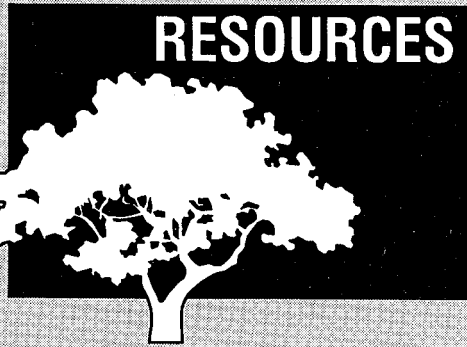


RESOURCES





MAJOR ISSUES

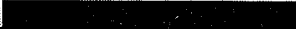
■ ***Several Resources and Environmental Protection Programs Should Be Funded From Fees.*** Several resources and environmental protection programs are more appropriately funded from fees, rather than from the General Fund. Consequently, we recommend the enactment of legislation setting fees for powerplant siting, fire protection, timber harvest regulation, air pollution control, and water quality/water rights regulation. (See pages 28, 35, 43, 44, 58, 65, and 69.)

■ ***Recycling Program Should Be Transferred to Waste Board.*** We recommend enactment of legislation to transfer the recycling program from the Department of Conservation to the Integrated Waste Management Board in 1993-94, because the board is responsible for all other waste recycling programs, and consolidation with the board should improve coordination of state recycling efforts. (See page 36.)

■ ***Special Fund Reserves Need to Be Increased.*** The proposed reserves for several special funds in the environmental protection programs are not sufficient to address potential revenue shortfalls or unanticipated expenditures. We recommend the Air Resources Board, Integrated Waste Management Board, and Department of Toxic Substances Control submit plans for reducing expenditures or increasing revenues to establish reasonable special fund reserves at the end of 1993-94. (See pages 60, 61, and 72.)

■ **Natural Community Conservation Plan (NCCP) Program Increase Not Justified.** We recommend a reduction of \$933,000 requested to fund continued development of the state's first NCCP because (1) the proposal does not include sufficient fee reimbursements as required by current law and (2) an increase in funding is not justified because the Department of Fish and Game has not provided program information requested by the Legislature. (See page 48.)

■ **Water Rights Program Backlogs Need to Be Reduced.** There are workload backlogs in the State Water Resources Control Board's program for issuing and enforcing water rights. These backlogs (1) reduce the board's ability to ensure that water is properly used without harm to other users and the environment and (2) slow business development and growth in the state. We recommend that the board submit a plan for addressing these backlogs. (See page 66.)



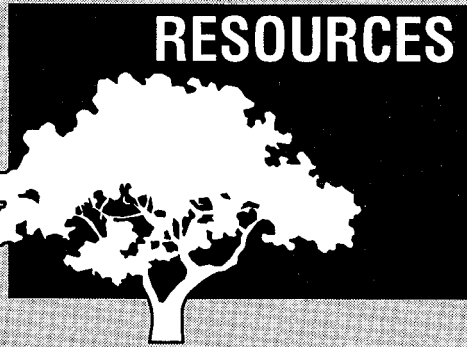


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OVERVIEW

The proposed expenditure level for resources and environmental protection programs is moderately higher than estimated current-year expenditures. This increase comes entirely from special funds.

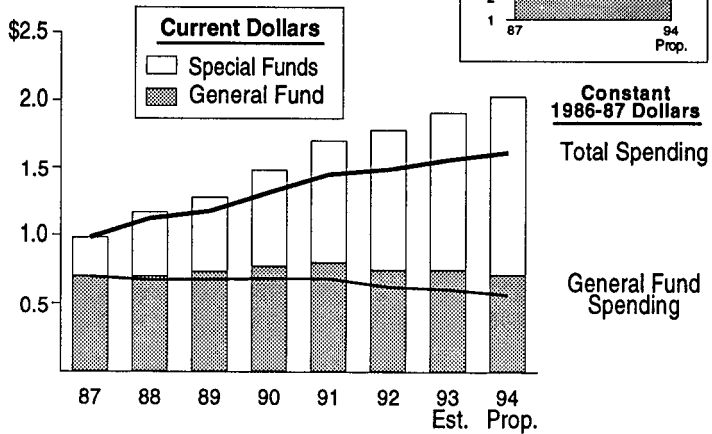
Expenditures for resources and environmental protection programs are proposed to total \$2 billion in 1993-94, which is 4.1 percent of all state funds and 1.9 percent of General Fund expenditures proposed for 1993-94. This level of expenditure is an increase of approximately \$120 million, or 6.3 percent over estimated expenditures for the current year. About 65 percent (\$1.3 billion) of state support for these programs will come from special funds, including the Motor Vehicle Account, Environmental License Plate Fund, funds generated by beverage container recycling fees, and an "insurance fund" for the cleanup of leaking underground tanks. The General Fund supports the remaining 35 percent (\$712 million) of these expenditures.

Figure 1 shows that resources and environmental protection expenditures from all state funds increased by approximately \$1 billion since 1986-87, representing an average annual increase of approximately 11 percent. This increase primarily reflects the establishment of various programs to address environmental problems such as leaking underground tanks, hazardous waste sites, and solid waste generation. When adjusted for inflation, these expenditures increased at an average annual rate of 7.3 percent. General Fund expenditures increased by a total of about 2 percent in the last seven years. When these expenditures are adjusted for inflation, however, General Fund support for these programs has declined since 1986-87.

Figure 1

**Resources and Environmental Protection Expenditures
Current and Constant Dollars
1986-87 Through 1993-94^a**

(In Billions)



SPENDING BY MAJOR PROGRAMS

Figure 2 shows spending for major *resources* programs—that is, those programs within the jurisdiction of the Secretary for Resources.

Figure 2.

**Resources Budget Summary
Selected Funding Sources
1991-92 through 1993-94**

(Dollars in Millions)^a

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Change from 1992-93	
				Amount	Percent
Energy Resources Conservation and Development Commission					
Energy Resources Programs Account	\$34.0	\$18.5	\$32.4	\$13.9	75.4%
Petroleum Violation Escrow Account	5.7	35.6	13.3	-22.2	-62.6

Continued

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Change from 1992-93	
				Amount	Percent
Other funds	60.8	30.7	40.1	9.4	30.5
Totals	\$100.5	\$84.7	\$85.8	\$1.1	1.3%
Department of Conservation					
General Fund	\$13.1	\$13.3	\$13.7	\$0.4	3.2%
Recycling funds	376.4	378.5	363.4	-15.1	-4.0
Other funds	10.3	12.7	11.5	-1.3	-10.0
Totals	\$399.8	\$404.5	\$388.6	-\$15.9	-3.9%
Department of Forestry and Fire Protection					
General Fund	\$264.3	\$279.4	\$247.0	-\$32.4	-11.6%
Special Account for Capital Outlay	10.4	1.2	7.7	6.5	542.7
Forest Resources Improvement Fund	4.6	13.3	14.4	1.1	8.3
Other funds	96.2	118.0	103.6	-14.4	-12.2
Totals	\$375.5	\$411.9	\$372.8	-\$39.1	-9.5%
Department of Fish and Game					
General Fund	\$15.1	\$3.4	\$3.5	\$0.1	2.9%
Fish and Game Preservation Fund	67.5	71.4	70.9	-0.6	-0.8
Environmental License Plate Fund	12.5	11.5	10.5	-1.0	-8.7
Other funds	55.2	72.6	74.4	1.8	2.4
Totals	\$150.3	\$159.0	\$159.3	\$0.3	0.2%
Department of Parks and Recreation					
General Fund	\$54.4	\$44.9	\$45.5	\$0.6	1.3%
State Parks and Recreation Fund	64.8	88.4	91.5	3.1	3.5
Park bond funds	46.4	48.1	7.2	-41.0	-85.1
Other funds	42.9	51.7	46.5	-5.2	-10.1
Totals	\$208.5	\$233.2	\$190.7	-\$42.5	-18.2%
Department of Water Resources^b					
General Fund	\$27.0	\$15.6	\$15.8	\$0.2	1.3%
State Water Project Funds	523.0	793.4	936.4	143.0	18.0
Special Account for Capital Outlay	20.1	—	26.5	26.5	— ^c
Other funds	63.3	137.5	116.7	-20.8	-15.1
Totals	\$633.4	\$946.5	\$1,095.4	\$148.9	15.7%

^a Details may not add to totals due to rounding.

^b Excludes flood control capital outlay.

^c Not a meaningful figure.

Figure 3 shows similar information for four major *environmental protection* programs—those programs within the jurisdiction of the Secretary for Environmental Protection and the agency known as

Cal-EPA. (Until 1991-92, programs under the Cal-EPA reported to the administratively created Environmental Affairs Agency within the Resources Agency, and to various other departments and agencies.)

Spending for Resources Programs. As Figure 2 indicates, the budget proposes, at most, moderate increases in expenditures for resources programs compared to the current year. For example, proposed 1993-94 total expenditures for the Department of Fish and Game are virtually identical to the department's expenditures in 1992-93. Funding for the Department of Forestry and Fire Protection (CDFFP) is projected to return to 1991-92 levels in the budget year, after reaching a high in 1992-93 as a result of a severe fire season. Expenditures for the Department of Conservation (DOC) and the Department of Parks and Recreation (DPR) are proposed to decline somewhat in the budget year. The DOC decrease is due primarily to a reduction in beverage container recycling revenue and the deletion of one-time costs, while the DPR decrease is due to the elimination of one-time local assistance activities paid from park bond funds. When these departments' budgets are adjusted for these one-time expenditures, they show little change from the current year.

An exception to this trend is the Department of Water Resources (DWR), whose expenditures are projected to increase significantly in 1993-94. This increase is due primarily to (1) increases in spending to expand the state water project from State Water Project (SWP) funds, which are continuously appropriated to the department for SWP activities, and (2) an increase in spending from the Special Account for Capital Outlay (SAFCO) for the local flood control subventions program.

Spending for Environmental Protection Programs. As Figure 3 indicates, the budget proposes increases in most of the environmental protection programs compared to estimated current-year expenditures. For example, the Integrated Waste Management Board (IWMB) proposes an increase of \$18.8 million, or 27 percent, over estimated current-year expenditures. Similarly, the Department of Toxic Substances Control proposes an increase of \$17 million, or 14 percent, over estimated current-year expenditures (the increase results from a technical accounting change, rather than from program expansions).

Although expenditures for most environmental protection programs are increasing in 1993-94 compared to current-year expenditures, the State Water Resources Control Board (SWRCB) proposes a net *reduction* of \$51 million, or 12 percent, compared to current-year expenditures. The reduction results primarily from (1) a reduction of \$72 million,

Figure 3

Environmental Protection Budget Summary Selected Funding Sources 1991-92 through 1993-94

(Dollars in Millions)

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Change from 1992-93	
				Amount	Percent
Air Resources Board					
Motor Vehicle Account	\$64.6	\$70.1	\$74.8	\$4.7	6.7%
Other funds	29.4	30.1	31.0	0.9	3.0
Totals	\$94.0	\$100.2	\$105.8	\$5.6	5.6%
Integrated Waste Management Board					
Solid Waste Disposal Site Cleanup and Maintenance Account	\$13.0	\$7.5	\$30.4	\$22.9	305.3%
Integrated Waste Management Account	31.5	32.3	27.7	-4.6	-14.2
Other funds	7.1	29.9	30.4	0.5	1.7
Totals	\$51.6	\$69.7	\$88.5	\$18.8	27.0%
State Water Resources Control Board					
General Fund	\$33.9	\$31.8	\$32.1	\$0.3	0.9%
Underground Storage Tank Cleanup Fund	4.4	77.4	133.5	56.1	72.5
Water Pollution Control Revolving Fund	134.8	153.0	81.0	-72.0	-47.1
Other funds	79.3	152.2	116.9	-35.3	-23.2
Totals	\$252.4	\$414.4	\$363.5	-\$50.9	-12.3%
Department of Toxic Substances Control					
Hazardous Waste Control Account	\$29.7	\$38.1	\$87.3	\$49.2	129.1%
Hazardous Substance Account	33.1	39.4	5.0	-34.4	-87.3
Other funds	21.6	41.2	43.4	2.2	5.3
Totals	\$84.4	\$118.7	\$135.7	\$17.0	14.3%
Other departments^a					
General Fund	\$17.4	\$16.5	\$16.6	\$0.1	0.6%
Other funds	34.7	40.3	45.0	4.7	11.7
Totals	\$52.1	\$56.8	\$61.6	\$4.8	8.5%

^a Includes Secretary for Environmental Protection, Department of Pesticide Regulation, and the Office of Environmental Health Hazard Assessment.

mostly in federal funds, for a loan program to fund the construction of local wastewater treatment plants, and (2) a reduction of approximately

\$12 million in bond funds used for research and planning. These reductions are offset somewhat by an increase of \$56 million to cleanup leaking underground tanks.

MAJOR BUDGET CHANGES

Figure 4 presents the major budget changes in resources and environmental protection programs. As the figure shows, the budget includes \$36 million from the SAFCO for equipment purchases by the CDFFP and local assistance by the DWR for flood control projects. The budget also includes a reduction of about \$44 million for local assistance by the DPR. Most of this decrease is proposed because previously approved bond measures that provided funds for assistance to local parks are depleted.

In addition, Figure 4 shows that the budget includes an increase of \$22.9 million over current-year expenditures to expand the IWMB's programs for (1) cleaning up solid waste disposal sites that threaten human health or the environmental and (2) funding local household hazardous waste collection programs. The increase includes the restoration in 1993-94 of an \$11 million unallocated reduction made in the current year. The budget also proposes major changes in the SWRCB, including (1) an increase of \$56 million for the cleanup of leaking underground tanks, funded from a fee on petroleum stored in underground tanks, and (2) a reduction of \$72 million from federal funds and state bond funds for loans to fund the construction of local wastewater treatment plants.

Figure 4

Resources and Environmental Protection Programs Proposed Major Changes for 1993-94

Conservation	Requested: \$388.6 million
	Decrease: \$15.9 million (-3.9%)



- \$15.1 million reduction for Beverage Container Recycling Program due to decreased recycling revenues

Forestry and Fire Protection	Requested: \$372.8 million
	Decrease: \$39.1 million (-9.5%)



- \$55.6 million reduction in emergency fire suppression costs

Parks and Recreation	Requested: \$190.7 million
	Decrease: \$42.5 million (18.2%)



- \$44.5 million reduction in local assistance for park projects

Water Resources	Requested: \$1.1 billion
	Increase: \$154.5 million (+16.3%)



- \$143.0 million from State Water Project funds for additional project activities
- \$29.2 million from SAFCO for local assistance and capital outlay funding for flood control projects

Integrated Waste Management Board	Requested: \$88.5 million
	Increase: \$18.8 million (+27%)



- \$22.9 million for solid waste site cleanup and maintenance program and grants for local household hazardous waste programs

State Water Resources Control Board	Requested: \$363.5 million
	Decrease: \$50.9 million (-12.3%)



- \$56.1 million for cleanup of leaking underground tanks



- \$72 million reduction for loans to fund local construction of wastewater treatment plants

RESOURCES



CROSSCUTTING ISSUES

IMPACT OF CURRENT-YEAR BUDGET ACTIONS

The departments and boards in the resources and environmental protection programs took a variety of actions to implement current-year budget reductions, including contract deferrals and reductions, and personnel reductions. Many of these actions resulted in significant decreases in the level of program implementation in the environmental protection area, when compared to authorized levels. In contrast, most major programs in the resources area were relatively unaffected by current-year budget reductions.

Many of the resources and environmental protection programs experienced reductions in their overall budgets in the current year. Figures 5 and 6 show the major actions taken by resources and environmental protection programs in the current year to reduce expenditures in line with the budget.

