

Financing of Resources and Environmental Programs

Programs to manage and protect the state's natural resources and environment historically have been funded from a combination of general tax revenues (such as the General Fund) and revenues from various user and regulatory fees. In the past, general tax revenues paid for a significant portion of the costs of natural resource and environmental protection programs. However, in recent years as the costs of these programs have grown, General Fund dollars dedicated to these purposes have remained approximately the same, while special funds have become the major source of support for resources and environmental protection programs.

Chart 1 above (please see page 4) shows that expenditures for resources and environmental protection programs have increased moderately over the last eight years. Chart 1 also shows that virtually all of this growth has come from special funds, including fees. In fact, the amount of General Fund monies used to support natural resources and environmental protection programs has declined since 1985-86, after adjusting for inflation.

The portion of resource and environmental protection programs that are paid from the General Fund, rather than fees, varies considerably from department to department. For example, in 1990-91 the Toxic Substances Control Division then within the Department of Health Services was funded almost entirely from fees, while the majority of the funding for support of the State Water Resources Control Board was from the General Fund. Although some of these variations in funding are due to the differences in departmental responsibilities, much of the variation occurs because of the application of different criteria over time for determining how to finance resource and environmental protection programs.

Legislature Faces Significant Issues In Financing Resource and Environmental Protection Programs

The Legislature will face significant policy issues related to the financing of resource and environmental protection programs in acting on the budget for 1992-93. This is because existing fee revenues for many environmental programs are declining and in some areas will not be sufficient even to maintain current program levels in the budget year. At the same time, however, the projected shortfalls in General Fund revenues in 1991-92 and 1992-93 will create increasing pressure on the Legislature to reduce the demands on the General Fund by shifting from the General Fund to fees funding for resource and environmental protection programs, or making program reductions to eliminate or reduce the General Fund support for these programs.

In order to assist the Legislature in (1) addressing the issues related to the financing of resource and environmental protection programs presented by the 1992-93 budget and (2) developing a consistent strategy for financing resource and environmental protection programs in the future, we provide below a framework for determining the most appropriate mechanism for financing these programs.

Options for Financing Resource and Environmental Protection Programs

There are three major options for the state in financing resource and environmental protection programs: (1) through the assessment of fees, (2) from general purpose funds (including the General Fund, general obligation bonds, and general environmental funds such as the Environmental License Plate Fund, and the Public Resources Account, Cigarette and Tobacco Products Surtax Fund) or (3) from a combination of fees and general funds. The appropriate financing option for any given program depends on the ultimate purpose of the program or policy that is to be funded and the extent to which a direct link exists between the state's program and a discrete group of program beneficiaries. Each of these options — fees, general funds, and a mix of fees and general funds — is discussed below. We then assess the advantages — and disadvantages — of using these various means to finance program costs.

Fees Provide Direct Link Between A Program and the Population It Serves

Two broad categories of resource and environmental protection programs often are financed through fee assessments.

User Fees. Programs that provide a direct benefit to an identifiable population or group can be financed by charging fees to the people who directly benefit from these programs. These types of fees, called user fees, require that the people who benefit from a program pay for the costs of the program. Some examples of user fees include:

- **State park fees.** People that use the state parks are charged an entrance fee. Revenue from the fees is used to offset the costs of operating and maintaining the state park system.
- **Vessel registration fees.** People who own boats or other vessels are required to register their vessels with the Department of Boating and Waterways and to pay a registration fee. Revenue from fees is used to develop and improve boating facilities and to promote boating safety.
- **Sportfishing and hunting fees.** Fishermen and hunters are required to obtain a license to fish or hunt in the state and to pay a license fee.

Revenues from the fees are used to manage fish and wildlife resources to ensure that there are huntable and fishable populations.

"Polluter Pays" Fees. The second type of fees, sometimes referred to as "polluter pays" fees, require *private* individuals or businesses who use or degrade a *public* resource (such as air, water, and wildlife) to pay all or a portion of the social costs imposed by their use of the resource.

Revenues from polluter pays fees generally are used in two ways. First, the fee revenues can be used to prevent or reduce the degradation of the public resource by regulating private activities. When fees are used in this manner, they are regulatory fees. Examples of such fees include:

- **Waste discharge fees.** People that discharge wastes onto land or waters are charged a fee to pay for a portion of the costs of the State Water Resources Control Board's programs for regulating the amount and kind of wastes that can be discharged.
- **Hazardous waste fees.** Generators and transporters of hazardous wastes, and facilities that manage hazardous wastes are required to pay various types of fees. The revenues from these fees are used to fund the Department of Toxic Substances Control's programs for regulating these activities.

