>	<i>State Water Project Funds</i>	<i>Other Funds^b</i>	<i>Federal Funds</i>	<i>Reim- bursements</i>	<i>Total</i>
1990-91 expenditures (revised)	\$32,034	\$2,431	\$90,271	\$963	\$16,931	\$1,243	\$8,957	\$152,830
<i>Workload and administrative adjustments:</i>								
Full-year effect of 1990-91 employee com- pensation increase	\$574	\$3	\$35	\$664	\$6	\$16	\$96	\$1,394
Miscellaneous adjustments	-78	-1	1	—	-39	—	—	-117
Local assistance adjustments	—	—	17,092	—	-380	—	—	16,712
Deletion of one-time expenditures	—	—	—	—	-2,894	—	—	-2,894
Program funding shift back to General Fund	1,000	-1,000	—	—	—	—	—	—
Miscellaneous workload changes	10	236	239	—	200	22	-1,105	-398
One-time base adjustment	—	-181	—	—	810	—	—	629
Unallocated reduction	-633	—	—	—	—	—	—	-633
Delete current-year carryover	—	—	—	—	-250	—	—	-250
Reappropriations	—	—	—	—	4,808	—	—	4,808
Subtotals	(\$873)	(-\$943)	(\$17,367)	(\$664)	(\$2,261)	(\$38)	(\$-1,009)	(\$19,251)
<i>Program changes:</i>								
Flood control subventions	—	—	—	—	\$42,500	—	—	\$42,500
Environmental water programs	—	—	—	—	6,800	—	—	6,800
Urban streams restoration	—	—	—	—	300	—	—	300
Trinity River restoration	—	—	—	—	—	—	\$605	605
Flood control inspection staff	—	—	—	—	—	—	150	150
Upper Sacramento River fish and riparian habitat	—	—	—	—	—	—	1,000	1,000
Subtotals	(—)	(—)	(—)	(—)	(\$49,600)	(—)	(\$1,755)	(\$51,355)
1991-92 expenditures (proposed)	\$32,907	\$1,488	\$107,638	\$1,627	\$68,792	\$1,281	\$9,703	\$223,436
<i>Changes from 1990-91 (revised):</i>								
Amount	\$873	-\$943	\$17,367	\$664	\$51,861	\$38	\$746	\$70,606
Percent	2.7%	-38.8%	19.2%	69.0%	306.3%	3.1%	8.3%	46.2%

^a Safe Drinking Water Fund; 1984 State Clean Water Bond Fund; 1986 Water Conservation and Water Quality Bond Fund; California Wildlife, Coastal, and Park Land Fund of 1988; Water Conservation Bond Fund of 1988; and the Safe Drinking Water Fund of 1988.

^b Special Account for Capital Outlay, Environmental License Plate Fund, Delta Flood Protection Fund, Environmental Water Fund, Public Resources Account, Renewable Resources Investment Fund, and loan repayments.

State Water Project Changes

State Water Project (SWP) revenues are continuously appropriated to the department. The department expects to spend \$765.8 million for the construction, operation, and maintenance of the SWP in 1991-92. This is an increase of \$50.7 million, or 7.1 percent, over estimated current-year expenditures. The major SWP funding changes proposed for 1991-92 include:

- Increased power purchase costs to meet the pumping needs of the project (\$27 million).
- Enlargement of the East Branch of the California Aqueduct (\$8.4 million).
- Fisheries restoration and environmental mitigation in the Sacramento, San Joaquin, and Delta river areas (\$7.5 million).
- Completion of various design and construction projects on the State Water Project (reduction of \$15.5 million).

Table 3 shows the proposed budget changes for the SWP in 1991-92.

Table 3
Department of Water Resources
State Water Project—All Funds
Proposed 1991-92 Budget Changes
(dollars in thousands)

1990-91 expenditures (revised):	
State operations	\$170,598
Capital outlay	544,469
Total.....	\$715,067
<i>Workload and administrative adjustments.....</i>	<i>8,698</i>
<i>Project changes:</i>	
Increased power purchases to meet pumping needs	\$27,000
California Aqueduct East Branch enlargement	8,391
Fisheries restoration environmental mitigation	7,503
Water and power revenue bond repayments	4,624
Replacement parts and repairs for pumps and motors	3,961
Design and construction of communication systems	3,857
Components upgrade at the Reid Gardner Power Plant	1,945
Completion of design and construction of projects	-15,455
Miscellaneous changes	163
Subtotal	(\$41,989)
1991-92 expenditures (proposed):	
State operations	\$179,296
Capital outlay	586,458
Total.....	\$765,754
Change from 1990-91 (revised):	
Amount	\$50,687
Percent	7.1%

ANALYSIS AND RECOMMENDATIONS

Fee Increase for Dam Safety Program

We recommend enactment of legislation requiring the DWR to increase fees for the dam safety program to cover, at a minimum, 25 percent of program costs in 1991-92 and 70 percent of program costs by 1996-97 because (1) the program benefits a well-defined population — dam owners — and (2) there are other comparable safety programs

DEPARTMENT OF WATER RESOURCES—Continued

operated by the state where fees account for over 70 percent of program costs. (Increase General Fund revenues by \$1 million in 1991-92.)

The budget proposes \$5.6 million from the General Fund to enforce safety standards in the design, construction, maintenance, and operation of dams that exceed a specified size and impoundment capacity. There are approximately 1,212 dams within the department's jurisdiction. Each year, about 10 new dams are added and the same number are deleted.

The General Fund costs of this program are offset partially by fee collections, which are deposited in the General Fund. We estimate fee revenue will be \$390,000 in 1991-92, which will amount to 6.9 percent of the costs of the program.

Fee Revenues. The current fee structure was established by statute in 1970. It consists of two fees. The first fee is an annual fee of \$30 per dam plus \$1 times the dam's height in feet. The second fee is a filing fee for a new dam, reservoir, or enlargement that is based on the estimated cost of the project. The minimum filing fee is \$100.