Resources Programs

The resources programs generally did not experience significant reductions in their overall budgets. This was primarily due to: (1) backfilling of reductions in General Fund and certain special fund expenditures with other special funds (for instance, the Department of Parks and Recreation received about \$26 million, mostly from the Motor Vehicle Fuel Account and the Off-Highway Vehicle Fund, to cover past- and current-year General Fund reductions); (2) exempting restricted

Figure 5

Resources Programs Major Budget Reduction Actions 1992-93

Department/Board	Total Reduction (In Millions)	Major Actions to Implement Reduction
Department of Conservation	-\$0.8	<ul style="list-style-type: none"> • Reduce geologic hazards and mineral resources conservation programs (\$541,000). • Reduce surface mining and land resource protection programs (\$332,000).
State Lands Commission	-1.7	<ul style="list-style-type: none"> • Eliminate title settlements in lieu of litigation (\$715,000). • Eliminate royalty accounting and production verification program for oil and gas leases (\$354,000). • Reduce audit program for leases on state lands (\$170,000). • Miscellaneous program reductions or eliminations (\$468,000).
Department of Boating and Waterways	-36.3	<ul style="list-style-type: none"> • Eliminate local assistance grants and loans for public marina projects (\$26.8 million) and loans for private marina projects (\$9.5 million).
California Coastal Commission	-0.8	<ul style="list-style-type: none"> • Eliminate grants to local governments for completion of local coastal plans (\$250,000). • Reduce reimbursements to the State Coastal Conservancy (\$369,000). • Miscellaneous program reductions (\$214,000)
Department of Water Resources	-12.0	<ul style="list-style-type: none"> • Reduce Delta Flood Protection Program, mostly in local assistance grants for Sacramento-San Joaquin Delta levee projects (\$4 million). • Eliminate Environmental Water and Water Quality Programs funding, mostly in local assistance grants for Mono Lake Basin projects (\$8 million).

special funds from reductions, such as the Fish and Game Preservation Fund; and (3) transferring reserves in special funds to the General Fund, such as the Oil Spill Prevention and Administration Fund, which does not affect program spending levels in the current year.

The exceptions to this are the Department of Conservation, the State Lands Commission, and the California Coastal Commission, each of which received substantial unallocated General Fund reductions in the current year. The budget does not propose to restore these current-year reductions in 1993-94. In addition, the Department of Boating and Waterways had most of its special funds transferred to the General

Fund in 1992-93. The budget proposes to restore for this department about one-fourth of the current-year reductions in 1993-94.

Figure 5 shows the major actions of resources agencies in implementing these reductions. Among the significant actions are three which directly affect state funding for local governments:

- The elimination of grants and loans for public marina projects, thereby delaying some of these projects for at least one year.
- The elimination of local assistance grants to help cities complete their required local coastal plans.
- The reduction of grants for Sacramento-San Joaquin Delta levee projects and the elimination of grants for Mono Lake Basin water projects.

Figure 6

**Environmental Protection Programs
Major Budget Reduction Actions
1992-93**

Department/Board	Total Reduction (In Millions)	Major Actions to Implement Reduction
Air Resources Board	-\$1.6	<ul style="list-style-type: none"> • Reduce by 75 percent the number of vehicles tested as part of the evaluation of the effectiveness of the "Smog Check" Program (\$891,000). • Delay replacement of failed scientific equipment (\$361,000). • Delay data input and computer services for Air Toxics Hot Spots (\$339,000).
Integrated Waste Management Board	-11.0	<ul style="list-style-type: none"> • Reduce cleanup of solid waste disposal facilities that threaten human health or the environment (\$7.7 million). • Decrease grants to local governments for household hazardous waste collection programs (\$3.3 million).
State Water Resources Control Board	-5.4	<ul style="list-style-type: none"> • Reduce core regulatory and inspection programs (\$1 million). • Eliminate program to identify sources of pollution in public drinking water wells in all areas except the Los Angeles area (\$2 million). • Recover costs of overseeing cleanup of leaking underground tanks (\$1 million). • Eliminate miscellaneous contracts (\$760,000). • Delay development of information needed to identify toxic hot spots in bays and estuaries (\$400,000).

Environmental Protection Programs

The environmental protection programs generally reduced regulatory programs through reductions in personnel, contracts, and equipment, as shown in Figure 6. The significant reductions in the environmental protection programs include (1) a \$7.7 million reduction in programs to clean up solid waste disposal facilities that threaten human health or the environment, (2) the elimination in 1992-93 of grants to local governments for household hazardous waste collection programs, and (3) a reduction of \$1 million in the State Water Resources Control Board's (SWRCB) core regulatory program. The budget proposes to restore the current-year reductions for the Air Resources Board and the Integrated Waste Management Board in 1993-94. The budget, however, proposes to restore in 1993-94 only \$1.5 million out of the \$5.4 million current-year reduction for the SWRCB.

ENVIRONMENTAL PROGRAMS BECOMING MORE "USER FRIENDLY"

The budget includes various proposals to implement recently enacted state and federal legislation to streamline environmental permitting processes, and assist businesses in complying with environmental regulations.

The budget for the environmental protection programs includes several proposals to implement recently enacted state and federal legislation to streamline the state's environmental permitting processes and assist businesses in complying with state environmental regulations. These proposals generally reflect legislation enacted in response to concerns that the environmental regulatory and permitting processes in California may be contributing to the loss of jobs and businesses in the state.

Generally, these proposals appear reasonable. However, the effectiveness of these programs in streamlining the permitting process and assisting businesses will not be known until several years after the programs have been implemented. In addition, we identify under Item 3960 some specific concerns with the Department of Toxic Substances Control's business assistance program.

Proposals to Streamline Environmental Permitting Processes

The budget reflects two major proposals to streamline specific environmental permitting processes in the state. First, the budget proposes \$77,000 from the Motor Vehicle Account for the Air Resources Board (ARB) to assist local air pollution control districts in improving the efficiency of the air quality permitting process, pursuant to Ch 1096/92 (AB 2781, Sher). Chapter 1096 requires every local air pollution control district with a population of more than 250,000 people to establish a program to expedite the issuance of air pollution permits. The program must include:

- A consolidated permitting process for any source that requires multiple permits.
 - An expedited permit review process based on the types and amounts of pollution emitted from sources.
-

- A training and certification program for private sector personnel to certify that businesses are in compliance with the district's rules and regulations.
- The development of a standardized permit application form.

The act also requires the ARB to assist the local districts in their development of the program.

Second, the budget proposes to streamline the permitting process for many hazardous waste treatment facilities, pursuant to Ch 1345/92 (AB 1772, Wright). Chapter 1345 replaces the current two-tier permit system with a five-tiered system for permitting hazardous waste treatment facilities. The new system attempts to match the permit requirements for each facility to the risks it poses.

According to the Department of Toxic Substances Control (DTSC), Chapter 1345 will allow many facilities to submit shorter permit applications than currently required, and obtain authorization for treatment or storage of hazardous wastes without the need for expensive outside consultants.

Business Assistance Programs

The budget also proposes to establish new programs in both the ARB and the DTSC to assist businesses in complying with environmental regulatory requirements. These new business assistance programs are in addition to (1) the existing programs in all environmental regulatory departments to provide general information and assistance on environmental regulatory requirements and (2) the activities of the Secretary for Environmental Protection to assist businesses in obtaining permits, on a case-by-case basis. Figure 7 lists the new business assistance programs that are proposed.

Figure 7

Environmental Protection Programs Proposed Business Assistance Programs 1993-94

(Dollars in Thousands)

Department/Board	Amount/Fund	Proposed Program
Air Resources Board	\$677	<ul style="list-style-type: none"> • Establish an "Ombudsman Office" to represent business interests to various governmental organizations. • Provide permit assistance. • Provide technical assistance on compliance methods and technologies. • Provide assistance in identifying pollution prevention and reduction programs. • Coordinate permit information and assistance from other governmental agencies.
Department of Toxic Substances Control	\$511 Hazardous Waste Control Account/ Reimbursements	<ul style="list-style-type: none"> • Provide on-site consultative services to assist hazardous waste management facilities to comply with regulatory requirements. • Develop written technical guidance materials and provide training to businesses.

FUND CONDITIONS FOR RESOURCES AND ENVIRONMENTAL PROTECTION PROGRAMS

The state uses a variety of special and bond funds to support the departments, conservancies, boards, and programs that regulate and manage the state's natural and environmental resources. In this section we provide a brief description and status report on selected special funds and bond funds supporting these programs. For purposes of this review, we divided the funds into two categories: (1) resources special funds and park-related bonds and (2) bonds for water programs.

Special Funds and Park-Related Bonds

Our review of the major special funds and park-related bond funds in the resources area indicates that, if the Legislature approves the Governor's spending proposals, there will be little money available (1) in special funds for legislative priorities and (2) in park-related bond funds to start new projects.

Figure 8 summarizes for selected resources special funds and park-related bond funds the total amounts available, the Governor's expenditure proposals, and the reserve balances remaining. Below we discuss the status of individual funds and provide some general comments.

Special Account for Capital Outlay. Funds for the Special Account for Capital Outlay (SAFCO) are derived from state lease revenues arising from oil and gas development in state tidelands. The budget estimates that the state will receive \$110.7 million in tidelands oil and gas revenues in the current year. This is \$57.1 million higher than the revenues reflected in the 1992 Budget Act. Under current law, these additional revenues will be deposited in the SAFCO. The budget proposes to carry over these additional revenues to be spent for various purposes in 1993-94. This increase is due primarily to an increase in the price of oil. The budget projects that tidelands oil and gas revenues will total \$87.9 million in the budget year. Of this amount, \$41.5 million is proposed to be deposited in the SAFCO.

As these amounts indicate, tidelands oil revenues largely are dependent on the price of the state's oil. (For most of the state's oil, a \$1 change in price per barrel will result in roughly a \$20 million change in revenue.) State Lands Commission staff advise that, because of events in the Middle East and other factors that can affect oil prices, future

Figure 8

**Conditions of Selected Special and Bond Funds
Natural Resources
Based on Governor's Budget
1993-94**

(In Thousands)

	Estimated Expenditures 1992-93	Estimated Total Available 1993-94	Governor's Proposal	
			Total Spending	Fund Balance
Special Funds				
Special Account for Capital Outlay ^a	\$6,162	NA	\$46,965	NA
Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund ^a	19,341	NA	22,477	NA
Transfers to the Habitat Conservation Fund (HCF)	—	NA	(500)	NA
Environmental License Plate Fund	32,069	\$30,651	29,939	\$712
Transfers to the HCF	(7,150)	NA	(6,476)	NA
Public Resources Account, Cigarette and Tobacco Products Surtax (C&T) Fund	33,128	27,964	26,589	1,375
Fish and wildlife habitat	(11,823)	(13,982)	(10,301)	(435)
Parks and recreation	(14,805)	(13,982)	(13,042)	(940)
Transfers to the HCF	(6,500)	NA	(3,246)	NA
Habitat Conservation Fund	30,536	30,013	30,013	—
Transfer from the Unallocated Account, C&T Fund	(12,786)	(12,413)	(12,413)	—
Transfers from other funds	(17,750)	NA	(17,600)	NA
Bond Funds				
State, Urban and Coastal Park Fund (1976 Bond)	\$8,961	\$129	—	\$129
Parklands Fund of 1980	3,553	235	—	235
Parklands Fund of 1984	25,332	8,179	\$8,179	—
Fish and Wildlife Habitat Enhancement Fund of 1983	5,706	1,297	1,150	147
State Coastal Conservancy Fund of 1984	3,996	1,169	—	1,169
California Wildlife, Coastal, and Park Land Conservation Fund of 1988 ^b	36,001	19,957	12,048	7,909
Wildlife and Natural Areas Conservation Fund of 1988	11,030	8,125	6,528	1,597
Transfers to the HCF	(4,100)	NA	(7,378)	NA
Totals, bond funds	\$94,579	\$39,091	\$27,905	\$11,186

NA: Not applicable

^a Figures are for resources-related and environmental projects only.^b Figures are for the bond allocations subject to Budget Bill appropriation only.

oil prices are uncertain. Staff indicate that the commission will update its tidelands oil revenue estimates for both the current and budget years at the time of the May Revision.

Money from the SAFCO is used primarily for capital outlay purposes, but is available for other General Fund purposes as well. The budget proposes expenditures totaling \$47 million from the SAFCO for resources-related programs. This is an increase of \$40.8 million from estimated current-year expenditures of SAFCO funds for resources programs. The increase is due primarily to the restoration of funding for (1) local flood control subventions (\$26.4 million) and (2) replacement of telecommunications equipment in the Department of Forestry and Fire Protection (\$6.5 million) in 1993-94. (Please see our analysis of Section 11.50 for additional discussion of SAFCO spending.)

Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund. Revenues to this fund come from royalties and other payments for oil and gas recovered from submerged federal lands that are adjacent to California. The amount is determined by an agreement with the federal government. These funds can be appropriated for any purpose.

The budget proposes expenditures totaling \$22 million from the Section 8(g) Revenue Fund for resources-related programs. This is an increase of \$2.6 million above spending for resources programs in the current year. In addition, the budget proposes to transfer (1) \$3.8 million to the General Fund and (2) \$500,000 to the Habitat Conservation Fund from the Section 8(g) Revenue Fund in 1993-94. These transfers, together with the proposed level of spending, will leave no reserve in the Section 8(g) Revenue Fund at the end of 1993-94.

Environmental License Plate Fund (ELPF). The ELPF derives its funding from the sale of personalized motor vehicle license plates by the Department of Motor Vehicles. Funds from the ELPF can be used for the following purposes:

- Control and abatement of air pollution.
 - Acquisition, preservation, and restoration of natural areas or ecological reserves.
 - Environmental education.
 - Protection of nongame species and threatened and endangered plants and animals.
 - Protection, enhancement, and restoration of fish and wildlife habitat, and related water quality.
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- Purchase of real property, consisting of sensitive natural areas, for the state, local or regional park systems.
- Reduction of the effects of soil erosion and the discharge of sediment into the waters of the Lake Tahoe region.

The budget proposes expenditures totaling \$23.5 million from the ELPF, a decrease of \$1.5 million below estimated current-year spending. The decrease in spending is due primarily to a \$1 million decrease in funds budgeted for support of the Department of Fish and Game. In addition, the budget proposes to transfer \$6.5 million from the ELPF to the Habitat Conservation Fund in 1993-94. The budget shows a reserve in the ELPF of \$712,000 on June 30, 1994.

Public Resources Account, Cigarette and Tobacco Products Surtax Fund. The Public Resources Account (PRA) receives 5 percent of the revenue from the Cigarette and Tobacco Products Surtax (C&T) Fund. Generally, the PRA funds must be used in equal amounts for (1) park and recreation programs at the state or local level and (2) habitat programs and projects.

Proposed expenditures from the PRA total \$23.3 million. This is a decrease of \$3.3 million below estimated spending in the current year. The decrease is due primarily to the lower expenditures proposed for the Department of Parks and Recreation (DPR) and the Wildlife Conservation Board. These spending reductions mostly are driven by (1) a reduction in tax revenue to the PRA and (2) spending down the fund reserve in the current year. The budget also proposes to transfer \$3.2 million from the PRA to the Habitat Conservation Fund. As shown in Figure 8, the fund will have a reserve of \$1.4 million on June 30, 1994.

Habitat Conservation Fund (HCF). This fund was created by Proposition 117, the California Wildlife Protection Act of 1990. The fund is guaranteed annual revenues of \$30 million primarily to fund wildlife habitat acquisitions and improvements. To support the required annual expenditure level, Proposition 117 requires transfer of (1) 10 percent of funds from the Unallocated Account, C&T Fund; and (2) additional funds from the General Fund to total \$30 million. Proposition 117 allows the Legislature to substitute for the General Fund the transfer of other appropriate funds.

As Figure 8 shows, \$12.8 million is transferred from the Unallocated Account to the HCF in the current year and a transfer of \$12.4 million is proposed for 1993-94. Consequently, the amount that must be funded from the General Fund or other funds was \$17.2 million in the current year and will be \$17.6 million in 1993-94.

In the current year, instead of \$17.2 million, the Legislature transferred a higher amount of \$17.8 million from other funds—including \$7.2 million from the ELPF, \$6.5 million from the PRA, and \$4.1 million from existing bond appropriations—which was slightly more than the minimum required amount. The 1993-94 budget relies on bond funds (\$7.4 million), the ELPF (\$6.5 million), the PRA (\$3.2 million), and the Section 8(g) Revenue Fund (\$500,000) to fund the HCF.

Park-Related Bonds. Park development projects and land acquisitions have traditionally been funded by various bonds passed by the voters. Availability of bond funds has contributed to legislative flexibility in funding its priorities in past years because the Legislature has been able to free up funds in the ELPF and the PRA by using bond funds to the greatest extent possible to fund various projects.

The budget reflects available park-related bond fund balances totaling \$39.1 million at the beginning of 1993-94. As Figure 8 shows, most of the balance is concentrated in three bond funds—the Parklands Fund of 1984, the California Wildlife, Coastal and Park Land Conservation Fund of 1988, and the Wildlife and Natural Areas Conservation Fund of 1988.

The budget proposes expenditures totaling \$27.9 million from the various bond funds. This amount will provide (1) \$16 million for the DPR, of which \$3.9 million is for ongoing support costs and \$12.1 million is for new development projects and acquisitions, and (2) \$11.9 million for acquisitions and ongoing projects of the various conservancies and other natural resources-related departments. The budget's proposed spending is significantly less than estimated current-year spending of \$94.6 million, about \$82 million of which is for capital outlay. The reduction reflects the spending down of available fund balances.