Second, revenues from polluter pays fees can be used to restore or enhance a public resource after it has been degraded or used. When the revenue from the fees are used in this way, the fees are called "impact fees." An example of an impact fee is the resource impact fees required by Ch 1706/90 (AB 3158, Costa). Chapter 1706 requires developers to pay a fee for each project that is subject to environmental review under the California Environmental Quality Act (CEQA). The Department of Fish and Game is significantly involved in the review of environmental impact reports and in the formulation of mitigation measures as offsets for development projects. Rather than setting the fees only to pay for the Department of Fish and Game's costs of reviewing environmental documents, the legislation sets the fees generally to pay for a variety of natural resource protection and restoration activities. Thus, the fees act as a proxy for the costs of using the resource — in this case the taking of habitat for development, and fund some of the costs of restoring or preserving wildlife habitat in order to mitigate the impact of development.

In addition to the two usual ways in which polluter pays fees are used, these fees also can be used as an incentive to encourage a change in behavior in order to reduce the use or degradation of public resources. In this case, the primary objective is the change in behavior that results from the assessment of fees, not the revenues themselves. For example, SB 431 (Hart) proposes to impose a surcharge on people purchasing cars with greater-than-average air pollution emissions. Revenues from the surcharge would be used to administer the program and to provide rebates to individuals purchasing

cars with less-than-average air pollution emissions. The surcharge in the bill is designed as an economic incentive to discourage people from buying cars that have high emissions of air pollutants and encourage people to buy less polluting cars.

Similarly, under current law, people that dispose of hazardous wastes are required to pay a surcharge based on the tonnage and toxicity of the waste. The amount of the surcharge per ton of wastes increases as the toxicity of the waste increases. Revenues from the surcharge are used to fund the cleanup of sites for which no responsible party can be identified or the responsible party is bankrupt and cannot pay the costs of cleanup. Although the surcharge does not pay for a program that benefits the disposers of hazardous wastes, the surcharge nevertheless is appropriate as a mechanism to encourage people to reduce the toxicity and tonnage of the wastes they dispose.

Support From General Funds Distributes Program Costs Broadly

General funding sources are an appropriate means for financing natural resource and environmental protection programs that benefit the entire population, regardless of whether or not they pay directly for it. This type of program is referred to by economists as a "public good." For instance, national defense is considered a public good because even if only certain individuals are taxed for national defense, the entire population benefits from protection by the armed forces. Similarly, programs that protect fish and wildlife habitat, or threatened and endangered species, also are a public good in that the public benefits from maintaining the natural diversity and ecological health of the state's environment. By funding resource and environmental protection programs from general funds, their costs are distributed to as wide a base of program supporters as possible, reflecting the collective benefit to the state's citizens.

In addition, support from general funding sources is appropriate for programs that address past actions of polluters where there is no reasonable means to connect these past polluters to current groups. For example, General Fund or bond funds would be appropriate to clean up hazardous waste sites in which chemicals were dumped decades ago and where the responsible party no longer exists or cannot be identified. Therefore, this program could be appropriately financed from general funds or from the current mechanism of charging a polluter pays surcharge on hazardous waste disposal to encourage people to reduce the tonnage and toxicity of the wastes they dispose.

General funds also may be the practical default funding option for programs where (1) the benefits are widespread but not universal and (2) to "tag" each benefitting group for its share of program cost would be administratively burdensome and inefficient.

Mixed Funding Recognizes Direct and Indirect Beneficiaries

Many resource protection programs provide benefits to a specific group or set of groups as well as to the general population. These types of programs are best financed from a combination of user fees and general funds. For example, as discussed earlier, state parks provide a direct benefit to the people that use the parks. Therefore, it is appropriate to charge a fee for using the parks and to use the resulting revenues to fund the operation and maintenance of the parks. However, the preservation of state park lands also provide a benefit to all of the people in the state by maintaining the natural diversity and ecological health of the state, and by preserving significant historical, cultural, and natural resources for both their intrinsic and their educational value. Accordingly, it is also appropriate to finance a portion of the acquisition and operation of the state parks from general funds, because preservation of these resources benefits the general population.