Revenue from the annual fee has remained fairly stable at \$90,000 to \$100,000 since 1974-75 because the number of dams under the jurisdiction of the program has remained fairly constant. Revenue from the filing fee has fluctuated from year to year depending on the number of new dams built or enlarged. Generally, fee revenues have been falling as a percentage of program costs. Fee revenues represented 15 percent of costs during the period from 1974-75 through 1979-80, 9.3 percent from 1980-81 through 1985-86, and 7.2 percent from 1986-87 through 1991-92 (estimated).

Fees Should be Increased. In our view, the dam safety program is a good candidate for a fee increase, for two reasons: (1) the program provides services that benefit a clearly defined population and (2) this action would be consistent with legislative action in imposing fees to support comparable safety programs. Accordingly, we recommend enactment of legislation requiring the DWR to increase fees for the dam safety program. In the next several sections, we discuss our reasons and the recommended legislation in more detail.

Program Services Benefit a Clearly Defined Population. The dams under jurisdiction of the program are used for a variety of purposes including storage, irrigation, flood control, and power production that result in economic gains and benefits for the owner. Services of the dam safety program consist of (1) design review and inspection of new dams, (2) routine inspection of existing dams, (3) comprehensive structural reevaluations of existing dams to ensure that they meet current safety requirements, and (4) review and analysis of instrumentation and surveillance measurement data and preparation of reports. The purpose of these activities is to make sure that dams are designed properly and meet safety requirements. These services benefit dam owners because they ensure that a dam can be operated safely. Dam owners include farmers, businesses, public and private utilities, state agencies, and local governments. Benefits are in the form of (1) avoided costs due to

prevention of safety problems and (2) lowered insurance costs (according to the DWR, some insurance companies rely on the reviews to ensure the dams are as safe as possible).

Other Comparable Safety Programs. We identified several comparable safety programs run by the state where fees account for over 70 percent of program costs. Like the dam safety program, these programs involve (1) field inspections conducted by engineers, (2) review of new construction and alterations, and (3) enforcement of regulations. Examples of such programs are:

- The Office of Statewide Health Planning and Development reviews health facilities and construction plans or alterations to make sure they meet seismic safety standards.
- The Department of Industrial Relations operates programs to protect (1) the safety of employees from pressure vessel failure or malfunction, and (2) the safety of employees while using or repairing elevators, escalators, and aerial tramways.
- The Department of Health Services enforces drinking water standards in drinking water systems of over 200 service connections.

Based on the comparable programs we reviewed, we believe it is reasonable to impose fees to cover 70 percent of program costs. However, covering 70 percent of costs through fees would require increasing existing fees roughly tenfold. It is possible that this level of fee increase may impose a hardship on owners of some small dams. Accordingly, we recommend (1) a five-year phase-in for the higher fees, with fees covering 25 percent of program costs in 1991-92 and 70 percent in 1996-97, and (2) that the legislation direct the DWR to structure the revised fees in a manner that limits fee increases for dams under 25 feet high, when the dams are owned by small businesses and farmers. We estimate that increasing the fees to provide 25 percent of the costs will increase fee revenues by approximately \$1 million in 1991-92 and up to \$3.5 million by 1996-97. Under existing practice, any additional revenues from increased fees will go to the General Fund.

Budget Proposes Funding Shift

We recommend that the Legislature appropriate \$1 million from the California Water Fund (CWF) for department support, thereby freeing up \$1 million in General Fund dollars for other legislative priorities. (Reduce Item 3860-001-001 and increase Item 3860-001-244.)

The budget proposes to shift funding of \$1 million in DWR support expenditures, primarily for the Trinity River restoration and water quality program, from the CWF to the General Fund.

According to DWR staff, these support expenditures were funded from the General Fund in 1989-90. However, in constructing the 1990-91 budget, the DWR agreed to use CWF funds for these support costs on a one-time basis in order to free up \$1 million from the General Fund for priorities in other departments. This action was possible because the CWF funds can be used for many General Fund-supported programs. The budget proposal would shift funding for these support expenditures back to the General Fund in 1991-92.

DEPARTMENT OF WATER RESOURCES—Continued

Counted Towards the Payment Schedule Established by AB 444 and AB 1442. In 1989, the Legislature enacted two measures — Ch 716/89 (AB 1442, Baker) and Ch 715/89 (AB 444, Isenberg) — designed to ensure that a substantial debt owed the General Fund by the State Water Project (SWP) was repaid. Under the measures, funds will be transferred from the SWP to repay the debt over a 10-year period. The measures provide that the SWP funds will not be deposited in the General Fund, but instead, shall be deposited in the CWF to fund two new programs: the Water Quality Program (WQP) and the Environmental Water Program (EWP). Under the WQP, funds will be used to study methods for the treatment, storage, and disposal of agricultural drainage water. Under the EWP, funds will primarily be used for support of grants and projects for the protection of the Mono Lake Basin. The department began funding the WQP in the current year. The budget proposes \$8 million to begin funding the EWP (\$7 million) and continue the WQP (\$1 million).

The use of an additional \$1 million in CWF funds to support General Fund activities in the current year is not a part of the repayment plan established by AB 444/AB 1442. Nevertheless, DWR staff indicate that the department will count this towards meeting its repayment obligation under AB 444/AB 1442. As a result, in future years there will be a \$1 million reduction in funding for AB 444/AB 1442 programs.

Legislative Option to Free Up General Fund Dollars. In order to free up General Fund dollars for legislative priorities, we recommend that the Legislature appropriate \$1 million from the CWF for support expenditures and reduce the same amount of General Fund support. To implement this recommendation, the Legislature would have to determine how to obtain additional funds for the CWF because, under the department's budget proposal, the CWF will not have any reserve funds at the end of 1991-92. Specifically, we recommend that the Legislature adopt Budget Bill language in Item 3860-001-244 requesting the DWR to transfer \$1 million from the operating reserve of SWP revenues to the CWF.