The proposed expenditures would leave \$11.2 million in bond funds still available by the end of 1993-94. As Figure 8 shows, most of this remaining money will be in the two 1988 bond funds, which are earmarked for development in particular geographic areas and for certain limited categories of projects.

Summary: Little Special Fund Money is Available for Legislative Priorities. Prior to 1991-92, the Legislature had been able to use the PRA and ELPF to fund legislative priorities after funding the Governor's proposals. However, our review indicates that, similarly to the case in 1991-92 and 1992-93, only about \$2 million will be available in the PRA and the ELPF combined to fund legislative priorities in 1993-94 if the Legislature approves the Governor's spending proposals.

This is due to several factors. First, there are continued demands on these funds. For example, the budget proposes transfers totaling \$9.7 million from the ELPF and the PRA to the HCF to satisfy the requirements of Proposition 117. Second, bond monies that have been used to fund projects that might otherwise be supported from the ELPF and the PRA are depleted, leaving the Legislature little ability to shift projects to the bond funds to free up the ELPF or PRA for legislative priorities.

Little Money Available for New Park-Related Projects. Due to the voters' rejection of the California Park, Recreation and Wildlife Enhancement (Bond) Act of 1990, and to depletion of existing bond funding sources, the DPR and the various state conservancies will have little money available to start any new projects in 1993-94. Most of the money available is earmarked for specific types of projects and specific geographical areas. This problem is mitigated to some degree because under Proposition 117, \$30 million is available annually in the HCF to fund a variety of habitat acquisitions. However, funds in the HCF for the most part, cannot be used for park development, and are fully scheduled in the Governor's Budget.

For a general discussion of this funding problem, please see the discussion of state infrastructure financing in the Crosscutting Issues portion of the Capital Outlay section in this *Analysis*.

Water Bonds

Based on our review of bond funding for water programs, we conclude that (1) there is very little money available to help local water agencies comply with new federal drinking water regulations and (2) there are sufficient funds available in 1993-94 to continue local water supply and wastewater treatment programs. We recommend that the Departments of Water Resources (DWR) and Health Services (DHS) report at budget hearings on the funding needs of local water agencies in order to meet federal drinking water regulations.

There are several bond fund programs that provide loans and grants to local water agencies to enhance water quality and water supply. These include (1) the safe drinking water program; (2) water supply programs, including programs for water conservation, groundwater recharge program, and the water reclamation; and (3) the wastewater treatment program.

As indicated in Figure 9, the budget reflects expenditures totaling \$165.9 million for these programs.

Figure 9

Conditions of Selected Water Bond Funds Based on Governor's Budget 1993-94

(In Thousands)

	Estimated Total Available	Governor's Proposal	
		Total Spending	Fund Balance
Safe drinking water			
1986 California Safe Drinking Water Fund	\$76,387	\$14,928	\$61,459
1988 California Safe Drinking Water Fund	50,492	26,863	23,629
Subtotals	(\$126,879)	(\$41,791)	(\$85,088)
Water supply			
1986 Water Conservation and Water Quality Fund	\$54,604	\$41,565	\$13,039
1988 Clean Water and Water Reclamation Fund	31,968	20,645	11,323
1988 Water Conservation Fund	34,913	15,032	19,881
Subtotals	(\$121,485)	(\$77,242)	(\$44,243)
Wastewater treatment			
1984 State Clean Water Fund	\$51,416	\$46,817	\$4,599
Totals	\$299,780	\$165,850	\$133,930

Safe Drinking Water. The budget projects total expenditures of \$41.8 million in 1993-94 and a balance of \$85.1 million on June 30, 1994. The DWR advises, however, that it has about \$60 million in pending grant applications against this balance. Thus, it may have as little as \$25.1 million in unobligated funds for additional projects in 1994-95. In addition, the demand for these funds has recently increased. This is because the federal Environmental Protection Agency implemented stricter regulations in 1991 that require treatment of all surface water through filtration and disinfection before delivery. Currently, many sources of surface drinking water are not treated prior to delivery. The DHS estimates that local water systems in the state will need about \$675 million to comply with these regulations, which in practical terms will take about seven years to complete.

Because many small water agencies do not have reserves to pay for facility improvements, they have to rely on bond financing. The DWR staff indicate that if no additional bond funds are made available, many of the small water agencies and districts (ranging from five to 200 service connections) will have difficulties complying with the regulations.

We recommend that the DWR and the DHS report at budget hearings on the estimated funding needs of local agencies to comply with federal drinking water regulations. This information will assist the Legislature in determining the state's future assistance in funding these needs.

Water Supply. The budget reflects \$77.2 million in expenditures for a variety of water supply programs. The balance available for these programs in 1994-95 is projected to be \$44.2 million. According to staff at the DWR and the SWRCB, *all* of this balance is for pending applications for projects in the pipeline.

Wastewater Treatment. The budget indicates that the 1984 State Clean Water Fund, used to fund wastewater treatment projects, will have a balance of \$4.6 million at the end of 1993-94. The SWRCB staff indicate that *all* of the balance is for projects considered to be in the pipeline.

Summary: Little Bond Money Available for Water Projects in Future Years. The DWR and the SWRCB will have sufficient bond funds available in 1993-94 to continue to provide some level of local assistance grants and loans for drinking water, water supply, and wastewater projects. Federal drinking water regulations will increase the demand for these funds in future years, when little money will remain in the existing bond funds.

OPTIONS FOR FUNDING RESOURCES AND ENVIRONMENTAL PROTECTION PROGRAMS

In the Analysis of the 1992-93 Budget Bill, we provided a framework for appropriately financing resources and environmental protection programs. In the following analyses of the specific budget proposals for boards and departments in the resources and environmental protection areas, we recommend that legislation be enacted to impose fees for the support of several programs in order to appropriately finance these programs based on the framework.

In the *Analysis of the 1992-93 Budget Bill* (please see pages IV-19 through IV-25), we provided a framework for financing resources and environmental protection programs. Under that framework, we found that there are three major options for financing resources and environmental protection programs:

- **Fees.** Fees are an appropriate means of financing programs that (1) provide a direct benefit to an identifiable group of people (user fees) or (2) prevent or reduce the degradation of *public* resources by regulating *private* activities (regulatory fees). Regulatory fees require people that use or degrade *public* resources to pay all or a portion of the social costs imposed by their use of the resource.
 - **General Purpose Funds.** General purpose funds (such as the General Fund or the Environmental License Plate Fund) are an appropriate means for financing resources and environmental protection programs that benefit the entire population. General funds also may be the practical default funding option for programs where (1) the benefits are widespread but not universal or (2) to "tag" each benefitting group for its share of programs cost would be administratively burdensome and inefficient.
 - **Combination of Fees and General Funds.** Many resource protection programs provide benefits to a specific group of people 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, state parks provide a direct benefit to people who use the parks, and therefore it is appropriate to charge a fee for their use. However, the preservation of state park lands also provide a benefit to all the people of the state by maintaining the natural diversity and ecological health of the state. Therefore, it is also appropriate to finance a portion of the costs of acquiring and operating the parks from general funds.
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In the following analyses of the specific budget proposals for the boards and departments in the resources and environmental protection area, we recommend that several programs be shifted to fee funding in order to appropriately finance these programs based on the framework described above.



DEPARTMENTAL ISSUES

SECRETARY FOR ENVIRONMENTAL PROTECTION (0555)

The Secretary for Environmental Protection heads the California Environmental Protection Agency. The Secretary is responsible for overseeing and coordinating the environmental regulatory activities of the following departments and organizations:

- Air Resources Board
- Department of Pesticide Regulation
- Department of Toxic Substances Control
- Integrated Waste Management Board
- State Water Resources Control Board
- Office of Environmental Health Hazard Assessment

The budget proposes total expenditures of \$2.5 million for the Secretary for Environmental Protection in 1993-94. This is \$1 million, or 29 percent, less than estimated current-year expenditures. The reduction results primarily from (1) the proposed transfer of \$690,000 in reimbursements from the Secretary for Environmental Protection to the Office of Environmental Health Hazard Assessment for the implementation of two programs and (2) a reduction of \$701,000 from various funds to eliminate one-time costs funded in the current year.

Agency's Failure to Comply With Legislative Direction Reduces Legislative Oversight

The agency has failed to comply with the requirements of the Supplemental Report of the 1992 Budget Act. Consequently, this reduces the Legislature's abilities to evaluate the agency's budget proposals. In addition, we recommend a reduction of \$120,000 from various funds requested for an assistant secretary position because the agency has not justified the position. (Reduce various items by \$120,000.)

During hearings on the 1992 Budget Bill, the Legislature expressed concern over the agency's method to distribute costs among a number of funds that are used to support the environmental regulatory boards and departments overseen by the Secretary for Environmental Protection. In addition, the Legislature questioned the need for an Assistant Secretary for the Regulatory Improvement position. As a result, the Legislature adopted language in the *Supplemental Report of the 1992 Budget Act* requiring the agency and Department of Finance (DOF) to submit reports to evaluate the options available for funding the agency and to justify the need for the Assistant Secretary for Regulatory Improvement.

Funding Options. The report on funding options is required to examine the potential use of *new* funding sources that can be developed to pay for the costs of the agency, as well as the use of funding sources authorized by current law. The Secretary is required to evaluate the pros and cons of each option and identify the preferred funding option.

The Legislature required this information because the agency's 1992-93 proposed expenditure level was based primarily on the availability of monies within the various funding sources and bore no relationship to the level of services proposed to be provided to the constituent boards and departments. In addition, the Legislature was concerned that using *existing* special fund monies to finance the Secretary's office reduced the amounts available for boards and departments to implement environmental protection programs.

Assistant Secretary for Regulatory Improvement. The Legislature subsequently funded the Assistant Secretary for Regulatory Improvement position as a one-year limited-term position. It further required the Secretary to submit information justifying the need for the position. The information must include (1) appropriate workload data and (2) the reasons why the assistant secretary classification, rather than a lower classification, is the appropriate classification for performing these activities.

In addition, the Legislature required the DOF to submit, by December 1, 1992, an evaluation of how the position of the Assistant Secretary for Regulatory Improvement differs from similar positions in the Business Development Program in the Department of Commerce (DOC) and the Office of Permit Assistance in the Office of Planning and Research (OPR). The report must also include options on how to consolidate and streamline these similar functions beginning in 1993-94.

The Legislature required this information because of concerns that the Assistant Secretary for Regulatory Improvement position duplicated existing functions in state government, including the Deputy Secretary for Regulatory Improvement within the agency and other positions in the DOC and the OPR.

Agency Did Not Comply Fully With Report Requirements. Although the agency submitted information on options for funding the agency, it did not provide the Legislature with any information on *new* funding sources that can be developed to fund the agency. Without this information, the Legislature has no basis to evaluate the relative merits of the funding option proposed by the agency as compared to developing new fees for its support. Specifically, for 1993-94, the agency proposes to distribute its support costs among the various environmental regulatory boards and departments proportionately based on the number of staff they have in the current year.

Similarly, the agency has not fully complied with the reporting requirements regarding the Assistant Secretary for Regulatory Improvement. The agency has submitted information on the proposed duties of the assistant secretary position, but failed to provide workload information that justify the position. Furthermore, the DOF has submitted no information on how this position differs from similar positions in the DOC and the OPR.

Without workload justification and information showing the absence of duplication in activities, we see no reason why the Legislature should continue funding the position in 1993-94. Accordingly, we recommend deletion of \$120,000 and the Assistant Secretary for Regulatory Improvement position.

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION (3360)

The Energy Resources Conservation and Development Commission—or the California Energy Commission is responsible for

siting major electric power plants, forecasting energy supply and demand, developing and implementing energy conservation measures, and conducting energy-related research and development programs.

The budget proposes expenditures of \$85.4 million from various state and federal funds in 1993-94. This is \$2.4 million, or 2.8 percent, more than current-year expenditures. Major energy development program changes include (1) an increase of \$10 million in expenditures for the Katz Safe School Bus Clean Fuel Efficiency Demonstration Program from the Katz Schools Fund (supported by Petroleum Violation Escrow Account, or PVEA, monies) and (2) \$8.7 million from the PVEA for various development, research and demonstration projects. Major changes proposed in energy conservation programs include \$5 million in federal funds for the Schools and Hospitals Grant Program and \$4 million from the PVEA for the Energy Partnership Loan Program. These increases are offset in part by one-time expenditures for various energy programs during 1992-93.

Status of Energy Commission Is Uncertain

Information has not been provided for either the administration's plan to eliminate the Energy Commission or the legislative request for information concerning duplicative efforts of the commission and the PUC.

Administration's Reorganization Plan. The Governor's Budget Summary for 1993-94 indicates that the Administration will consider eliminating the Energy Commission and transferring its functions to other state agencies, including the PUC. As discussed above, however, the proposed 1993-94 budget for the commission is slightly higher than the current-year budget, and there are no indications of any reorganization in the budget documents for the commission. This is the same situation for the PUC. It is our understanding that the administration was still in the process of formulating a plan concerning reorganization of the commission's responsibilities.

Legislative Request in 1992. In the *Supplemental Report of the 1992 Budget Act*, the Legislature directed the commission and the PUC to submit to certain legislative committees—within 90 days of adoption of the 1992-93 budget (1) an analysis of the areas of duplicative regulatory functions between the two entities, and (2) a detailed listing, by priority, of the various regulatory and promotional programs conducted by each commission. At the time this *Analysis* was written, the commission and the PUC had not submitted the requested information to the Legislature.

Consequently, at the time this *Analysis* was written, the administration had not developed a reorganization plan for the Energy Commission's responsibilities, and the two commissions had not responded to the Legislature's request concerning duplicative efforts.

Power Plant Siting Costs Should Be Reimbursed from Fees

We recommend enactment of legislation to (1) require the California Energy Commission to adopt fees to fully reimburse its annual costs for siting certain power plants; and (2) reduce the surcharge imposed on users of electricity to reflect this funding change.

State law requires the commission to perform engineering and environmental reviews (referred to as "power plant siting") for proposed power plants with generating capacity of 50 megawatts or more (plants of less than 50 megawatts are sited by local governments). There are three types of power plants sited by the commission: (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.

The budget proposes approximately \$7 million to fund the power plant siting program in 1993-94. The cost of this program is funded entirely by the Energy Resources Programs Account (ERPA). The ERPA derives its revenues (projected \$32.4 million in 1993-94) from a surcharge imposed on ratepayers of electricity sold by utilities.

Under the current funding mechanism, the commission's power plant siting costs are not reflected in the costs of building a power plant, but are borne directly by all electricity users through the surcharge. Our analysis indicates several problems with this funding mechanism, including:

- ***Cross Subsidies Between Ratepayers.*** The commission's costs of siting a new power plant are borne by *all* ratepayers, not just those who are the beneficiaries of the new power plant.
 - ***Subsidy of Power Produced and Used by QFs and Self-Generators.*** All ratepayers fund the cost of siting these facilities without receiving any of the direct benefits, because power generated for private use is not subject to the ERPA surcharge.
 - ***Inequity Between Large and Small 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. This creates inequity between large and small power producers.

- **Can Distort Investment Decisions.** Subsidy of the siting costs may result in the construction of power plants that might not be economically viable if the state's siting costs were considered in the investment decision to build the plant.

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

Based on this analysis, we recommend enactment of legislation to (1) require the commission to adopt fees to fully reimburse its annual costs for siting power plants, and (2) reduce the surcharge imposed on electricity ratepayers to reflect this funding change.

DEPARTMENT OF CONSERVATION (3480)

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

The DOC proposes expenditures totaling \$388.6 million in 1993-94, a decrease of \$15.9 million, or 4 percent, from estimated current-year expenditures. The proposed decrease is due primarily to program decreases totaling \$15.8 million in the beverage container recycling program (mostly from a decrease in projected recycling revenues).

Recycling Program Should Be Transferred in the Budget Year

We recommend enactment of legislation to authorize the transfer of the department's recycling program to the Integrated Waste Management Board (IWMB) in 1993-94 because the IWMB is responsible for all other waste recycling programs, and consolidation with the board would improve coordination of state recycling efforts. This would result in minor annual savings (probably less than \$100,000) to the Beverage Container Recycling Fund. Also, this would result in a shift of support funding for the recycling program from the DOC to the IWMB. (Reduce Item 3480-001-133 by \$12,803,000 and create a new Item 3910-001-133 for \$12,763,000.)

The Division of Recycling (DOR) administers the beverage container recycling program, which promotes the recycling of *certain* types of beverage containers. The *Supplemental Report of the 1992 Budget Act* stated the intent of the Legislature that the DOR be transferred to the IWMB effective July 1, 1993, in accordance with appropriate statutory authorization. This intent language reflected, among other things, the Legislature's concern over the programmatic overlap between this recycling program and the board's general waste management and reduction activities.