Similarly, the Department of Fish and Game acquires and operates various wildlife areas throughout the state. The wildlife areas are operated to provide hunters an opportunity to take waterfowl. As a result, the costs of the acquisition and operation of these areas can appropriately be paid from hunting fees. However, the wildlife areas also provide habitat for a variety of waterfowl and other wildlife that are not hunted and the wetlands act as a filter and cleanser for water that ultimately is used by people. As a result, the general public also benefits from the acquisition and operation of these lands because it helps to remove organics from drinking water and to fulfill broad state policy goals of protecting threatened and endangered species. Accordingly, part of the costs of acquiring and managing these lands could appropriately be paid from general funding sources.

Advantages and Disadvantages of Various Financing Options

The three major financing options for resources and environmental protection programs each have advantages — and disadvantages — associated with them. Chart 6 provides a comparison of the major advantages and disadvantages of the financing options. As the chart shows:

- The major advantage of fee financing for a program is that it requires individuals who receive the benefit from the program to pay the entire cost. An offsetting disadvantage is that fees may act as a barrier to access by individuals of limited means.
- The major advantage of General Fund or other broad financing is that it results in the broadest possible revenue base supporting programs of general public benefit. An offsetting disadvantage — other than the relative scarcity of the General Fund these days — is that the general public may end up subsidizing programs that regulate private actions.

Chart 6**Advantages and Disadvantages of Three Approaches To Financing Resource and Environmental Protection Programs**

	Advantages	Disadvantages
Fees	<ul style="list-style-type: none"> ■ Provide direct linkage between services and recipients; people not benefiting from program do not have to pay for the program ■ Free up General Fund monies for other priorities ■ In some cases, provide revenue stability for programs 	<ul style="list-style-type: none"> ■ May conflict with broader state policy goals to provide certain basic services at reasonable cost ■ At the margin, have a disproportionate impact on small businesses or individuals of limited means ■ Increase administrative costs to collect fees ■ Potentially make programs subject to undue constituent pressure
Revenues From General Funds	<ul style="list-style-type: none"> ■ Distribute costs of public goods among general population ■ Result in virtually no additional administrative costs ■ May yield a higher level of administrative and legislative oversight 	<ul style="list-style-type: none"> ■ May result in subsidy by general taxpayers of programs addressing specific needs ■ Potentially limited funding available to many programs ■ May result in reduced programs during periods of recession
Combined Fees and Revenues From General Funds	<ul style="list-style-type: none"> ■ Share costs among private beneficiaries and public beneficiaries ■ May create funding stability due to potentially more stable funding source ■ Reduce demands on the General Fund, while potentially yielding a higher level of administrative and legislative oversight 	<ul style="list-style-type: none"> ■ Increase administrative costs ■ May deny access to individuals of limited means

- The major advantage of mixed financing is that, in general, mixed financing can be structured to mitigate the disadvantages of relying either solely on fees or solely on general funds. In addition, in times of General Fund scarcity, it allows the Legislature to make dollars go farther for programs that have a substantial public benefit.

A difficulty, however, with mixed financing is that it requires the Legislature to determine the proper distribution of costs between fees and general funds. Ultimately, this requires the Legislature to determine who benefits from a program and to what degree they benefit.

Deciding Which Funding Mechanism Makes Sense

In our view, the Legislature's choice of which general funding mechanism to choose for support of resources and environmental protection programs should not rest solely on the current availability of funds. Instead, the Legislature, as part of its annual deliberations on the budget, should assess the extent to which the goals of the programs which it has put in place are helped or hindered by the current way in which the programs are financed. Then, the Legislature should start taking steps — through the budget and through enactment of any necessary legislation — to switch program funding to the source — including the General Fund — that ultimately makes the most programmatic sense. One potential outcome is that this would result in the Legislature needing to reevaluate its broader expenditure priorities for the General Fund across the budget — resulting in increased or decreased General Fund expenditures on resources and environmental protection programs.

Conclusion. In the following analyses of the proposed budgets for natural resource and environmental protection programs, we have applied the framework described above to identify the most appropriate mechanism for financing a number of resource and environmental protection programs, and make recommendations for changing the proposed funding to be consistent with this framework.