DWR staff estimate that the SWP will have an operating reserve of \$15.6 million at the end of 1991 and \$24.3 million by the end of 1992. Reducing the operating reserve of the SWP might result in the department having \$1 million less available to (1) purchase emergency water supplies in the upcoming year and (2) conduct emergency or unforeseen maintenance on the project. However, in our view, the department has sufficient flexibility in the \$750 million SWP budget to cover a \$1 million shortfall in case the remaining reserves are not sufficient. For example, it could delay maintenance scheduled in the latter part of the fiscal year to 1992-93 if necessary to free up \$1 million for use in 1991-92.

The following Budget Bill language implements this recommendation:

The department is requested to transfer \$1 million from State Water Project funds to the California Water Fund to fund support expenditures.

State Entering Fifth Year of Drought

As of the writing of this analysis — February 6, 1991 — the state appears to be entering the fifth year of a drought. According to the DWR, precipitation statewide from October 1, 1990 through December 31, 1990 averaged 28 percent of normal. The DWR reports that storage in California's 155 major reservoirs was 54 percent of normal as of January 1, 1991. As of January 29, the DWR was predicting a 25 percent deficit in the state's water supply relative to predicted demand.

On February 1, the Governor appointed a Drought Action Team (DAT) to recommend specific actions to be taken in response to the drought. The Governor appointed the Director of the DWR to be the Governor's Drought Administrator and to chair the DAT. The Governor also named the directors of various state agencies and departments to the panel including the Secretary for Resources and the directors of the Departments of Food and Agriculture, Finance, and Fish and Game and the Office of Emergency Services. A number of independent boards and commissions and federal agencies also were invited to participate on the DAT. These include the State Water Resources Control Board and the U.S. Departments of Agriculture and Interior. The DAT is to report regularly to the Governor, with the first report—due no later than February 15—emphasizing water supply conditions.

Also in response to the drought, the State Water Resources Control Board held hearings on a series of proposals—including mandatory rationing and the revision of water rights permits—on January 29 and 30. The board has postponed any decision on these proposals until February 26 in order to coordinate these decisions with the DAT.

Capital Outlay

The Governor's Budget proposes an appropriation of \$10.7 million in Item 3860-301-036 for capital outlay for the DWR. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

STATE WATER RESOURCES CONTROL BOARD

Items 3940 and 3940-496 from
the General Fund and various
funds

Budget p. R 218

Requested 1991-92.....	\$363,191,000
Estimated 1990-91	387,273,000
Actual 1989-90	138,629,000
Requested decrease \$24,082,000 (-6.2 percent)	
Total recommended reduction.....	None
Recommended increased revenue to General Fund	4,250,000

STATE WATER RESOURCES CONTROL BOARD—Continued
1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
3940-001-001—Support	General	\$39,816,000
3940-001-014—Hazardous waste site closure	Hazardous Waste Control Account, General	766,000
3940-001-193—Support	Waste Discharge Permit	6,350,000
3940-001-225—Aboveground tank program	Environmental Protection Trust	2,164,000
3940-001-235—Santa Monica Bay plan development	Public Resources Account, Cigarette and Tobacco Products Surtax	780,000
3940-001-282—Support	Bay Protection and Toxic Cleanup	2,450,000
3940-001-436—Licensing underground tank testers	Underground Storage Tank Tester Account, General	284,000
3940-001-439—Support	Underground Storage Tank Cleanup	70,355,000
3940-001-475—Underground tank permits	Underground Tank Storage	1,206,000
3940-001-482—Toxic pits regulation	Surface Impoundment Assessment Account, General	3,179,000
3940-001-740—Support	1984 State Clean Water Bond	549,000
3940-001-744—Support	1986 Water Conservation and Water Quality Bond	299,000
3940-001-764—Support	1988 Clean Water and Water Reclamation	782,000
3940-001-890—Support	Federal Trust	37,581,000
3940-011-740—Support	1984 State Clean Water Bond	1,155,000
3940-101-744—Local assistance, agricultural drainage loans	1986 Water Conservation and Water Quality Bond	13,700,000
Ch 269/89—Bay protection and toxic cleanup balance forward	Hazardous Waste Control Account, General	550,000
Water Code Sections 13401, 13441, 13443—Local assistance	State Water Quality Control	600,000
Water Code Sections 13477 and 13478—Wastewater treatment grants and loans	Water Pollution Control Revolving	(113,231,000)
Water Code Sections 13477 and 13478—Support	Federal Trust	3,266,000
Water Code Sections 13477 and 13478—Local assistance	1984 State Clean Water Bond	15,810,000
Water Code Sections 13477 and 13478—Local assistance	Federal Trust	93,000,000
Water Code Sections 13955, 13970, and 13985—Support	State Clean Water Bond	9,669,000
Water Code Sections 13955, 13970, and 13985—Local assistance	State Clean Water Bond	4,700,000
Water Code Section 13999—Wastewater treatment grants and loans	1984 State Clean Water Bond	37,590,000
Water Code Section 13999.5—Local assistance	1988 Clean Water and Water Reclamation	12,000,000
Reimbursements	—	4,590,000
Total		\$363,191,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	<i>Analysis page</i>
1. <i>Core Program Augmentation and Fee Increase. Increase Item 3940-001-193 by \$4,250,000 and decrease Item 3940-001-001 by \$4,250,000.</i> Recommend approval of \$3.6 million core regulatory program augmentation. Further recommend that proposed two-year fee increase be fully implemented in 1991-92 with the additional revenues used to offset General Fund expenditures.	466
2. <i>New Water Quality Fees to Offset General Fund Expenditures.</i> Recommend that the board report by January 1992 on the appropriateness of imposing new water quality fees to replace \$32 million in General Fund water quality expenditures.	469
3. <i>EPA's Underground Tank Funding Formula Hurts California.</i> The federal EPA uses an allocation formula that will reduce California's federal funding by \$4.9 million over two years.	470
4. <i>More Detailed Program Budgets.</i> Recommend that the board and the Department of Finance report at budget hearings on how best to restructure the board's program budget to meet the Legislature's needs for better budgeting information.	471

GENERAL PROGRAM STATEMENT

The State Water Resources Control Board (SWRCB) has two major responsibilities: to regulate water quality and to administer water rights.