Although legislation was not enacted in 1992 to transfer the DOR from the department, we believe that such a transfer is justified, primarily because the IWMB carries out virtually all other state programs for waste recycling and litter reduction. The consolidation of the beverage container recycling program with other recycling activities by the board would allow for increased coordination of the state's recycling programs and for reductions in any duplication or overlap between the programs. Accordingly, we recommend the enactment of legislation to authorize this transfer.

Because the state Constitution prohibits any change in the duties of an office through an urgency statute, the transfer cannot be made before January 1, 1994. Consequently, complying with the intent language would require half-year funding for the DOR within the department and half-year funding within the board. Thus, we further recommend a shift of support funding for the DOR for the second half of 1993-94 from the DOC to the IWMB.

Transferring the recycling program from the DOC to the board would result in relatively minor administrative savings (probably less than \$100,000 annually) to the Beverage Container Recycling Fund. Because the use of this fund is restricted to beverage container recycling activities, any savings would stay within the fund to be spent on these activities. In addition, there should be no additional costs to the IWMB from this transfer, as the recycling program is self-financing.

Options for Transfer of Remaining DOC Functions

There are several options for consolidating the functions of the DOC within other state agencies. The Legislature should evaluate these options using specific criteria. Elimination of the department through this consolidation would result in savings (all funds) of about \$1 million annually. There also would be undetermined one-time costs to implement the consolidation.

The *Supplemental Report of the 1992 Budget Act* also directed the Legislative Analyst to report at hearings on the 1993-94 budget regarding options for consolidating the nonrecycling functions of the DOC within other state agencies in order to eliminate the department. In accordance with this direction, we have analyzed the DOC's other three programs—plus its general administration—and identified options for distributing them to other state agencies. Figure 10 summarizes these options and our estimates of resulting savings. The DOC's recycling program also is included in the chart for completeness.

Assumptions. In presenting these options and in estimating the savings, we have made the following assumptions:

- The DOC's programs will be transferred only to existing state agencies.
- These programs' offices are to remain located where they are now.
- The programs' functions and internal structures are to remain essentially the same.
- Senior executive management, related staff and overhead expenses for each program will be eliminated (this accounts for most of the savings).

Although we have assumed that the DOC's programs would be transferred to existing state agencies, the Legislature could take action elsewhere in the budget that could present additional transfer options. For example, it could create a Department of Energy and Mineral Resources, which could allow for the consolidation of the DOC's Division of Oil and Gas and/or the Division of Mines and Geology with the Energy Commission's existing functions.

In addition, the Governor has identified the State Lands Commission and the Energy Commission as possible candidates for elimination in 1993-94. At the time this analysis was prepared, no details of these elimination plans were available, and both commissions were funded in the proposed Governor's Budget. Restructuring or elimination of these commissions clearly would have an effect on the options for transferring the DOC's functions.

Fiscal Impact. As Figure 10 indicates, including the beverage container recycling program, the General Fund and special fund savings from these transfers—regardless of which state agencies acquire these functions—would total about \$1 million annually. To the extent that the other state agencies could achieve further efficiencies in administering these functions (for example, eliminating more clerical support

positions), additional savings would be realized. Conversely, the total savings could be somewhat lower if the other state agencies' administrative overhead costs are higher than the DOC's.

Figure 10

**Department of Conservation
Options for Transfer of Functions**

(Dollars in Thousands)

Function	Options for Transfer and Comments	Estimated Annual Savings	
		General Fund and Fungible Funds	Special Funds
Geologic Hazards and Mineral Resources Conservation	<ul style="list-style-type: none"> • State Lands Commission (SLC): relatively little program expertise in this area. • Energy Commission: activities are mostly planning; not directly related in function. • Seismic Safety Commission: activities are somewhat similar to DOCs in geologic hazards area. 	\$130 (2 PYs)	—
Oil, Gas, and Geothermal Resources	<ul style="list-style-type: none"> • SLC: similar program, but on smaller scale; not as regulatory • Energy Commission: activities are mostly planning; not directly related in function. 	— ^a	—
Land Resource Protection	<ul style="list-style-type: none"> • SLC: general natural resources conservation mission; not involved on private lands. • Department of Forestry and Fire Protection: related natural resources conservation mission. • Department of Food and Agriculture: programs are related to farming. • Resources Agency: mostly an oversight body; has managed some small programs. 	—	— ^b
Beverage Container Recycling	<ul style="list-style-type: none"> • Integrated Waste Management Board: responsible for other state recycling programs. 	—	\$80 (1 PY)
Administration	<ul style="list-style-type: none"> • Absorbed by other agencies. 	110 (2 PYs)	640 (10 PYs)

^a Program is funded from industry assessments, so any savings would result in lower assessments, not General Fund savings. Annual savings would total about \$140,000 in 1993-94.

^b Administrative staff of these programs are funded under the Division of Administration, so there would be no direct savings under this function.

While there would be ongoing savings after the consolidation, there would be initial one-time administrative costs to transfer these functions into other agencies. These costs would depend on the number of agencies to which the DOC's programs are transferred. For instance, there would be some upfront activities required to implement the consolidation, such as merging personnel records and accounting databases. We are unable to estimate these costs, which likely would be borne by the agencies to which programs and functions are transferred, but the costs probably would be less than the ongoing savings.

Criteria for Deciding on Transfer Options. To focus the evaluation of the options for reallocating the functions of the DOC, we believe that the Legislature, at a minimum, should consider the following criteria:

- Is there a reasonably related program in another department, commission or agency that could include a DOC function?
- Would the transfer result in increased program coordination between related, but currently separated programs?
- Would the transfer result in a potential conflict of missions within one agency?

The application of these criteria to the transfer options should help in deciding whether to shift a current DOC function to another agency, and which is the most appropriate agency, if any, for a given function.

How Do the Transfer Options Compare Against the Suggested Criteria? Other than the beverage container recycling program, all other DOC functions relate generally to geological, mineral and land resources. As Figure 10 indicates, for instance, one option is to transfer all of these functions to the State Lands Commission (SLC). The SLC has generally similar programs for oil, gas, and geothermal resources as the DOC, although on a smaller scale. However, the SLC's programs currently are oriented more towards state lease revenue generation and are not as regulatory in nature as the DOC Program. Consolidating the two agencies' programs under the SLC may require a reexamination of the missions of the programs being consolidated as well as the mission of the resulting new program.

In addition, the SLC has a general natural resources conservation mission in public land preservation activities, which could be furthered by increased coordination with the DOC's programs. However, the commission is not directly involved in private farmland preservation and mapping or statewide soil conservation, as is the DOC. Finally, the SLC has relatively little program expertise in geologic hazards and hard mineral resource conservation compared to the DOC. Consolidating the

department's programs with SLC may require redefinition of SLC's role and responsibilities.

As Figure 10 shows, because of the differences in programs among departments, it does not appear that there is one single state agency to which the DOC's functions could be transferred easily. In addition, there does not appear to be any agency that could readily accept a function from the DOC without receiving significant new authority.

Summary. Elimination of the DOC through consolidating its functions within other state agencies would result in total savings of about \$1 million annually. These savings could increase in future years to the extent that the other agencies are able to achieve further efficiencies in administering these functions. However, other issues need to be evaluated in deciding (1) whether to pursue this consolidation and (2) if so, where to transfer the DOC's nonrecycling functions. These issues include program overlap with existing agencies, the need to revamp an agency or agencies to accommodate these functions, and potential conflicts between the DOC's missions and those of other agencies. Our review indicates that changes in other agencies would be necessary to carry out this consolidation.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION (3540)

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

The budget requests \$372.8 million from the General Fund (\$247 million), various other state funds (\$32.8 million), and federal funds and reimbursements (\$93 million) for support of the CDFFP in 1993-94. This is a decrease of \$39.1 million, or 9.5 percent, from estimated current-year expenditures. The decrease is due primarily to a reduction in emergency fire suppression expenditures, as discussed below.

Emergency Fire Suppression Costs

In the current year, the CDFFP's expenditures for emergency fire suppression are estimated to total \$78.1 million, which is more than in any previous fiscal year. The budget proposes expenditures of up to \$32.5 million for these activities in 1993-94.

Current-Year Spending Exceeds All Prior Years. After a year of relatively low emergency fire season costs in 1991-92, this year's expenditures continued a trend of especially high emergency costs resulting from large fires in late summer and early fall. The CDFFP reports that emergency costs during the first *half* of 1992-93 totaled \$72.1 million, which exceeds *full-year* costs for any fiscal year during the past 20 years. The budget estimates that full-year emergency costs for 1992-93 will total \$78.1 million. (In comparison, over the past 12 years the CDFFP's annual expenditures for emergency fire suppression have averaged about \$31 million.) The current-year amount consists of:

- \$59.1 million from the General Fund, as follows:
 - \$20 million appropriated in the 1992 Budget Act.
 - \$10 million allocated from the Special Fund for Economic Uncertainties (the General Fund reserve), as authorized in Section 12.30(c) of the 1992 Budget Act.
 - \$3 million redirected internally by the CDFFP from other activities.
 - \$26.1 million in deficiencies authorized by the Department of Finance (including \$6 million for potential emergency costs in the spring of 1993).
- \$19 million in federal reimbursements from the Federal Emergency Management Agency (\$16.5 million) and other federal agencies (\$2.5 million).

Budget-Year Projections. The budget proposes expenditures totaling \$22.5 million (\$20 million from the General Fund and \$2.5 million in federal funds). In addition, as in past years Section 12.30(c) of the Budget Bill authorizes the Director of Finance to allocate up to \$10 million from the General Fund reserve to the CDFFP for emergency fire suppression costs in the budget year.

Fire Protection Fees Should Be Enacted

We recommend the enactment of legislation to partially offset the cost of fire protection services by imposing fees on property owners who benefit from these services. (Increase General Fund revenues by \$11 million.)

Background. Several times in recent years, the Administration has proposed legislation to impose a fee on owners of property in areas for which the state bears the primary fire prevention and suppression responsibility. These lands, known as state responsibility areas (SRAs), generally consist of all forestlands, watersheds, and rangelands that are not owned by the federal government or located within the jurisdiction of a city. The 1990-91 budget proposed that fee revenues fund \$11 million, or about 5 percent, of total proposed General Fund spending for fire protection services. (This total, about \$218 million, represented the projected costs for all of the CDFFP's fire protection programs *excluding* emergency fire suppression.) Similarly, the Legislature passed the 1991 and 1992 Budget Acts based on the assumptions that such fees would generate \$12 million and \$25 million, respectively. However, attempts to pass legislation that would enact these fees have failed in each of these years.

Direct Beneficiaries of Fire Protection Services Ought to Share Costs. The budget does not propose the use of fee revenues to help fund the CDFFP's fire protection services in 1993-94. However, the concept of charging direct recipients of services for the costs of the service continues to have analytical merit and should be reconsidered given the magnitude of the state's fiscal problem. As we noted in our discussion of fee financing in the 1992-93 *Analysis*, combining fees and General Fund revenues to finance a program enables a sharing of costs among private beneficiaries of services and the general public. In the case of fire protection services, property owners in SRAs directly benefit from the program, as does the state's population through the preservation of natural lands and their wildlife habitat (please see page IV-23 of the 1992-93 *Analysis*).

Accordingly, we recommend the enactment of legislation imposing either a fee or fire insurance surcharge on property owners in SRAs who receive these services. The fee revenues would be used to partially offset General Fund expenditures for this program; each 1 percent of program costs covered through fees would save about \$2.2 million from the General Fund.

Issues to Consider When Implementing Fees. In implementing the fees, the Legislature would need to consider several issues. These concerns were the main focus of policy debates in the past relating to

potential fee legislation. First, the Legislature needs to determine the proper distribution of costs between fees and the General Fund. We believe that a fee that covers 5 percent of program costs is a reasonable minimum as a starting point to begin the sharing of fire protection costs between those directly benefitting from this program and the general public. A 5 percent fee would generate \$11 million, thereby offsetting a corresponding amount of General Fund costs.

Second, the Legislature needs to determine how fees should be assessed—for instance, whether fees should be assessed based on acreage or on the level of property improvements, or both. Because fees should reflect the benefit of the fire protection services provided, we think a combination of size of property and the value of property improvements is an appropriate basis for assessment.

Third, the Legislature needs to determine whether all property owners should pay, or if certain groups—such as those in SRAs who already pay fees to local fire districts—should be exempted.

Fourth, the Legislature also needs to consider how the fee should be collected. For instance, it could be collected by county tax assessors as part of the property's assessment for fire protection. Alternatively, it could be collected through insurance companies as a fire insurance premium surcharge. This was the method used under the now defunct earthquake insurance program. Which method of collection is preferable would depend on the ease of the collection system and the administrative costs involved.

Timber Harvest Permit Fees Should Be Enacted

We recommend the enactment of legislation imposing fees or tax surcharges on timber operators to cover the department's cost of administering the Forest Practice Act. (Increase General Fund revenues by \$8.9 million; reduce Item 3540-001-140 by \$1.5 million, Item 3540-001-235 by \$606,000, and Item 3540-001-928 by \$5.9 million.)

In the past two years, we recommended the enactment of legislation imposing fees on timber operators to cover the General Fund costs of administering the Forest Practice Act. The act prohibits timber harvesting operations unless they comply with a timber harvest plan (THP) prepared by a registered professional forester and approved by the CDFFP Director. The THP covers such matters as harvest volume, cutting method, erosion control, and wildlife habitat protection. The CDFFP reviews THPs and conducts field inspections.

As part of the 1991-92 budget solution, the Legislature adopted a budget for the CDFFP that reflected this recommendation. After passage

of the budget, however, the legislation authorizing the fees to offset General Fund costs was not enacted. Timber harvest permit fees were not included in the final budget package for 1992-93.

Budget-Year Proposal. The 1993-94 budget proposes expenditures totaling \$8.9 million for the forest practice regulatory program, including \$879,000 from the General Fund, \$5.9 million from the Forest Resources Improvement Fund (FRIF), \$1.5 million from the Environmental License Plate Fund (ELPF), and the remainder from various special funds and license fees.

Fees or Surcharge to Cover Program Costs Still Justified. As with fire protection services, we believe it is appropriate for the state to require fee revenues to cover the costs of administering the Forest Practice Act. In this case, fee revenues should cover the total program costs, as there is a direct link between the program and those who directly benefit from it through their harvesting of timber. Doing so would be consistent with the Legislature's actions in requiring the costs of similar regulatory programs of other state agencies, such as the Department of Food and Agriculture and the Division of Oil and Gas, to be fully or partially reimbursed through industry fees and assessments.

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 \$27 per acre would raise sufficient revenue to offset the 1993-94 costs of this regulatory program. A fee of this size would be relatively small compared to the revenue generated from harvesting timber, which can range from several hundred dollars to tens of thousands of dollars per acre.

Based on a 1981 Attorney General opinion, the department currently does not have the authority to charge these fees. Consequently, we recommend enactment of legislation that would provide the department with the authority to impose the fees (or timber yield tax surcharges).

The revenues from fees would be about \$9 million annually. Savings to special funds (primarily the FRIF and the ELPF) would total about \$8 million annually. These special fund savings then could be redirected to other programs.

Equipment Replacement Appears Reasonable

The budget proposes to fund the replacement of telecommunications and air fleet equipment from the Special Account for Capital Outlay (SAFCO) and the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund, respectively. These requests appear reasonable.

Last year, the department proposed that \$13 million in general obligation bonds be issued to fund (1) upgraded telecommunications equipment (\$6.5 million) and (2) replacement fixed-wing aircraft and improvements to helicopters (\$6.5 million) in 1992-93. This was a continuation of a multi-year replacement program begun in 1990-91. Because, among other things, the useful life of some of the equipment would be less than the term of the bonds, we recommended deletion of this request and that the Legislature consider funding this program on a pay-as-you-go basis, as it had in past years.

Because the Administration's proposed bond measures for this equipment replacement were not included in either the June or November 1992 ballots, no other funds are available for this program in the current year and equipment replacement has to be deferred. The 1993-94 budget proposes a return to the traditional method of funding the replacement program on a pay-as-you-go basis. Specifically, the department requests \$6.5 million from the SAFCO for telecommunications equipment and \$1 million from the Section 8(g) Revenue Fund for air fleet equipment in 1993-94. This proposal appears reasonable and is consistent with past legislative action in funding fire and life safety projects from the SAFCO.

DEPARTMENT OF FISH AND GAME (3600)

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 sets policies to guide the department in its activities, and regulates the sport taking of fish and game. The DFG currently manages about 160 ecological reserves, wildlife management areas, habitat conservation areas, and interior and coastal wetlands throughout the state.