The board carries out its water quality control responsibilities by establishing wastewater discharge policies and by administering state and federal grants and loans to local governments for the construction of wastewater treatment facilities. The board also implements programs to ensure that surface impoundments and aboveground and underground tanks do not contaminate the waters of the state. Nine regional water quality control boards establish wastewater discharge requirements and carry out water pollution control programs in accordance with the policies, and under the supervision, of the state board. Funding for the regional boards is included in the state board's budget.

The board's water rights responsibilities involve the issuance and review of permits and licenses to applicants who desire to appropriate water from the state's streams, rivers, and lakes.

The board is composed of five full-time members who are appointed by the Governor to staggered four-year terms. The state board and the regional boards have a combined total of 1,183 personnel-years in the current year, of which 652 personnel-years are allocated to the regional boards and 531 personnel-years are allocated to the state board.

STATE WATER RESOURCES CONTROL BOARD—Continued**MAJOR ISSUES**

- The Legislature can free up \$4.3 million for the General Fund in 1991-92 by accelerating the board's proposed fee increase for core regulatory programs.
- California will lose \$4.9 million in federal underground tank cleanup funding over two years because the federal EPA uses a funding allocation formula that ignores the unique nature of the state's local oversight program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$363.2 million from all sources for the SWRCB in 1991-92. This is a decrease of \$24.1 million, or 6.2 percent, from estimated current-year expenditures. The board's proposed budget consists of \$180.3 million in funds requiring Budget Bill approval (including \$142.7 million in state funds and \$37.6 million in federal support), \$178.3 million in statutory appropriations, and \$4.6 million in reimbursements. Of the amount requested, a total of \$177.4 million from state bond funds, federal funds, and reimbursements would be for loans and grants to local agencies for wastewater treatment facilities, agricultural drainage projects, and overseeing the cleanup of leaking underground tanks.

The Governor's Budget includes an unallocated trigger-related reduction of \$43,000 in funding for the board. This reduction is included in the board's proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1 shows the board's expenditures and staffing levels by program, and funding sources for the past, current, and budget years. Table 2 shows similar information for the board's water quality regulation program element.

Table 1
State Water Resources Control Board
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Program	Personnel-Years			Expenditures			Percent Change
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	From 1990-91
Water Quality Regulation ^a	525.0	653.2	716.6	\$44,221	\$76,248	\$135,219	77.3%
Planning.....	76.0	97.3	111.8	8,633	21,656	24,135	11.4
Facility development assistance. Research and technical assist- ance.....	91.4	110.5	108.6	72,060	276,889	189,925	-31.4
	<u>104.6</u>	<u>93.0</u>	<u>113.0</u>	<u>5,636</u>	<u>3,601</u>	<u>4,641</u>	<u>28.9</u>
Subtotals.....	(797.0)	(954.0)	(1,055.0)	(\$130,550)	(\$378,394)	(\$353,920)	(-6.5%)
Water Rights:							
Water appropriation.....	38.1	58.9	53.6	\$4,555	\$4,444	\$4,616	3.9%
Water management/enforce- ment.....	47.9	24.0	29.2	2,464	2,510	2,974	18.5
Determination of existing rights.....	0.7	4.8	1.8	54	563	230	-59.1
Technical assistance.....	16.9	21.4	23.3	1,006	1,362	1,494	9.7
Subtotals.....	(103.6)	(109.1)	(107.9)	(\$8,079)	(\$8,879)	(\$9,314)	(4.9%)
Administration (distributed to other programs).....	129.1	119.9	142.4	(\$8,002)	(\$9,180)	(\$10,472)	(14.1%)
Unallocated reduction.....	—	—	—	—	—	-43	- ^b
Totals.....	<u>1,029.7</u>	<u>1,183.0</u>	<u>1,305.3</u>	<u>\$138,629</u>	<u>\$387,273</u>	<u>\$363,191</u>	<u>-6.2%</u>
Funding Sources							
General Fund.....				\$31,858	\$39,336	\$39,816	1.2%
Hazardous Waste Control Account.....				880	4,649	1,316	-71.7
Environmental License Plate Fund.....				75	75	—	-100.0
California Water Fund.....				7,139	—	—	—
Waste Discharge Permit Fund.....				—	1,985	6,350	219.9
Environmental Protection Trust Fund.....				—	2,175	2,164	-0.5
Cigarette and Tobacco Products Surtax Fund.....				237	773	780	0.9
Bay Protection and Toxic Cleanup Fund.....				—	—	2,450	- ^b
Underground Storage Tank Tester Account.....				188	297	284	-4.4
Underground Storage Tank Cleanup Fund.....				73	10,450	70,355	573.3
Hazardous Substance Control Account.....				1,078	2,822	—	-100.0
Underground Tank Storage Fund.....				992	1,174	1,206	2.7
Surface Impoundment Assessment Account.....				2,256	3,094	3,179	2.7
State Clean Water Bond Fund.....				9,022	22,575	14,369	-36.3
Water Pollution Control Revolving Fund.....				(9,446)	(203,778)	(113,231)	-44.4
State Water Quality Control Fund.....				1,088	600	600	—
1984 State Clean Water Bond Fund.....				44,532	36,923	55,104	49.2
1986 Water Conservation and Water Quality Bond Fund.....				6,400	24,287	13,999	-42.4
1988 Clean Water and Water Reclamation Fund.....				2,226	20,644	12,782	-38.1
Federal Trust Fund.....				26,248	211,559	133,847	-36.7
Renewable Resources Investment Fund.....				225	—	—	—
Reimbursements.....				4,112	3,855	4,590	19.1

^a For greater detail on Water Quality Regulation element, see Table 2.

^b Not a meaningful figure.

STATE WATER RESOURCES CONTROL BOARD—Continued

Table 2
State Water Resources Control Board
Water Quality Regulation Program Element Resources
1989-90 through 1991-92
(dollars in thousands)

Component	Personnel-Years			Expenditures			Percent Change From 1990-91
	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Actual 1989-90	Est. 1990-91	Prop. 1991-92	
Core regulatory programs:							
National Pollution Discharge Elimination System (NPDES)	97.7	86.5	114.7	\$7,756	\$6,786	\$8,594	26.6%
Non-chapter 15 waste discharge requirements	84.8	76.9	93.0	6,322	5,814	6,797	16.9
Chapter 15 waste discharge requirements	55.5	58.8	72.0	4,409	4,725	5,515	16.7
Spills, Leaks, Investigations and Cleanups (SLIC)	27.0	31.3	43.3	2,187	3,848	4,465	16.0
Underground tanks	91.1	107.0	152.3	7,143	14,293	70,355	392.2
Aboveground tanks	—	34.2	34.2	—	2,175	2,164	-0.5
Toxic Pits Control Act	23.2	37.6	37.6	2,417	3,216	3,301	2.6
Water well investigations	41.1	62.8	62.8	3,344	5,044	5,094	1.0
Resource Conservation and Recovery Act (RCRA)	18.8	25.1	25.1	1,499	1,809	1,841	1.8
Solid waste landfill enforcements	—	13.9	13.9	—	1,042	1,042	—
Other regulatory activities ^a	<u>85.8</u>	<u>119.1</u>	<u>67.7</u>	<u>9,144</u>	<u>27,496</u>	<u>26,051</u>	<u>-5.3</u>
Totals	525.0	653.2	716.6	\$44,221	\$76,248	\$135,219	77.3%

^a Includes laboratory services for the core regulatory programs.

Proposed Budget Changes for 1991-92

Table 3 summarizes, by funding source, the changes proposed in the board's budget for 1991-92. As shown in Table 3, the proposed \$24.1 million net decrease in expenditures includes a decrease of \$92.2 million for adjustments to reflect anticipated reductions in federal waste water treatment capitalization grants (-\$77.2 million) and other one-time cost adjustments (-\$15 million). These reductions are offset by program changes and other adjustments totaling \$68.1 million. Significant program changes include:

- An increase of \$55.9 million from fees on the underground storage of petroleum to implement Ch 1366/90 (SB 2004, Keene) which provides for the payment of cleanup costs incurred by eligible owners of leaking underground petroleum storage tanks.
- An increase of \$4.3 million in waste discharge permit fee revenues—offset by a redirection of \$669,000 in General Fund monies—to augment the board's regulation of waste dischargers.
- An increase of \$3.2 million in new federal funds and reimbursements to expand and enhance the board's regulatory and cleanup activities at federal facilities.
- A continuation of the Bay Protection and Toxic Cleanup Program established by Ch 269/89 (SB 475, Torres) with \$2.5 million in funding from a new discharge fee established by Ch 1294/90 (SB 1845, Torres).

Table 3
State Water Resources Control Board
Proposed 1991-92 Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>Other State funds^a</i>	<i>Federal Trust Fund</i>	<i>Reimburse- ments</i>	<i>Totals</i>
1990-91 expenditures (revised)	\$39,336	\$132,523	\$211,559	\$3,855	\$387,273
<i>Baseline adjustments:</i>					
Delete one-time costs					
Phaseout limited term positions	—	—	—	-114	-114
Other one-time costs	-163	-14,648	-80,065	-7	-94,883
Full-year costs of 1990-91 salary and benefit increases	686	362	325	41	1,414
Bond adjustments	—	-239	—	—	-239
Miscellaneous adjustments	—	128	1,519	—	1,647
Subtotals	<u>(\$523)</u>	<u>(-\$14,397)</u>	<u>(-\$78,221)</u>	<u>(-\$80)</u>	<u>(-\$92,175)</u>
<i>Program changes:</i>					
Implement Ch 1366/90—Underground Storage Tank Cleanup Fund	—	\$55,931	—	—	\$55,931
Augment waste discharge permit programs	-\$669	4,250	—	—	3,581
Augment spills, leaks, investigations and cleanup programs	—	—	\$2,692	\$485	3,177
Implement Ch 1291/90—Bay Protection and Toxic Cleanup Program	—	2,450	—	—	2,450
Augment administrative services for water quality regulation	—	347	650	—	997
Expand underground storage tank local oversight program	—	3,724	-2,833	—	891
Bay-Delta modeling enhancement program	669	—	—	—	669
Implement Ch 1113/90—redevelopment agency cleanup	—	—	—	330	330
Implement Ch 1646/90—reclaimed water use in wetlands study	—	110	—	—	110
Unallocated reduction	-43	—	—	—	-43
Subtotals	<u>(-\$43)</u>	<u>(\$66,812)</u>	<u>(\$509)</u>	<u>(\$815)</u>	<u>(\$68,093)</u>
1991-92 expenditures (proposed)	\$39,816	\$184,938	\$133,847	\$4,590	\$363,191
Changes from 1990-91 (revised):					
Amount	\$480	\$52,415	-\$77,712	\$735	-\$24,082
Percent	1.2%	39.6%	-36.7%	19.1%	-6.2%

^a Includes the Underground Storage Tank Cleanup Fund, the Waste Discharge Permit Fund, the Bay Protection and Toxic Cleanup Fund, various other state special funds, and various state bond funds.

ANALYSIS AND RECOMMENDATIONS

A. Fee Support for the Board's Water Quality Programs

At least 12 of the board's activities are supported wholly or in part by fee revenues. These activities include both water quality and water rights programs. The board's fees vary by type and by frequency of payment. Fee types and frequencies include: one-time application fees (for example water rights permits), annual permit fees (waste discharge permits),

STATE WATER RESOURCES CONTROL BOARD—Continued

periodic licensing fees (treatment plant operators), and quarterly mill taxes (the underground storage tank maintenance fee of \$0.006—or six mills—per gallon of petroleum stored in underground tanks).