The budget proposes total expenditures of \$159.3 million from all sources for support of the DFG in 1993-94. This is a decrease of \$300,000, or 0.2 percent, from estimated current-year expenditures. The decrease is due to an increase of \$4.1 million in expenditures for the oil spill prevention and response program, offset primarily by reductions totaling \$3.4 million from elimination of various one-time costs.

Revenue Picture For the Budget Year Shows Continued Improvement

The budget estimates of fee and tax revenues used to support the DFG generally are reasonable, but some uncertainty remains.

Almost half of the DFG's budget is supported by the Fish and Game Preservation Fund (FGPF). This fund receives revenues from hunting and fishing licenses and taxes, commercial fishing permit fees, and environmental review fees paid by development project applicants. Most of these revenues are deposited in the nondedicated account of the FGPF (known as the FGPF-ND), which primarily is used to support programs related to hunting and fishing, but also supports some environmental programs as a result of the revenues from environmental review fees. The department projects that fee revenues to the FGPF-ND will total \$58.9 million in 1993-94. This is an increase of \$400,000, or 0.7 percent, from estimated current-year fee revenues.

In the past, we have pointed out that the department had not provided reliable revenue estimates on which the Legislature could base expenditure decisions. In 1990, the department initiated a new revenue estimating methodology, which generally has overcome its past practice of overestimating revenues. Our analysis indicates that although the department's revenue estimates continue to improve from past years, there still is some uncertainty about particular fee and tax revenues to the FGPF-ND. Specifically, these uncertainties involve the following revenues:

- **Commercial Fishing License Revenues.** The DFG estimates that these revenues will total \$3.7 million, or 6.3 percent of total fee revenues, in 1993-94. However, our review shows that significant uncertainty exists as to whether this estimate will prove to be accurate. This is because the schedule of fees charged for commercial fishing licenses was recently revised by Ch 701/92 (SB 1565). Chapter 701 increased some types of license fees and decreased others. These changes make revenue projections for 1993-94 more difficult because the DFG does not have baseline data from which to make estimates. This factor is compounded by wide variability in the amount of fish caught by the commercial fishing industry.
- **Environmental Review Fee Revenues.** Chapter 1706, Statutes of 1990 (AB 3158, Costa) allows the DFG to charge applicants for projects or activities subject to review under the California Environmental Quality Act (CEQA) a fixed fee to cover the costs of the DFG's reviews as well as general resource protection activities. The DFG estimates that these revenues will total \$4.8 million, or 8.2 percent of total fee revenues, in 1993-94. Based on continuing problems in implementation and enforcement of the fee, this revenue estimate may be optimistic, by as much as several hundred thousand dollars.

Shortfalls in either of these areas would reduce the amount of funds in the FGPF-ND reserve, which the budget projects to be \$5.5 million at the end of 1993-94.

NCCP Program Increase Not Justified

We recommend a reduction of \$933,000 from the Environmental License Plate Fund (ELPF) and federal funds requested to fund continued development of the state's first natural community conservation plan (NCCP) because (1) the proposal does not include sufficient cost reimbursements and (2) an increase in funding is not justified because the department has not provided program information requested by the Legislature. (Reduce Item 3600-001-140 by \$708,000 and Item 3600-001-890 by \$225,000.)

Background. Chapter 765, Statutes of 1991 (AB 2172, Kelley)—known as the Natural Community Conservation Planning Act—authorized the DFG to assist public and private agencies in preparing and implementing NCCPs to provide protection for wildlife species in areas proposed for development. The plans are intended to provide a planning structure early in the development process for the protection of species and their habitats that make up a natural community. The measure authorizes the DFG to adopt guidelines for the development and implementation of the plans. The measure does not exempt projects from the requirements of the CEQA, although in the long run the measure is designed to shorten the CEQA process for individual projects. Chapter 765 requires that the DFG be fully compensated for its costs in assisting in the NCCP process.

For 1991-92, the DFG absorbed the initial costs of implementing the program. The initial activities involved (1) organizing interested parties for a pilot project in southern California, (2) appointment of a scientific review panel and an advisory committee, (3) appointment of legal counsel, and (4) signing of a cooperative agreement between the DFG and the U.S. Fish and Wildlife Service.

Legislature Reduced Current-Year Request. For 1992-93, the DFG requested \$1.8 million from the ELPF, and 29 permanent positions for the following tasks:

- *Resources Inventory and Preliminary Planning.* This includes field work to collect detailed biological data from potential sites for inclusion in NCCPs, and planning to identify key areas and tentative boundaries of protected areas.
 - *Mitigation Negotiations and Agreements.* This involves detailed planning sessions between the involved parties, leading to formal
-

agreements and specific strategies for protection of key ecosystem elements and species.

- **Scientific Monitoring and Threat Assessment.** This consists of ongoing biological monitoring of ecosystem and species conditions, and identification and resolution of external environmental problems (for example, water pollution) that pose a threat to a planning area.
- **Statewide Coordination and Oversight.** This includes preparation of statewide policies to place NCCPs in a statewide context, as well as agreements among state, federal, and local agencies and private landowners to ensure consistency with these policies.

The DFG identified these tasks as its role in helping to implement an NCCP pilot project focusing on coastal sage scrub habitat along the coast from the Mexican border into Ventura County.

The Legislature reduced the DFG's NCCP funding to \$362,000 from the ELPF. (These funds were to be used for the preliminary stages of the project, such as developing the NCCP guidelines.) The Legislature took the action primarily because of concerns over the large scope and workload of the pilot project, unspecified goals and objectives, and the lack of a reimbursement plan. The Legislature also requested in the *Supplemental Report of the 1992 Budget Act* that the DFG report quarterly, beginning in October 1992, on the department's proposed NCCP activities and an evaluation of the previous quarter's activities.

DFG Requested Additional Current-Year Spending Authority. In December 1992, the Department of Finance (DOF) notified the Legislature of the DFG's request to spend \$419,000 in reimbursements and redirect \$247,000 in federal fish and wildlife funds for the NCCP Program in the current year, pursuant to Section 28 of the 1992 Budget Act. In response, the Chair of the Joint Legislative Budget Committee recommended that the Director of Finance reject the federal funds portion of the request because such a redirection of these funds would be inappropriate. No objection was raised to the authorization of reimbursement expenditures. At the time this analysis was prepared, the DOF had not made a final decision on authorizing the DFG to spend the federal funds on the NCCP Program.

Budget-Year Proposal Leaves Issues Unresolved. For 1993-94, the budget requests \$1.1 million, including \$708,00 from the ELPF, \$225,000 in federal funds, and \$206,000 in reimbursements, and 16.5 positions for essentially the same tasks identified in the current year. The DFG's justification for the budget-year proposal also is virtually the same as

the current year's. We have the following two concerns with the department's proposal.

Proposal Does Not Include Sufficient Cost Reimbursements. As indicated above, Chapter 765 requires that the DFG be fully compensated for its actual costs for participating in the preparation and implementation of an NCCP (these costs may cover consultation, plan approval and monitoring, and other necessary activities). The DFG's proposal, however, includes no project fees and only \$206,000 in reimbursements, which is about 18 percent of the estimated program costs in 1993-94. According to the DFG, requiring project proponents to compensate the DFG through fees for an NCCP may reduce the number of individuals or firms who wish to participate, given the significant costs project applicants currently may face under the CEQA. Nevertheless, as we noted in last year's *Analysis*, Chapter 765 is clear in its direction that the DFG should be *fully* reimbursed for its costs. Furthermore, it makes sense for project applicants to pay for the costs of this program since, in the long run, it is partly designed to benefit them by shortening the CEQA process.

DFG Did Not Provide Requested Information. At the time this analysis was prepared, the DFG had not provided the Legislature with any of the quarterly reports on the NCCP's goals, objectives, and progress requested in the *Supplemental Report of the 1992 Budget Act*. Without this information, we believe that the Legislature does not have a basis for approving any increases in funding for this program.

Conclusion. Because the proposal does not include a plan to reimburse fully the DFG and because the department has not provided legislatively required information concerning NCCPs, we recommend that the Legislature delete the ELPF and federal funds requested for this program in 1993-94. We recommend approval of the \$206,000 requested in reimbursements, because this is consistent with the intent of Chapter 765 and with the current-year reimbursement authority. Accordingly, we recommend deletion of \$708,000 from the ELPF and \$225,000 in federal funds that the DFG proposes to spend on the NCCP Program.

DEPARTMENT OF PARKS AND RECREATION (3790)

The Department of Parks and Recreation (DPR) acquires, develops, preserves, interprets, and manages the natural, cultural and recreational resources in the state park system and in the State Vehicular Recreation Area and Trail System. 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 269 units, including 38 units administered by local and regional park agencies. The system contains approximately 1.3 million acres of land with 281 miles of ocean and bay frontage and 820 miles of lake, reservoir, and river frontage. During 1993-94, about 70 million visitations are anticipated at state parks and beaches operated by the department.

Budget-Year Proposal. The budget proposes expenditures for the department totaling \$190.7 million for support and local assistance in 1993-94. This is a decrease of \$42.5 million, or 18 percent, from estimated current-year expenditures. Of the total expenditures, the budget requests \$175.5 million for support of the department, which is a net *increase* of \$2 million, or 1.1 percent, above the estimated current-year level. In addition, the budget proposes a total of \$15.2 million (from special and federal funds) for local assistance grants. This is a *decrease* of \$44.5 million, or 75 percent, below estimated current-year spending for local assistance.

State Park System Budget Has Improved But Revenues Still Uncertain

The department has taken significant steps to address previous problems in funding the operations of the state park system. However, there still is a potential for shortfalls in state park fee revenues, because the current- and budget-year fee forecasts are based on uncertain external factors. The department would need to address any shortfalls by reducing services and/or seeking additional funding from other sources.

The budget projects that revenues from park user fees to the State Parks and Recreation Fund (SPRF) will total \$56 million in 1993-94. This is an increase of \$1 million, or 1.8 percent, from estimated current-year fee revenues, and an increase of \$5.9 million, or 12 percent, from actual 1991-92 fee revenues.

Actions Taken in 1992-93 to Address Funding Deficiency. As a result of various factors—such as the recession, weather conditions, and increases in state park fees—the department experienced a substantial decline in visitor attendance and a resulting drop in fee revenues in 1990-91 and 1991-92. Based on this trend, a shortfall of \$11 million in fee revenues was projected for 1992-93. In addition, as in the prior year, the department's General Fund support was reduced by about \$12 million in the current year. While total funding for 1992-93 was lower, the

department also faced about \$13 million in unmet needs (such as deferred maintenance) from previous years. Consequently, the department advised that without other measures, it would have to reduce park program service levels to address this funding gap totaling \$36 million in 1992-93.

To avoid park closures or reductions in hours of park operation, the Legislature took two actions. First, it approved the department's plan to restructure its organization in order to reduce spending by about \$10 million. This restructuring included reductions in administrative and field staff, consolidation of headquarters offices, and elimination of all 5 regional offices. In this process, the department eliminated 204 positions, 60 percent of which were primarily administrative. The department reports that although the restructuring has increased the workload of headquarters staff and field supervisors, its effect on park services has been minimal. Second, the Legislature redirected about \$26 million, mostly from the Motor Vehicle Fuel Account (MVFA—funded from the gasoline tax) and the Off-Highway Vehicle Fund (OHVF), to the SPRF to make up for the reduced General Fund support. These actions covered the department's funding deficiency for 1992-93, and averted the need to reduce park services.

Budget-Year Proposal Faces Uncertain Future. The budget proposes to continue the special fund transfers from the MVFA (\$13.5 million) and the OHVF (\$8.9 million) to the SPRF in 1993-94. Together with the continued savings of \$10 million expected through its recent reorganization, the department anticipates that it will be able to continue current service levels in 1993-94.

However, as in past years, we have concerns about the accuracy of the department's projections of park fee revenues for the budget year and thus the department's ability to maintain park services without any reduction. This is primarily because park fee revenue projections for 1993-94 are based directly on uncertain current-year estimates. Given the shortfalls in expected fee revenues to the SPRF in recent years, the current-year total may prove to be too optimistic. For instance, the department reports that actual fee revenues *declined* by 2.3 percent in the first five months of 1992-93 compared to the same period in the previous fiscal year. However, the department's estimates show revenues for the last seven months of 1992-93 *increasing* by 29 percent over actual revenues for this period in 1991-92.

The department is counting on several factors in its revenue estimates for the current and budget years: a slight upturn in the economy, improved weather conditions, and a strong public relations effort to attract more visitors to state parks. The department has no

control over two of these three factors—the economy and weather. If, for any reason, fee revenues again fall short of estimates in either the current or budget year, the department would need to (1) reduce spending through cutbacks in state park services and/or (2) seek additional funding from other sources, such as further transfers from the MVFA.

Loan Interest Overbudgeted

We recommend a reduction of \$800,000 proposed for transfer from the Public Resources Account (PRA) to the 1986 park bond fund for loan interest payments, because the department has overbudgeted the amount needed for this purpose. (Reduce Item 3790-011-235 by \$800,000.)

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 Pooled Money Investment Account (PMIA) loans made to finance bond programs prior to actual bond sales were paid from the General Fund. In 1988, however, legislation was enacted requiring that any interest due on PMIA loans be paid from bond funds themselves.

The department made its original allocation of the 1986 bond fund to grant recipients prior to enactment of this law. At the time the 1989 Budget Act was enacted, the entire \$100 million had been appropriated for grants and no money from the bond fund was reserved to pay interest on PMIA loans. In order to comply with the 1988 law, the department would have had to reduce the amounts of individual local grants that already had been appropriated for local agency expenditure.

Prior-Year Transfers. For 1990-91, the department requested \$5.5 million from the PRA to cover an interest payment on PMIA loans for the bond fund through that fiscal year. The Legislature reduced this amount to \$2.8 million because based on the schedule of bond sales, not all of the requested amount was necessary in 1990-91. Similarly, the Legislature reduced the amount requested in 1991-92 from \$2.2 million to \$1 million. Because of decreases in loan activity and availability of money from nonbond fund sources, the department deferred its request for interest payment funding in 1992-93.

Budget-Year Request. The budget requests \$2.5 million from the PRA for transfer to the 1986 park bond fund in 1993-94. 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 past years, not all of the requested amount will be necessary for 1993-94. The Controller's Office advises that the net PMIA loan interest to date for the 1986 bond fund totals \$5.5 million. In addition, the Treasurer's Office reports that the full amount authorized under the 1986 bond act has been sold as of November 1992. Thus, there will be no need for additional PMIA loans and the bond fund will not accrue any more loan interest. Because a total of \$3.8 million has already been transferred from the PRA in previous years, only \$1.7 million in additional funds is needed to pay for the remaining interest cost. This is about \$800,000 less than the budget requests for this purpose.

Accordingly, we recommend a reduction of \$800,000 in the proposed transfer from the PRA to the bond fund.

Use of 1988 Park Bond Funds For Support Staff Is Not Appropriate or Justified

We recommend a reduction of \$3.1 million requested from the 1988 park bond fund for staff costs related to park capital outlay projects, because the request exceeds the amount of bond funds "earmarked" by the bond act for administrative costs and in any case has not been justified. (Reduce Item 3790-001-786 by \$3,062,000.)

The budget requests \$3.1 million from the California Wildlife, Coastal, and Park Land Conservation (Bond) Fund of 1988 for support of the department's staff work related to various park capital outlay projects. The department also requests \$4 million from the 1988 park bond fund for capital outlay projects in 1993-94.

We have two concerns with the request for support funds. First, the 1988 park bond act limits to \$820,000 the department's total administrative costs for those capital outlay projects that are subject to appropriation in the Budget Act. The full amount has been appropriated. Thus, no additional funds from the bond measure are available to the department for administrative expenses.

Second, our analysis indicates that the department's request is not consistent with general state capital outlay procedures. Typically, funding is allocated to the Department of General Services for the administrative costs of the design and construction of major capital outlay projects. A relatively small amount is allocated to the client agency, such as the DPR, for its costs that are associated directly with each project. These costs are included in each project's capital outlay appropriation.

The department however, indicates that it proposes to use the \$3.1 million for administrative work *generally* related to its park development program. Although such expenditures may be appropriate, the department has not provided any details on how it would spend \$3.1 million in 1993-94. Without this information, the request for these funds is not justified, *regardless* of fund source.

Accordingly, we recommend a reduction of \$3.1 million in the amount requested from the 1988 park bond fund for the department's support staff costs in 1993-94.