Some of the fees collected by the board are variable, depending on the board's actual expenditures. For example, the law requires that the board be reimbursed for the full costs of adjudicating a water rights dispute.

Other fee amounts are specifically set by statute. The fee schedule for applications to appropriate water, for example, is specified in the Water Code and relates the level of the fee to the quantity of water proposed to be diverted.

For still other fees, statute specifies maximum fee amounts but gives the board the discretion to establish a fee schedule below the maximum. The annual waste discharge permit fee, for example, may not exceed \$10,000 per year; the board has set the current maximum discharge permit fee at \$3,100 per year, well below the statutory maximum. The fees for other discharge permits are at lower levels and vary based on the discharge's total threat to water quality as determined by the board.

The percentage of the board's costs covered by fee revenues varies by program. Programs range from being fully fee supported (for example the Bay Protection and Toxic Cleanup Program) to relatively low levels of fee support (as for the board's waste discharge permitting programs in which approximately 10 percent of program expenditures currently come from fee revenues) to no fee support (as for certain laboratory services).

The Board's "Core Regulatory Programs"

We recommend approval of the board's proposed \$3.6 million (57.5 PYs) permanent augmentation to its core regulatory programs for 1991-92 to address a backlog and increased ongoing workload in waste discharge permitting. We further recommend, however, that the board's proposal to increase waste discharge permit fees over a two-year period to fund the core program augmentation instead be fully implemented in 1991-92. The additional \$4.3 million in revenue that would be generated by this accelerated implementation of fee increases should be used in 1991-92 to offset General Fund core program expenditures. (Increase Item 3940-001-193 by \$4,250,000 and decrease Item 3940-001-001 by \$4,250,000.)

Under the general authority of the Porter-Cologne Water Quality Control Act, the board administers three separate permitting programs to regulate waste discharges. These so-called "core regulatory programs" include:

- The National Pollution Discharge Elimination System (NPDES) which regulates discharges to the waters of the state—administered under an agreement with the federal EPA in accordance with the federal Clean Water Act.
- The so-called "Chapter 15 Program" which regulates discharges of hazardous waste to land—under Chapter 15, Title 23 of the California Code of Regulations.

- The “Non-Chapter 15 Program” which regulates discharges of nonhazardous waste to land—as required by the Porter-Cologne Water Quality Control Act.

Each of these programs involves four primary activities: (1) issuance and periodic renewal of permits, (2) inspection of waste treatment works, (3) evaluation of monitoring data, and (4) enforcement of water quality standards. For 1990-91, estimated expenditures on these programs total \$18.6 million, including \$13 million from the General Fund, \$3.6 million in federal funds and \$2 million in fee revenues.

Board Proposes Raising Fees to Augment Core Program. The board proposes to permanently augment its core regulatory programs with \$3.6 million and 57.5 PYs in 1991-92 to address a growing backlog in waste discharge permitting. To provide permanent funding for (1) the 1991-92 core program augmentation and (2) an additional unspecified staffing augmentation in 1992-93 for ongoing increases in workload, the board proposes to impose fee increases in both 1991-92 and 1992-93 for annual waste discharge permits. These fees would raise an additional \$4.3 million in 1991-92 and an additional \$8.6 million in 1992-93 and beyond. According to the board, the proposed increases will not require legislative approval because the new fees will not exceed the statutory maximum of \$10,000. (The board proposes to use \$669,000 of the first year’s increase to offset core program General Fund expenditures. The board further proposes to use the freed up General Fund monies to support a new computer modeling program.) For 1991-92, the additional fee revenues would increase the portion of core program expenditures supported by fees to 27 percent.

The Backlog Problem. Discharge permits are reviewed periodically and reissued at varying intervals. Of the over 6,200 discharge permits active in 1990-91, the board estimates that almost one-third will be due for, but not receive, review. These figures include over 1,400 active NPDES permits of which 20 percent will not be reviewed on time. Several factors have contributed to the development of this backlog:

- Over time, the major threat to California’s waters has shifted from bacteriological contamination—which has been largely eradicated—to a much wider and more complex array of toxic substances.
- With increased technological knowledge and capabilities, the focus of the board’s monitoring and control strategies has shifted from relatively simple “end-of-pipe” methods to more complex assessments of the effects of discharges on the quality of the receiving waters.
- As the complexity of the permitting process has increased, permittees formally challenge the board’s decisions more frequently.

In addition to the existing permitting backlog, the board also is facing significant increases in permitting workload from changes in federal stormwater management requirements. Specifically, the board expects to issue at least 1,000, and perhaps more than 10,000, newly-mandated

STATE WATER RESOURCES CONTROL BOARD—Continued

stormwater discharge NPDES permits over the next several years. (The actual number of new permits will depend on the final form of the federal regulations.)

Impact of Backlog on Core Program. New water quality standards and changes in ambient water quality conditions will not be incorporated into permits on a timely basis if the board does not review each permit upon expiration. The level of water quality protection afforded by the board's program may deteriorate as a result. In addition, failure to promptly renew NPDES permits may cause the EPA to rescind approval of the state's regulatory program and thereby subject California dischargers to direct federal regulation.

In the past, the board has attempted to reduce the water quality impact of not reviewing permits in a timely fashion by reviewing first the permits that involve the more serious threats to water quality. The board also has redirected resources to permit review by reducing the number and comprehensiveness of treatment work inspections and by decreasing the frequency with which staff review monitoring data. Despite these actions, the permit backlog has continued to grow. At the same time, the redirections themselves result in decreased protection for the state's water quality.

Proposed 1991-92 Program Augmentation Appears Justified. As the board's permitting program has become more complex, the board repeatedly has underestimated the resources necessary to run the program, contributing to the development of the growing backlog. In addition, new federally mandated workload will preclude the redirection of board resources to reduction of the backlog. For these reasons, our analysis indicates that the permitting backlog will increase substantially over time if the board does not receive additional resources for the core programs. Consequently, we recommend approval of the board's proposal to add 57.5 PYs to the core regulatory program in the budget year and to support these new staff through increased fees.

Delaying Full Fee Increase Until 1992-93 Does Not Make Sense. The board's proposal for a two-stage increase in staff for the core programs is prudent policy. Experience has shown that the board in the past has been overly optimistic about its ability to bring new or expanded programs on line.

In our view, however, the board's proposal for a matching two-stage increase in fee revenues makes little fiscal sense. This is because additional fees can be used to offset General Fund core program expenditures in 1991-92. Consequently, implementing the full fee increase of \$8.6 million in the budget year would free up \$4.3 million in General Fund monies that could be used for any legislative purpose, including addressing the overall budget problem. If this action is taken, core program expenditures supported by fees would increase to approximately 45 percent. In addition, the board still would have the lead time necessary during 1991-92 to pursue a statutory increase in the maximum allowable fee in order to fund program expansions planned for 1992-93.

Consequently, we recommend that the Legislature reflect the entire fee increase in the board's 1991-92 budget: half to support the proposed 1991-92 augmentation and half to offset General Fund support of the core program. This can be accomplished by (1) increasing Item 3940-001-193 by \$4,250,000 and (2) decreasing Item 3940-001-001 by the same amount.

Appropriateness of Fee Financing for Other Water Quality Programs

We recommend that the Legislature adopt supplemental report language directing the board to report by January 1992 on the appropriateness of imposing new water quality fees to replace all or part of the General Fund support for the board's water quality program.

In addition to the core programs discussed above, the board administers numerous other water quality related programs. Table 2 lists the board's principal water quality regulatory programs. The board also manages a water quality planning program—which includes the development of state and regional water quality control plans as well as the Bay Protection and Toxic Cleanup Program—and a program of research and technical assistance on water quality issues. These programs (including the core programs) are proposed to receive \$32 million in General Fund support in 1991-92 in addition to support from various fees (\$87 million), federal funds (\$32 million), and miscellaneous state bond and other funds (\$14 million).

Under certain conditions, enhanced fee financing of the board's water quality program may be appropriate and desirable. New and increased fees could offset up to \$32 million in General Fund expenditures which then could be redirected to other legislative priorities. In order to assess whether offsetting the board's current General Fund expenditures with increased fees is appropriate, the Legislature needs detailed information on (1) how increasing current regulatory fees or charging new ones would affect the board's water quality regulatory programs and (2) what the impact would be of these fees on the regulated community. Specifically, in order to make an informed decision the Legislature needs to know (1) whether the fees could be imposed and collected in a cost-effective manner, (2) whether total fee revenues would be stable enough from year to year to successfully support the program over time, and (3) whether the magnitude of the fees would be so large as to have undesirable economic effects on fee payers. Consequently, we recommend that the Legislature adopt the following supplemental report language directing the board to report on the appropriateness of imposing new water quality fees to replace all or part of the current General Fund support for the board's water quality program:

The State Board shall submit to the Legislature by January 1992 a report evaluating the appropriateness and desirability of imposing new water quality fees to fund that portion of the board's water quality program currently supported by the General Fund.

STATE WATER RESOURCES CONTROL BOARD—Continued**B. Other Issues****Local Oversight Program for Underground Tank Cleanup**

In 1987, the Legislature enacted Ch 1317/87 (AB 853, Sher) authorizing a pilot program of state-financed local oversight for the cleanup of leaking underground storage tanks. Based on the board's 1990 report to the Legislature evaluating the pilot program, the Legislature authorized the continuation and expansion of the local oversight program in Ch 1574/90 (AB 3560, Sher) and in the 1990 Budget Act. During this same period, the Legislature established the Underground Storage Tank Cleanup Fund (USTCF—Ch 1442/89, SB 299, Keene and Ch 1366/90, SB 2004, Keene), a program of fees on underground petroleum tanks to be used, in part, to provide funding for the local oversight program.

The board estimates total current-year expenditures of \$12.7 million for the local oversight program, including \$6.3 million from the USTCF, \$6 million in federal Leaking Underground Storage Tank (LUST) Trust Fund support, and \$400,000 in cost-recovered federal funds. For 1991-92, the board proposes total funding of \$13.6 million for the local oversight program, including \$10 million from the USTCF, \$3 million in federal trust fund support, and \$600,000 in cost recovered federal funds. Our analysis indicates that the board's proposal is consistent with its 1990 program evaluation.

EPA's Underground Tank Funding Allocation Formula Disadvantages California

The federal Environmental Protection Agency's (EPA's) failure to adjust its underground storage tank funding allocation formula to accommodate the unique nature of California's cleanup oversight program will cost California an estimated \$4.9 million in lost federal funding over a two-year period.

The board anticipates receiving only \$3 million in federal LUST Trust Fund support for the board's underground tank cleanup oversight program in 1991-92. This amount is \$3 million *less* than the board had previously expected. This reduction is projected to occur based on the way in which the EPA allocates funding for underground tank cleanup to the states.

Background. Created in 1986 to fund the cleanup of leaking underground petroleum storage tanks, the LUST Trust Fund was capitalized with a \$0.001 per gallon federal tax on gasoline. The tax was originally expected to raise \$500 million over the program's five-year authorization period. The federal government recently reauthorized the program for an additional five years.

The large number of leaking tanks nationwide makes it impossible for the federal government to be directly involved in cleanups. As a result, the EPA has chosen to allocate the majority of the available funding directly to the states. The EPA uses a formula to determine each state's annual allocation from the trust. At the start of the program, EPA told

California to expect \$6 million to \$9 million per year in federal underground tank cleanup funding.

California's Local Oversight Program. Unlike any other state, California has chosen to rely on local agencies, operating under contract with the board, to implement an underground tank cleanup oversight program. Once the board has funding available, it enters into a contract and *encumbers* funds for the full term of the agreement. Actual *expenditure* of the funds, however, does not occur until a local agency bills the state for oversight activities already performed. This procedure allows the board to maintain program control while assuring local agencies of the availability of funding for their programs. It also means that there often are significant delays—potentially of up to a year—between the *encumbrance* and the actual *expenditure* of funds.