DEPARTMENT OF WATER RESOURCES (3860)

The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department implements the State Water Resources Development System, including the State Water Project (SWP). The department also maintains public safety and prevents damage through flood control operations, supervision of dams, and safe drinking water projects. In addition, the DWR furnishes technical services to other agencies.

The budget proposes total expenditures of \$1.1 billion in 1993-94, an increase of \$149 million, or 16 percent, from total estimated current-year expenditures (excluding flood control capital outlay). The total includes \$936.3 million in expenditures financed with SWP funds and \$40 million in bond funds for safe drinking water loans and grants. Appropriations in the Budget Bill provide the remaining \$126 million, of which \$16 million is from the General Fund for dam safety and flood management activities. The General Fund amount is \$168,000, or 1.3 percent, above the estimated current-year expenditures.

Legislative Oversight: Status of Central Valley Project Transfer

The Governor has proposed a transfer of title for the Central Valley Project (CVP) from the federal government to the state. The proposed transfer raises several fiscal and policy issues that the Legislature will need to consider during the next few years. We recommend that the DWR report at budget hearings on these issues.

The CVP is the federally owned and operated water development and transport system in California. In some areas, there is significant overlap between the CVP and the SWP, especially in moving water from the Sacramento-San Joaquin River Delta to the San Joaquin Valley. For instance, the two projects share use of the San Luis Reservoir

facilities and parts of the California Aqueduct. While there is some operational coordination between the two projects (such as agreements on joint use of facilities), most policy decisions—such as how much water to allocate annually to the projects' respective customers—are made separately.

Administration Pursues Transfer of the CVP. In March 1992, the Governor requested that the federal government consider transferring ownership and/or control over the CVP to the state. This transfer became a key part of the Governor's "long-term water policy framework" issued in April 1992. Subsequently, representatives from the DWR, the Resources Agency, and the U.S. Bureau of Reclamation (the agency within the Interior Department that operates the CVP) reviewed the options for transferring the CVP to the state. With public input, the state and federal officials selected the option of transferring title (that is, ownership) of the CVP to the state. A memorandum of agreement on title transfer was approved and signed by the Governor and the Secretary of the Interior in December 1992.

In summary, the agreement:

- Establishes a process for negotiating a contract to transfer title of the CVP to the state.
- Sets out procedures for the contract to comply with the National Environmental Policy Act (NEPA) and the California Environmental Quality Act (CEQA).
- Presents additional joint activities that the DWR and the bureau can undertake during contract negotiations.

As the first step under the agreement, state and federal officials expect to develop the general terms and conditions of the transfer during the remainder of 1992-93.

While the state acts to bring about the transfer, recent federal legislation, namely the CVP Improvement Act enacted in October 1992, significantly changes the laws under which the CVP operates. These changes may have an effect on the proposed CVP transfer. Essentially, the act allows voluntary water transfers by those receiving CVP water, restructures contract terms and water prices, and explicitly allocates water for fish, wildlife, and habitat purposes. Implementation of the act will take at least several years as details of these changes are worked out. Final resolution of these changes may require further negotiations with the state. This may extend the time period required to begin the transfer. DWR staff advise that the transfer process could take up to ten years to complete.

Proposed Transfer Raises Legislative Oversight Issues. The proposed transfer of the CVP has several potential benefits for the state. These include increased coordination of the SWP's and CVP's routine operations and state control over the allocation of water from the two projects to their customers. However, the proposed transfer raises several issues for the Legislature to consider. Enactment of state legislation would be required to authorize transfer of the CVP to the state, following approval of the transfer under the NEPA and CEQA processes and enactment of authorizing federal legislation.

In addition, fiscal issues such as the funding of any CVP improvements will need to be resolved. For instance, the Legislature would need to (1) assess the amount of money needed to improve the project's water supply and environmental mitigation measures and (2) determine the funding sources for this work. Furthermore, the state and the federal government would need to establish how much accrued debt remains on the CVP (that is, project financing by the federal government that was intended to be repaid by farmers served by the project), who will be responsible for paying it off, and over what time period. The amount of this accrued debt is uncertain, but has been estimated to be as high as \$5 billion.

Given the magnitude of these potential fiscal effects, we recommend that the DWR report at budget hearings on the proposed transfer and its fiscal consequences.

Special Account for Capital Outlay (SAFCO) Proposed For Flood Control Subvention Program

The budget proposes to fund expenditures for flood control projects from the SAFCO to help bring the state up to date on its local assistance obligation for these projects.

Under current law, the state funds 70 percent of the nonfederal costs for flood control projects authorized by Congress and the Legislature. Local agencies fund the remaining 30 percent. The state traditionally has funded its share of the nonfederal costs through the General Fund or appropriate special funds, such as the SAFCO. The program was not funded in 1990-91, however, because a general obligation bond measure that included \$90 million for flood control subventions failed on the November 1990 ballot. In addition, for 1991-92, the Legislature reduced the department's proposed SAFCO appropriation for flood control subventions from \$43 million to \$30 million due to a lack of funds. Most recently, the 1992-93 budget proposed \$87 million in subventions program expenditures from a proposed general obligation bond measure for the 1992 ballots, but the measure did not appear on these

ballots. No other funds are available for this program in the current year.

The budget proposes to return to the traditional method of funding flood control projects in 1993-94 by requesting \$26.4 million from the SAFCO. (The budget also proposes \$7.1 million for the DWR's capital outlay expenditures related to state-sponsored flood control projects along the Sacramento River and its tributaries.) The department estimates that the total state obligation for currently authorized projects is approximately \$433 million. Based on current project expenditure plans, it appears that all of the SAFCO funds would be used in 1993-94 to catch up on prior year claims. The majority of these claims are for the Santa Ana River project in Orange, Riverside, and San Bernardino counties.

AIR RESOURCES BOARD (3900)

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 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 budget requests a total of \$105.8 million for support of the ARB in 1993-94. This is an increase of \$5.7 million, or 5.6 percent, over estimated current-year expenditures. The net increase results primarily from requests to (1) develop toxic risk assessment guidelines and provide assistance to small businesses pursuant to Ch 1162/92 (SB 1731, Calderon) (\$1.9 million—Air Toxics Inventory and Assessment Account), (2) expand and modernize the existing system for collecting information on air pollution transport (\$1.7 million—Motor Vehicle Account (MVA)), and (3) replace worn equipment (\$1.4 million—MVA and other funds).

Board's Funding Needs Realignment As a Result of Constitutional Limitations

We recommend enactment of legislation requiring that fees on stationary sources of air pollution be established at a level that will generate sufficient revenues to cover the costs of the state board's programs for controlling emissions from stationary sources of air

pollution. Enactment of this legislation will free up approximately \$38.3 million from the MVA annually for motor vehicle-related programs and align program funding with constitutional requirements.

The ARB proposes a total of \$74.8 million from the MVA for support of its programs in 1993-94. Of this amount, \$36.5 million (49 percent) is for controlling pollution from mobile sources and \$38.3 million (51 percent) is for controlling emissions from stationary sources. The total request is \$4.7 million, or 6.8 percent, above the ARB's estimated current-year expenditures from the MVA. The net increase is almost entirely for stationary source programs.

Proposed Use of MVA is Not Appropriate. Article XIX of the State Constitution limits the use of MVA funds for environmental programs to "the mitigation of the environmental effects of motor vehicle operation due to air and sound emissions." Thus, the board's request for \$38.3 million for activities related to the control of *stationary sources* of air pollution does not conform to the constitutional limitations on the use of the MVA, and therefore is not appropriate.

Stationary Source Program Should Be Funded From Fees. Our analysis indicates that the board's stationary source program should be funded from fees, rather than from the MVA. In the *Analysis of the 1992-93 Budget Bill* (please see pages IV-19 through IV-25), we provided a framework for financing resources and environmental protection programs. We pointed out that fees are an appropriate way of financing programs that prevent the use or degradation of *public* resources by *private* activities. Through such a fee mechanism individuals, businesses, or industries that use or degrade a public resource pay for reducing the social costs imposed by their activity.

The release of pollutants into the air can result in social costs by harming public health and the environment. In order to reduce these social costs, the ARB regulates both mobile and stationary sources of air pollution. As a result, the ARB's regulatory costs should be funded from fees imposed on the appropriate emission sources.

In our view, the mobile source program is appropriately funded currently because the use of the MVA for the mobile source program results in the people potentially damaging public resources (through the use of their cars) paying—through vehicle registration and drivers license fees—for the costs of regulating the risk that their activity imposes on the general public. However, the use of the MVA for stationary source programs is not appropriate because the costs of reducing the risks from stationary source emissions should be paid by stationary sources, rather than by motor vehicle users.

Accordingly, in order to appropriately fund the board, we recommend the enactment of legislation requiring that fees be assessed at a level that generates sufficient revenue to cover the costs of the stationary source program. The fees could be fully implemented all at once. Alternatively, the Legislature could phase in the new fees over several years and gradually shift the funding for the stationary source program from the MVA. In order to minimize the administrative costs of collecting the fee, we recommend that the fees be collected in conjunction with the fees assessed by the air quality management districts. Shifting the entire program from the MVA to fees would free up \$38.3 million annually from the MVA for motor vehicle-related programs.

Air Pollution Control Fund Needs a Reserve

The proposed reserve in the Air Pollution Control Fund (APCF) is not sufficient to address reasonable revenue shortfalls or unanticipated expenditures. We recommend that the board submit, prior to budget hearings, a plan for establishing a reserve for economic uncertainty at the end of 1993-94 that is equal to 5 percent of proposed expenditures in the APCF.

The budget proposes total expenditures from the APCF of \$9.1 million for support of the board in 1993-94. The APCF is used for the general support of the board and is funded primarily from (1) stationary source permit fees, (2) certification fees for motor vehicles and engines sold in the state, and (3) penalties for violations of air pollution laws.

The budget proposes a reserve for economic uncertainty in the APCF of \$51,000, or 0.5 percent of proposed expenditures, at the end of 1993-94. Generally, programs that are funded from fees should have a reserve in the fund of approximately 5 percent of total estimated expenditures to address potential revenue shortfalls as well as unanticipated expenditures that may occur during the year. The board essentially proposes no reserve to address unanticipated changes in revenues or expenditures. Therefore, any shortfall in revenues or unanticipated expenditures that occur during the year will require program reductions.

In order to provide a reasonable reserve for economic uncertainty, we recommend that the board submit, prior to budget hearings, a proposal to establish in the APCF a reserve for economic uncertainty at the end of 1993-94 of approximately \$450,000, or approximately 5 percent of proposed expenditures from the APCF.

The proposal should include (1) a recommendation as to whether to establish the reserve through increased fees or through program reductions or some combination thereof, (2) a description and schedule of any new fees, or a schedule of any fee increases that the board proposes, to the extent that the board proposes to establish the reserve through increased fees, and (3) identification of the specific programs that the board proposes to reduce, and the programmatic effects of the reductions, to the extent that the board proposes program reductions to establish the reserve.

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD (3910)

The California Integrated Waste Management Board (IWMB), in conjunction with local agencies, is responsible 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. In addition, the board protects public health and safety through regulation of existing and new solid waste land disposal sites.

The budget requests a total of \$88.5 million from various funds for support of the IWMB in 1993-94. This amount is \$18.8 million, or 27 percent, more than estimated current-year expenditures. The net increase results primarily from (1) the restoration in 1993-94 of an \$11 million unallocated reduction made in the current year from the Solid Waste Disposal Site Cleanup and Maintenance Account (SWDSCMA), (2) an increase of \$11.9 million from the SWDSCMA to expand the board's program for cleaning up solid waste landfills that pose a hazard to human health or the environment, and (3) a reduction of \$4.6 million from the Integrated Waste Management Account (IWMA) as a result of declining revenues to the account.

Priorities for Program Reductions Not Identified

The budget proposes to reduce expenditures from the IWMA in 1993-94 by \$6.4 million below the level needed to maintain current-year authorized activities. The board proposes this reduction in place of increasing specified fees as authorized under current law. We further find that (1) the board has not identified the distribution of the proposed reduction among its programs and (2) the proposed reserve in the IWMA is not sufficient to address reasonable contingencies. In order for the Legislature to evaluate the merits of the board's decision

to reduce expenditures rather than increase fees, we recommend that the board submit, prior to budget hearings, (1) a proposal for distributing among its programs the \$6.4 million reduction from the IWMA and (2) a proposal for establishing a reserve for economic uncertainty at the end of 1993-94 that is equal to 5 percent of proposed expenditures from the IWMA.

The budget proposes expenditures of \$27.7 million from the IWMA for support of the board in 1993-94. This is a net reduction of \$4.6 million, or 14 percent, less than estimated current-year expenditures from this account.

The IWMA funds the state's programs for permitting solid waste management facilities, enforcing solid waste management laws, and planning and promoting solid waste reduction and resource recovery. The account is funded from waste discharge ("tipping") fees, imposed primarily on waste haulers and landfill operators. Under current law, the board is required to set the tipping fee annually at a level, up to \$1 per ton of waste disposed, that is sufficient to pay for the board's approved budget for the fiscal year and to establish a prudent reserve. Currently, the board has set the tipping fee at \$.75 per ton of waste disposed.

Budget Projects Revenue Shortfalls in 1992-93 and 1993-94. The board estimates that as a result of the recession, current-year revenues to the IWMA will be less than previously estimated and that revenues in 1993-94 will continue to decline. The board estimates that the slowed business activity will result in a decline in the tonnage of waste disposed and correspondingly a decline in revenues from tipping fees.

As shown in Figure 11, the board estimates that (1) current-year revenues will not be sufficient to fund the authorized level of expenditures and (2) revenues in 1993-94 will not be sufficient to maintain the current level of waste management activities, as a result of the projected decline in IWMA revenues. Specifically, the board estimates that current-year authorized expenditures will exceed available resources (including carry-over reserves from the prior year) by \$2.4 million. In addition, the costs of maintaining in 1993-94 the levels of waste management activities authorized in 1992-93 will exceed projected resources by approximately \$6.4 million.

Board Proposes To Address Shortfall Through Program Reductions. Under current law, the board is authorized to increase the tipping fees by up to 25 cents per ton of waste disposed in order to address the funding gaps. However, the budget proposes to reduce program activities in 1992-93 and 1993-94 in order to bring expenditures in line

Figure 11

**Integrated Waste Management Board
Projected Revenues and Expenditures
Integrated Waste Management Account
1992-93 and 1993-94**

(In Thousands)

1992-93	
Beginning reserve	\$3,289
Revenue	36,441
Authorized expenditures	42,096 ^a
Shortfall, 1992-93	-\$2,366
IWMB proposed unallocated reductions	\$2,700
Ending reserve	\$334
1993-94	
Beginning reserve	\$334
Revenue	32,743
Estimated expenditures to maintain 1992-93 authorized program levels	39,462 ^{a,b}
Shortfall, 1993-94	-\$6,385
IWMB proposed unallocated reductions	6,386
Ending reserve	\$1

^a Total expenditures from fund. Includes expenditures by the Integrated Waste Management Board, Board of Equalization, and Secretary for Environmental Protection.

^b Reflects 1992-93 authorized expenditures, revised for various technical and administrative adjustments.

with available revenues, rather than increasing the tipping fees. The board indicates that the decision to reduce expenditures reflects the administration's policy of not increasing fees or imposing new fees.

Legislature Needs Information on Distribution of Program Reductions. The board indicates that it intends to address the shortfall in the current year by reducing its contract and equipment expenditures, and by increasing salary savings for a total savings of \$2.7 million. The board has not yet determined the specific contracts or equipment that it will eliminate in the current year. In addition, the board has submitted no information identifying the distribution of the proposed \$6.4 million reduction in 1993-94. Specifically, the board has not identified (1) the programs it proposes to reduce or (2) the criteria it will use in allocating the \$6.4 million reduction among its programs. Without this information, the Legislature has no basis to evaluate (1) the merits of the board's decision to reduce program expenditures, rather than increase tipping fees, or (2) whether the board's distribution of the

proposed reduction among its programs is consistent with legislative priorities.

Accordingly, we recommend that the board submit, prior to budget hearings, a proposal for distributing among its programs the \$6.4 million reduction, including (1) the specific programs it proposes to reduce, (2) the amounts it proposes to reduce from each program, (3) the programmatic effects of the proposed reductions, and (4) the criteria used in allocating the proposed reductions. Based on this information, the Legislature can determine whether to address the shortfall through (1) program reductions as proposed by the board, (2) reductions of other program activities that reflect legislative priorities, or (3) increasing fees to maintain current program levels.

No Reserve to Protect Against Contingencies. As shown in Figure 11, the budget projects a reserve of only \$1,000 at the end of 1993-94. Generally, programs that are funded from fees should have a reserve in the fund of approximately 5 percent of total estimated expenditures to address potential revenue shortfalls as well as unanticipated expenditures that may occur during the year. Because there is little historical information or trends for the board to base its projections of IWMA revenues in 1993-94, it is very uncertain whether the projected revenues will materialize. The board, however, essentially proposes no reserve for contingencies or emergencies. Therefore, any shortfall in revenues or unanticipated expenditures that occur during the year will require further program reductions.

In order to provide a reasonable reserve for economic uncertainty, we recommend that the board submit, prior to budget hearings, a proposal to establish in the IWMA a reserve for economic uncertainty at the end of 1993-94 of approximately \$1.4 million, or approximately 5 percent of proposed expenditures from the IWMA.

The proposal should include (1) a recommendation as to whether to establish the reserve through increased fees or through further program reductions or some combination thereof, (2) identification of the amount of the fee increase necessary to establish the reserve, if the board proposes a fee increase, and (3) identification of the specific programs that the board proposes to reduce, and the programmatic effects of the reductions, to the extent that the board proposes program reductions.

STATE WATER RESOURCES CONTROL BOARD (3940)

The State Water Resources Control Board (SWRCB) regulates water quality in the state and administers water rights.

The board carries out its water quality control responsibilities by (1) establishing wastewater discharge policies; (2) implementing programs to ensure that the waters of the state are not contaminated by surface impoundments, underground tanks, or aboveground tanks; and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment facilities. Nine regional water quality control boards establish water discharge requirements and carry out water pollution control programs in accordance with state board policies.

The board's water rights responsibilities involve issuing and reviewing permits and licenses to applicants who wish to appropriate water from the state's streams, rivers, and lakes.

The budget proposes total expenditures of \$355 million from all sources for the SWRCB in 1993-94. This is a reduction of \$52 million, or 13 percent, below estimated current-year expenditures. The reduction results primarily from (1) a reduction of \$72 million in federal funds and state bond funds for loans to local governments to finance wastewater treatment plants; (2) a reduction of \$23.1 million in planning, research, and local assistance as a result of the expenditure in the current year of all remaining funds from the State Clean Water Bond Fund; and (3) an increase of \$56.1 million from the Underground Storage Tank Cleanup Fund for the cleanup of leaking underground tanks by eligible tank owners.

Board's Regulatory Program Should Be Funded From Fees

We recommend the enactment of legislation requiring that fees charged by the board be adjusted to a level that will generate sufficient revenues to cover the costs of the board's regulatory programs. Enactment of this change in legislation will free up approximately \$29.6 million from the General Fund in 1993-94. (Reduce Item 3940-001-001 by \$29.6 million.)

The budget proposes a total of \$231 million for the general support of the SWRCB and the regional boards in 1993-94. Of this amount, \$32 million is proposed from the General Fund, \$22 million from various

regulatory fees, and \$177 million from federal funds, reimbursements, state bonds, and other funds.

Our analysis indicates that the board's regulatory and planning programs in the water quality and water rights areas should be funded from fees, rather than from the General Fund. In the *Analysis of the 1992-93 Budget Bill* (please see pages IV-19 through IV-25), we provided a framework for financing resources and environmental protection programs. We pointed out that fees are an appropriate way of financing programs that prevent the use or degradation of *public* resources by *private* activities. Through such a fee mechanism individuals, businesses, or industries that use or degrade a public resource pay for reducing the social costs imposed by their activity.

The discharge of wastes into waters of the state or onto land can potentially result in social costs by harming public health and the environment. Similarly, the appropriation of waters of the state can potentially result in social costs by reducing the amount and quality of water available for fish and wildlife resources, as well as by reducing the quality of the water for use by people. In order to reduce these social costs, the board regulates wastewater discharges and water rights appropriations. As a result, the board's costs of regulating water quality and appropriating water rights should be funded from fees.

Accordingly, in order to appropriately fund the board, we recommend the enactment of legislation requiring that fees be assessed at a level that generates sufficient revenue to cover the costs of the board's programs for regulating water quality and allocating water rights. This will free up \$29.6 million from the General Fund. (Furthermore, as we discussed in an issue below, fees should be used to fund the board's activities to address a significant backlog in the water rights program.)

Water Rights Program Is Backlogged

The board's program for issuing and enforcing water rights has significant backlogs. Consistent with our prior recommendation, we recommend that annual water rights fees be established so that revenues are sufficient to maintain the water rights program and address program backlogs. We recommend that the board submit, prior to budget hearings, a plan for addressing the backlogs in the water rights program.

Of the \$231 million requested for board support in 1993-94, \$9.1 million will be for support of the board's water rights program. Under this program, the board (1) evaluates requests to appropriate waters of

the state, and issues permits setting the terms and conditions for the use of these waters, (2) investigates and enforces water rights laws and permit conditions, (3) manages information submitted by certain water users, and (4) assists the courts in adjudicating water disputes.

Figure 12

**State Water Resources Control Board
Water Rights Program Expenditures
1986-87 through 1993-94**

(In Thousands)

	Expenditures
1986-87	\$8,323
1987-88	7,521
1988-89	7,726
1989-90	8,079
1990-91	8,481
1991-92	8,567
1992-93 (est.)	8,823
1993-94 (prop.)	9,086

Figure 12 shows the expenditures for the water rights program over the past eight years. As shown in Figure 12, expenditures for the water rights program has increased by only \$763,000 since 1986-87. This is an average annual increase of 1.3 percent. When these expenditures are adjusted for inflation, support for the program has declined since 1986-87. At the same time, however, program workload has been increasing as a result of increasing numbers of complaints about existing water diversions, as well as increasingly complex environmental reviews of water diversions.

Water Rights Program Has Backlogs. As a result of the relatively small growth in expenditures and the increasing program requirements over the past eight years, the board has developed significant backlogs in the water rights program. Figure 13 shows the backlogged anticipated in various program activities by the end of 1993-94. As shown in Figure 13, the board has backlogs in all areas of water rights activities, and the size of the backlogs for almost all activities is projected to increase.

For example, the board has a significant backlog in activities to ensure that people with water rights permits comply with the permit requirements and that people do not appropriate water without permits. As shown in Figure 13, the board proposes to inspect 240 water rights

projects in 1993-94 for compliance with the terms of their permits. The board estimates, however, that there are over 6,000 permits that have not been inspected for compliance in over 25 years. The board estimates that its current staffing level will enable it to inspect each permitted project once every 40 years.

Figure 13

**State Water Resources Control Board
Water Rights Program Backlog
1993-94 (Projected)**

	Beginning Backlog July 1993	1993-94		Ending Backlog July 1994
		New Workload	Work Completed	
Applications for water rights	350	160	130	380
Compliance inspections	6,070	240	240	6,070
Environmental impact report review	80	460	405	135
License issuance	840	225	130	935
Requests for project changes	240	300	275	265
Hearings on unresolved petitions	70	15	10	75

The backlog in the water rights program reduces the board's ability to ensure that water is properly used without harm to other users and the environment. Furthermore, the backlog can slow business development and growth in the state by delaying, sometimes for several years, the development of new projects or the modification of existing projects to the extent that project proponents require a water rights permit.

Water Rights Program Should Be Funded From Fees. As discussed previously, we recommend that the board's regulatory programs, including the water rights program, be fully funded from fees rather than from the General Fund. Consistent with this recommendation, we recommend that annual water rights fee be established such that revenues are sufficient to maintain the water rights program and address program backlogs. Through such a fee mechanism individuals, businesses, or industries that use or degrade a public resource pay for reducing the social costs imposed by their activity.

In order to ensure that the board can reasonably carry out its water rights responsibilities, we further recommend that the board submit, prior to budget hearings, a plan for addressing the backlogs in the water rights program. The plan should include workload information and a timeline for eliminating the backlogs in each water rights activity.

Timber Harvest Plan Review Program Should Be Funded From Fees

We recommend a reduction of \$678,000 from reimbursements because the budget does not propose a source of funding from which to reimburse the board for its costs of reviewing timber harvest plans. However, in order to provide the board with sufficient funding to review timber harvest plans in 1993-94, we further recommend the enactment of legislation imposing fees on timber operators to pay the costs of regulating timber harvesting, including all costs incurred by the board for these activities. (Reduce reimbursements by \$678,000.)

The budget proposes a total of \$678,000 in reimbursements for the board to evaluate and regulate proposed timber harvesting operations, in conjunction with the California Department of Forestry and Fire Protection (CDFFP) and the Department of Fish and Game. In prior years, the board's timber harvest review program was funded from federal funds. The board indicates, however, that beginning in 1993-94 no federal funds will be available for this purpose. As a result, the board proposes that its expenditures for timber harvest review activities be reimbursed by the CDFFP.

Our analysis indicates that the budget for CDFFP does not propose any funds to reimburse the board for its timber harvest review activities. Accordingly, we recommend a reduction of \$678,000 in reimbursements.

We further recommend, however, that the Legislature enact legislation imposing fees on timber harvest operators in order to pay the costs of timber harvest review activities, including all costs incurred by the board for this purpose. This will appropriately fund the state's activities to regulate timber harvesting and will provide the board with sufficient funding to continue to protect water quality from the effects of timber harvesting. As discussed previously, fees are an appropriate way of financing programs that prevent the use or degradation of *public* resources by *private* activities.

Timber harvesting activities can degrade water quality by increasing the sedimentation of rivers and streams near the harvest area. The board reviews timber harvest plans and identifies permit requirements to reduce the adverse effects of the timber harvesting activities. As a result, these costs should be funded from timber harvest fees. This recommendation is consistent with the recommendation in our analysis of the CDFFP (please see Item 3540). Funding for the board's timber harvest review activities should be appropriated in the fee legislation.

Underground Tank Cleanup Program

We recommend a reduction of \$825,000 and 14 personnel-years from the Underground Storage Tank Cleanup Fund (USTCF) requested for a program to reimburse people for the costs of cleaning up leaking underground tanks because the program can be administered more cost-effectively than proposed. (Reduce Item 3940-001-469 by \$825,000 and 14 personnel-years.)

The budget requests \$133 million from the USTCF to (1) reimburse eligible owners of leaking underground storage tanks for the costs they incur in cleaning up the leaking tanks and (2) fund the costs of state and local governments to oversee the cleanup of leaking underground tanks. The amount requested is \$56.1 million, or 73 percent, more than estimated current-year expenditures. The board requests the increase in order to address a large backlog of claims for reimbursement by underground tank owners. The USTCF is funded from a fee of six mills for each gallon of petroleum placed in an underground tank.

Under the leaking underground tank cleanup program, the board is authorized to reimburse eligible owners of leaking underground tanks up to \$990,000 per tank for their costs of cleaning up leaking tanks. The board indicates that currently it can make initial payments on 1,000 claims per year. However, the board estimates that by the end of the current year it will have a backlog of approximately 6,300 claims for reimbursement. As a result, the board is requesting an increase of \$56.1 million from the USTCF for (1) 18.7 personnel-years to begin processing the additional claims and (2) payment of the claims. According to the board, it will take several years to eliminate the backlog.

The board estimates, based on claims filed, that the average costs of cleaning up a leaking tank is \$120,000, and that the initial request for reimbursement that it receives is for approximately \$60,000, or one-half of the total cleanup costs. In determining the number of personnel needed to process the claims, the board assumes that it will make an average of seven payments for each claim. This is because the board assumes it will make an initial payment, after evaluating the request for reimbursement, for the costs incurred to date *and* it will make a total of six progress payments thereafter until the claim is fully paid. As a result, for "an average" claim, the board would make an initial payment of \$60,000, and six progress payments of \$10,000.

In our view, the board's reimbursement program is unnecessarily costly and cumbersome. We see no reason for the board to provide on average six progress payments after the initial payment of one-half the cleanup costs. By providing fewer than six progress payments, the board could reduce its administrative costs, thereby freeing up

additional funds for reimbursing underground tank owners. Additionally, limiting the number of progress payments will reduce tank owners' costs of preparing and submitting reimbursement claims.

In our view, it is reasonable to provide tank owners with two additional progress payments after the initial payment of 50 percent of the cleanup costs—one at 75 percent of project completion and one final payment upon completion of the project. This would reduce the personnel needed to administer the program by approximately 14 personnel-years and would free up \$825,000 annually from the USTCF that could be used to reimburse underground tank owners for their cleanup costs. Accordingly, we recommend a reduction of \$825,000 and 14 personnel-years from the USTCF.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL (3960)

The Department of Toxic Substances Control (DTSC) (1) regulates hazardous waste management, (2) cleans up sites that have been contaminated by toxic substances and oversees the clean up of sites by others, and (3) promotes methods to treat and safely dispose of hazardous wastes and reduce the amount of hazardous wastes that are generated in the state. The department is primarily funded from fees and taxes on persons that generate, store, treat, or dispose of hazardous wastes.

The budget proposes total expenditures of \$135.7 million (all funds) for support of the DTSC in 1993-94. This is an increase of \$17 million, or 14 percent, above estimated current-year expenditures. The increase results from a technical accounting change, rather than from programmatic increases. Chapter 852, Statutes of 1992 (SB 1469, Calderon) made significant changes in the funding for the department. Among other things, Chapter 852 requires that, beginning in 1993-94, departments and boards that are funded from the Hazardous Waste Control Account (HWCA) receive funding through a contract from the DTSC, rather than from a direct budget appropriation. As a result, the DTSC's budget reflects an increase of \$20.6 million from the HWCA to contract with other departments and boards, in place of direct appropriations of this amount to various departments and boards. Without this technical accounting change, the budget proposal is \$3.6 million, or 3 percent, less than estimated current-year expenditures.

Chapter 852 also revised the department's funding structure such that revenues that previously were deposited into the Hazardous

Substance Account are now deposited into the HWCA, and all programs, except direct site cleanup, are funded from the HWCA.

Departmental Funding

Toxics Funding Uncertain

We find that (1) the department's revenue projections are uncertain and revenues may not be sufficient to fund proposed activities in 1993-94 and (2) the budget does not include a reserve for contingencies, despite uncertainty in the revenue estimates and prior statements of legislative intent that the department establish a 5 percent reserve. We recommend that the department submit, prior to budget hearings, a proposal for reducing expenditures from or increasing revenues to the HWCA by a minimum of \$4.4 million, in order to establish a reasonable reserve for economic uncertainty.

For 1994-95, the Legislature will need to either reduce program expenditures or increase revenues by at least \$8.5 million because revenues will not be sufficient to fund the department's current level of activities.

The budget proposes \$87.3 million (64 percent) of its total 1993-94 expenditures be funded from the HWCA. The HWCA is supported by fees and taxes assessed against (1) hazardous waste storage, treatment, and disposal operations; (2) facilities that generate hazardous waste; (3) corporations that use, store, generate or conduct activities related to hazardous materials; and (4) persons who dispose of hazardous waste based upon the amount and toxicity of the waste.

Past Revenue Estimates Have Been Overly Optimistic

In our analyses of the department's budget proposals over the past several years, we have raised concerns that the department's revenue estimates for the HWCA are overly optimistic, and that estimated revenues in each year will not be sufficient to fund the level of expenditures proposed in the budget for those years.

In addition, we have raised concerns that the proposed reserves for the account have been too low, particularly in light of the overly optimistic revenue estimates. Generally, our concerns have been valid, and the department has notified the Legislature on several occasions that, subsequent to the enactment of the budget, it was making significant reductions in its programs to bring expenditures in line with revenues. The timing of these actions has meant that the

Administration, rather than the Legislature, set the priorities for program continuation and reduction.

Revenue Assumptions in Budget Are Highly Uncertain

Our analysis indicates that the department has significantly improved its revenue estimating techniques in its projections for 1993-94. The department's revenue estimates include more conservative assumptions than those used in past years. As a consequence, the department's revenue estimates are likely to be more accurate compared to past projections. Nevertheless, the following assumptions used by the department are uncertain and could result in an overstatement of the amount of revenue that the department will receive.

Revenue From New or Revised Fees. The budget assumes increased revenues of \$7.2 million in the current year and \$4.3 million in 1993-94 as a result of the enactment of Chapter 852 and Ch 1435/92 (AB 1772, Wright). These acts added new hazardous waste fees and made significant changes in various fees and in the program for permitting hazardous waste facilities. The department generally has little information on which to base its estimates of revenues from these new and revised fees. As a result, the revenue from these acts are uncertain, and actual revenues may be significantly more or less than the amounts projected.

For example, Chapter 852 (1) reduced from \$105 per ton to \$42.42 per ton the fees on the disposal of hazardous wastes in-state and (2) eliminated the existing fee of \$47.25 per ton on wastes that are disposed of out-of-state. The department assumes that these fee changes will result in changes in the decisions by facilities as to where to dispose their wastes. Specifically, the department estimates that about 80,000 tons of hazardous waste that under the prior fee structure would be shipped out-of-state for disposal instead will be disposed of in-state beginning in 1992-93 as a result of the new fee structure.