Federal Allocation Formula Hurts California. The EPA's allocation formula reduces a state's allocation in subsequent years if the state fails to *expend*, by a set date, a certain percentage of the total federal funding previously provided. In short: the less a state spends in one year, the less the state gets for the next year. Unfortunately for California, the EPA does not consider contractual encumbrances to be expenditures for the purpose of allocating LUST monies. As a result, California's allocation of federal funds for underground tank cleanup was reduced below budgeted levels in 1990-91. California received only \$4.1 million in the current year—a reduction of \$1.9 million from the \$6 million anticipated in the 1990-91 budget. (The board indicates, however, that unexpended federal funds from the prior federal fiscal year are available to cover the shortfall.) For 1991-92, the board anticipates a further reduction of \$1.1 million with federal funding dropping to \$3 million. Relative to the \$6 million annual base funding level, these reductions total \$4.9 million over the two years.

Both the board and the Governor's Office have contacted the EPA on this issue, but the EPA has taken no concrete actions to either revise the allocation formula or to make an exception for California's program. Moreover, the board does not anticipate the EPA taking any action in the near future.

Absent action by the EPA—or the redesign of the board's local oversight program—California will continue to receive fewer federal dollars than originally expected. As a result, in order to continue the local oversight program at the level envisioned in the board's 1990 report to the Legislature, expenditures from the fee-supported Underground Storage Tank Cleanup Fund will have to be at higher levels than previously planned. This results in a shift of responsibility for funding a portion of the local oversight program from the federal government to owners and operators of underground petroleum storage tanks in California.

More Detailed Program Budgets Would Increase Legislative Oversight Capability

We recommend that the board and the Department of Finance report at budget hearings on how best to restructure the board's water quality

STATE WATER RESOURCES CONTROL BOARD—Continued

program budget to better provide the Legislature with budgetary oversight information.

Board's Water Quality Program Is Large and Extremely Complex. The board proposes total expenditures of approximately \$363 million in 1991-92. This amount is scheduled in two programs in the Budget Act: Water Quality (\$354 million) and Water Rights (\$9.3 million). Of the amount for water quality activities, the Governor's Budget allocates \$190 million for financial assistance for wastewater treatment facilities. The remaining \$164 million is allocated to just three program elements which include a large number of complex water quality activities of particular interest to the Legislature. These program elements are: Regulation (\$135 million), Planning (\$24 million), and Research and Technical Assistance (\$4.6 million).

As shown in Table 2, for example, the water quality regulation program element in the Governor's Budget includes 10 principal components such as the board's core regulatory programs, the relatively new aboveground tank regulatory program and the administratively organized Spills, Leaks, Investigations and Cleanup program. In addition, as Table 2 indicates, the regulation element also includes \$26 million for what the Governor's Budget refers to as "other regulatory activities."

Current Budget Structure Reduces Legislative Oversight. The single program expenditure category included in the Budget Bill for the board's many water quality activities significantly limits the Legislature's ability to adequately review the board's implementation of laws to protect water quality and prevent toxic contamination. In both 1987 and 1990, the Legislature addressed this problem by directing the Department of Finance (DOF) to display specified water quality activities separately from the regular program display. The preparation of these displays has been difficult for the department and the board, at least in part because the displays do not correspond in any direct way to the board's accounting system or to the program tracking system at the DOF. As a result, the Legislature has not consistently received the information it needs to oversee the board's budget. This is true with regard to the budget year, as the DOF has failed to include in the Governor's Budget certain information requested by the Legislature in the *Supplemental Report of the 1990 Budget Act*.

New Budget Structure Needed. Separating the board's water quality program into more distinct programs for budgeting purposes would provide an enhanced level of legislative oversight and program accountability. Our review of the problems experienced by the board and the DOF in responding to the Legislature's request for greater program budget detail, however, suggests that it should be the board and the DOF who develop a modified budget structure addressing the Legislature's information needs while conforming to the administration's accounting system needs. This modified structure might include separate schedules for (1) the core regulatory programs, (2) tanks programs, and (3) standards and planning activities. Other arrangements, however, might

be preferable from the point of view of the board and the DOF while still meeting the Legislature's needs for better budget information.

Consequently, we recommend that the board and the Department of Finance (1) develop, in consultation with the Legislative Analyst's Office and other fiscal committee staff, a restructured program budget for the board's water quality program and (2) report at budget hearings on how this plan would provide the level of oversight information needed by the Legislature while reflecting the administration's accounting and tracking systems constraints.

State Entering Fifth Year of Drought

As of the writing of this analysis—February 6, 1991—the state appears to be entering the fifth year of a drought. According to the Department of Water Resources (DWR), precipitation statewide from October 1, 1990 through December 31, 1990 averaged 28 percent of normal. The DWR reports that storage in California's 155 major reservoirs was 54 percent of normal as of January 1, 1991. As of January 29, the DWR was predicting a 25 percent deficit in the state's water supply relative to predicted demand.

On February 1, the Governor appointed a Drought Action Team to recommend specific actions to be taken in response to the drought. The Governor appointed the Director of the DWR to be the Governor's Drought Administrator and to chair the DAT. The Governor also named the directors of various state agencies and departments to the panel including the Secretary for Resources and the directors of the Departments of Food and Agriculture, Finance, and Fish and Game and the Office of Emergency Services. A number of independent boards and commissions and federal agencies also were invited to participate on the DAT. These include the State Water Resources Control Board and the U.S. Departments of Agriculture and Interior. The DAT is to report regularly to the Governor, with the first report—due no later than February 15—emphasizing water supply conditions.

Also in response to the drought, the State Water Resources Control Board held hearings on a series of proposals—including mandatory rationing and the revision of water rights permits—on January 29 and 30. The board has postponed any decision on these proposals until February 26 in order to coordinate these decisions with the DAT.