The department indicates this assumption is a "guess" and that there is no analytical data to support the assumption. We have no information on which to evaluate the department's assumptions as to the effects of the changes in the fee structure on disposal decisions. We estimate, however, that revenues to the HWCA could be up to \$3.4 million less than projected to the extent the projected shift in the disposal of waste from out-of-state disposal to in-state disposal does not occur.

Petitions for Redetermination. The department assumes that it will receive \$1.5 million in 1992-93 and \$2.5 million in 1993-94 from persons

who have refused to pay fees pending an appeal to the Board of Equalization (BOE). The department assumes that a significant number of appeals will be determined in its favor. However, if the BOE determines that the petitioners are not subject to the fees, or if the BOE delays its decisions beyond the budget year, there will be a significant shortfall in the HWCA. For instance, the department previously estimated that it would receive \$7.2 million from petitioners in 1991-92; however, it received only \$1.3 million from petitions for that year.

Fines and Penalties. The budget includes \$6.3 million in 1992-93 and \$7.8 million in 1993-94 in revenues from fines and penalties from the department's enforcement actions. Although the department's estimates appear reasonable, the amounts that the department actually will collect depend on the number and types of enforcement actions that it takes in the current year and in 1993-94. Accordingly, there also is a great deal of uncertainty in this estimate.

Budget Proposes No Reserve To Protect Against Contingencies

Over the past few years, the Legislature has been concerned over the department's ongoing proposals to spend nearly all of its resources, leaving very low reserves for unanticipated changes in revenues or expenditures. As a result, the Legislature adopted language in the *Supplemental Report of the 1991 and 1992 Budget Acts* stating its intent that the department establish a reserve in the account equal to 5 percent of proposed expenditures. Despite expressed legislative intent, the budget proposes to leave no reserve for economic uncertainty in the HWCA at the end of 1993-94.

In order to provide a reasonable reserve consistent with legislative intent, we recommend that the department submit, prior to budget hearings, a proposal to establish in the HWCA a reserve of at least \$4.4 million, or 5 percent of proposed expenditures from the HWCA. The proposal should identify (1) the specific programs the department proposes to reduce and the programmatic effect of the reductions or (2) how it would increase revenues to the HWCA and the potential impact of such increases.

Revenue Shortfall Likely in 1994-95

Figure 14 shows the proposed HWCA revenues and expenditures for 1993-94. It also shows the condition of the HWCA in 1994-95, assuming that revenues and expenditures remain the same as in 1993-94. As shown in Figure 14, the proposed 1993-94 expenditures from the HWCA exceed projected revenues by approximately \$8.6 million. In

1993-94, the gap will be covered by the entire reserve anticipated at the end of the current year—leaving no additional reserve for 1994-95. As a result, the department will not be able to maintain its currently funded level of program activities in 1994-95. Accordingly, assuming no changes in revenues or expenditures in 1994-95, the Legislature will need to either reduce programs or increase revenues by \$8.6 million. To the extent that expenditures increase due to inflation, or revenues continue to decline, the shortfall in 1994-95 will exceed \$8.6 million.

Figure 14

**Department of Toxic Substances Control
LAO Projected Revenues and Expenditures
Hazardous Waste Control Account
1993-94 and 1994-95**

(In Thousands)		LAO Estimate ^a
1993-94		
Beginning reserve		\$8,593
Revenue/transfers		78,750
Expenditures		87,343
Ending reserve		—
1994-95		
Beginning reserve		—
Revenue/transfers		\$78,750
Expenditures		87,343
Ending reserve		-\$8,593

^a Estimate based on 1993-94 Governor's Budget, and assumes no change in revenues or expenditures for 1994-95 compared to 1993-94.

Other Departmental Issues

Business Assistance Program Overbudgeted

We recommend a reduction of \$397,000 from the HWCA requested to establish a new regulatory assistance program because this program should be funded from fees as required under current law. (Reduce Item 3960-001-014 by \$397,000 and five personnel-years.)

The budget requests \$511,000, consisting of \$397,000 from the HWCA and \$114,000 in reimbursements, to establish a new regulatory assistance program for businesses in the state in accordance with Ch 1117/92 (AB 3541, Lempert). Chapter 1117 allows the department,

upon request, to provide consultative services to businesses in order to assist them in complying with hazardous waste laws. This program is in addition to the department's existing enforcement programs and other programs that provide general information and assistance on hazardous waste management and laws.

Chapter 1117 requires the persons requesting these consultative services to reimburse the department for its costs, based on an hourly rate. Furthermore, the department is required to establish an hourly billing rate for these services to ensure that it recovers its full costs of providing the services. The act also requires the department to give priority for these consultative services to businesses that (1) have fewer than 50 employees and (2) are subject to state, but not federal, regulation (these businesses are called "state-only facilities"). The act limits to \$500 the total amount that the department may charge for "a single limited onsite inspection" to state-only facilities that have fewer than 50 employees.

The department requests \$511,000 and 6.7 personnel-years to provide consultative services beginning in 1993-94 to 228 state-only facilities with fewer than 50 employees. The department indicates that charging \$500 per facility will generate only \$114,000 in fee reimbursements—\$397,000 less than the costs of the consultation program. As a result, the department requests \$397,000 from the HWCA to fund the program.

Our analysis indicates that the department's request is inconsistent with Chapter 1117, which requires that the costs of the program be covered by fees paid by the persons receiving the services. Therefore, the program should be funded from consultative fees, rather than from the HWCA. Instead of funding the program from the HWCA, the department should reduce the level of consultative services provided to state-only facilities to correspond to the fee revenue it receives. Accordingly, we recommend deletion of \$397,000 and five personnel-years from the HWCA in order to fully fund the program from fees, as required by Chapter 1117.

Costs to Collect Fees Overbudgeted

We recommend a reduction of \$138,000 from the HWCA because the amount proposed to cover the BOE's costs to collect fees is overbudgeted. We further recommend that the BOE submit, prior to budget hearings, an estimate of its costs for collecting permit fees from hazardous waste management facilities. (Reduce Item 3960-001-014 by \$138,000.)

The budget requests a total of \$4.6 million from the HWCA to implement a new hazardous waste facility permitting system, pursuant to Ch 1345/92 (AB 1772, Wright). Chapter 1345 replaces the current two-tier permit system with a five-tier system for permitting hazardous waste treatment facilities. Under this program, the permit fees paid by facilities will vary according to the tier in which they are regulated.

The request includes \$300,000 for the department to contract with the BOE to collect permit fees. The BOE indicates that while it has not yet finalized its collection cost estimate, in no case will the costs exceed \$162,000 in 1993-94. Accordingly, we recommend a reduction of \$138,000 from the HWCA because it is overbudgeted. We further recommend that the BOE submit, prior to budget hearings, its final estimate of the costs of collecting for the department the permit fees required by Chapter 1345.

LIST OF FINDINGS AND RECOMMENDATIONS

Analysis
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Crosscutting Issues

Impact of Current-Year Budget Actions

1. **Many Resources and Environmental Protection Programs Experienced Current-Year Budget Reductions.** The departments and boards in the resources and environmental protection programs took a variety of actions to implement current-year budget reductions. Many of these actions resulted in significant decreases in the level of program implementation in the environmental protection area, when compared to authorized levels. In contrast, most major programs in the resources area were relatively unaffected by current-year budget reductions. 13

Environmental Programs Becoming More "User Friendly"

2. **Environmental Programs Becoming User Friendly.** The budget includes various proposals to implement recently enacted legislation to streamline environmental permitting processes, and assist businesses in complying with environmental regulations. 17

Fund Conditions for Resources and Environmental Protection

3. **Little Money Available in Special Funds and Park-Related Bond Funds For New Projects.** Our review of the major special funds and park-related bond funds in the resources area indicates that, if the Legislature approves the Governor's spending proposals, there will be little money available (a) in special funds for legislative priorities and (b) in park-related bond funds to start new projects. 20

4. **Little Bond Money Available for Local Drinking Water Program Needs, But Sufficient Bond Funds Remain for Local Water Supply and Wastewater Treatment Programs.** There is very little money available to help local water agencies comply with new federal drinking water regulations, and there are sufficient funds available in 1993-94 to continue some level of water supply and wastewater treatment programs. Recommend that the Departments of Water Resources and Health Services report at budget hearings on the funding needs of local water agencies in order to meet federal drinking water regulations. 25

Funding Options for Resources and Environmental Protection Programs

5. **Fees Are Appropriate Funding Option.** Based on a framework for appropriately financing resources and environmental protection programs, recommend that legislation be enacted to impose fees for the support of several programs. 28

Secretary for Environmental Protection

6. **Agency Fails to Comply With Legislative Directives.** Reduce various items by \$120,000. The agency failed to comply with various legislative directives, thereby reducing the Legislature's abilities to evaluate the agency's budget proposals. Recommend a reduction of \$120,000 from various funds because the agency has not justified an assistant secretary position. 32

Energy Resources Conservation and Development Commission

7. **Status of Energy Commission is Uncertain.** Information has not been provided regarding the administration's plan to eliminate the commission, or the legislative request for information about duplicative efforts of the commission and the PUC. 34

8. **Power Plant Siting Costs Should be Reimbursed.** 35
 Recommend enactment of legislation to (a) require that California Energy Commission adopt fees to reimburse annual costs for siting power plants and (b) reduce surcharge on electricity users to reflect the proposed funding change.

Department of Conservation

9. **Recycling Program Should Be Transferred. Reduce Item 3480-001-133 by \$12,803,000 and add a new Item 3910-001-133 for \$12,763,000.** 36
 Recommend enactment of legislation to transfer the Division of Recycling to the Integrated Waste Management Board because consolidation would improve coordination of state recycling programs.
10. **Options for Transfer of Other Functions.** 37
 The Legislature has several options for transferring the department's other functions, and should evaluate these options using specific criteria. Eliminating the department through such transfers would result in estimated annual savings of \$1 million (all funds).

Department of Forestry and Fire Protection

11. **Emergency Fire Suppression Costs.** 42
 In the current year, the department's expenditures for emergency fire suppression are estimated to total \$78.1 million, which is more than in any previous fiscal year. The budget proposes expenditures of up to \$32.5 million for these activities in 1993-94.
12. **Fire Protection Fees Should Be Enacted. Increased General Fund revenues of \$11 million.** 43
 Recommend enactment of legislation imposing fees on property owners in State Responsibility Areas to help cover the state's cost of providing fire protection services, because those benefiting from these services should contribute to the funding of such services.

13. **Timber Harvest Permit Fees Should Be Enacted.** 44
Increased General Fund revenues of \$8.9 million and reduced special fund costs of \$8.1 million. Increase Item 3540-001-001 by \$8,093,000, and reduce (a) Item 3540-001-140 by \$1,538,000, (b) Item 3540-001-235 by \$606,000, and (c) Item 3540-001-928 by \$5,949,000. Recommend enactment of legislation imposing fees on timber operators to cover the state's cost of administering the Forest Practice Act, because those benefiting from the regulation should pay costs of such regulation.
14. **Equipment Replacement Appears Reasonable.** 45
The budget proposes to fund the replacement of telecommunications and air fleet equipment on a traditional pay-as-you-go basis, in contrast to last year's bond proposal.

Department of Fish and Game

15. **Revenue Picture Continues to Improve in Budget Year.** 46
Budget estimates of the fee and tax revenues used to support the DFG generally are reasonable, but some uncertainty remains.
16. **NCCP Program Increase Not Justified.** 48
Reduce Item 3600-001-140 by \$708,000 and Item 3600-001-890 by \$225,000. Recommend deletion of \$933,000 from the ELPF and federal funds requested to fund continued development of the state's first natural community conservation plan because (a) the proposal does not include sufficient cost reimbursements from fees and (b) an increase in funding is not justified because the department has not provided legislatively requested program information.
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Department of Parks and Recreation

17. **State Park System Budget Improves, But Revenues Still Uncertain.** The department has taken significant steps to address previous problems in funding the operations of the state park system, but potential still exists for shortfalls in state park fee revenues. The department would need to address these by reducing park services and/or seeking additional funding from other sources. 51
18. **Loan Interest Overbudgeted. Reduce Item 3790-011-235 by \$800,000.** Recommend a reduction of \$800,000 from the Public Resources Account because the department has overbudgeted the amount needed to offset interest costs. 53
19. **Use of 1988 Park Bond Funds for Support Is Not Appropriate or Justified. Reduce Item 3790-001-786 by \$3,062,000.** Recommend reduction of \$3.1 million requested from the 1988 park bond fund for staff costs related to capital outlay projects, because the request exceeds the amount authorized by the bond act for administrative costs and in any case has not been justified. 54

Department of Water Resources

20. **Legislative Oversight: Status of Central Valley Project Transfer.** Governor proposes transferring the Central Valley Project from the federal government to the state, which raises several fiscal and policy issues that the Legislature would need to consider during the next few years. Recommend that the Department of Water Resources report at budget hearings on fiscal and other effects of the proposed transfer. 55
21. **Special Account for Capital Outlay (SAFCO) Proposed For Flood Control Subvention Program.** Budget proposes to fund expenditures for flood control projects from the SAFCO to help bring the state up to date on its local assistance obligation for these projects. 57

Air Resources Board

22. **Air Resources Board Funding Needs Realignment.** 58
Recommend enactment of legislation requiring fees on stationary sources of air pollution be adjusted to cover the costs of the board's stationary source programs, thereby freeing up approximately \$38.3 million annually from the Motor Vehicle Account for motor vehicle related programs.
23. **Insufficient Reserve in Air Pollution Control Fund (APCF).** 60
The proposed reserve in the APCF is not sufficient to address reasonable revenue shortfalls or unanticipated expenditures. Recommend that the board submit, prior to budget hearings, a plan for establishing a reserve for economic uncertainty at the end of 1993-94 that is equal to 5 percent of proposed expenditures in the APCF.

California Integrated Waste Management Board

24. **Priorities for Program Reductions Not Identified.** 61
The budget proposes (a) to reduce expenditures from the Integrated Waste Management Account (IWMA) by \$6.4 million below current-year authorized expenditures, rather than increase specified fees as authorized under current law, and (b) to leave no reserve in the IWMA at the end of 1993-94. Recommend that the board submit, prior to budget hearings, (a) a proposal for distributing among its programs the \$6.4 million reduction from the IWMA and (b) a proposal for establishing a reserve for economic uncertainty at the end of 1993-94 that is equal to 5 percent of proposed expenditures from the IWMA.
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State Water Resources Control Board

25. **Board's Regulatory Program Should Be Funded from Fees. Reduce Item 3940-001-001 by \$29.6 million.** 65
Recommend enactment of legislation requiring that fees charged by the board be adjusted to cover the costs of the board's regulatory programs, thereby freeing up approximately \$29.6 million from the General Fund in 1993-94.
26. **Water Rights Program Is Backlogged.** 66
The board's program for issuing and enforcing water rights permits has significant backlogs. Recommend, consistent with our prior recommendation, establishment of annual water rights fees sufficient to fund the program and address the program backlogs. Recommend that the board submit a plan to address the backlogs in the water rights program.
27. **Timber Harvest Plan Review Program Should Be Funded From Fees. Reduce reimbursements by \$678,000.** 69
Recommend reduction because the budget does not propose a source of funding from which to reimburse the board for its costs of reviewing timber harvest plans. Further recommend enactment of legislation imposing fees on timber operators to pay the costs of regulating timber harvesting, including all costs incurred by the board for these activities.
28. **Underground Tank Cleanup Program. Reduce Item 3940-001-469 by \$825,000 and 14 personnel-years.** 70
Recommend reduction because the board can administer the program to reimburse underground tank owners for the costs of cleaning up their leaking tanks in a more cost-effective way than proposed.

Department of Toxic Substances Control

29. **Toxics Funding Uncertain.** 72
Recommend that the department submit a proposal for reducing expenditures from or increasing revenues to the Hazardous Waste Control Account by a minimum of \$4.4 million in order to establish a reasonable reserve, consistent with legislative intent.

30. **Business Assistance Program Overbudgeted. Reduce Item 3960-001-014 by \$397,000 and five personnel-years. Recommend reduction in order to fund a new regulatory assistance program from user fees, as required under current law.** 75
31. **Fee Collection Costs Overbudgeted. Reduce Item 3960-001-014 by \$138,000. Recommend reduction because the amount is overbudgeted. Further recommend that the Board of Equalization submit, prior to budget hearings, an estimate of its costs for collecting permit fees from hazardous waste management facilities.** 76
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