

MAJOR ISSUES (February 1994)

%Fund Reserves for Resources Programs Need to Be Increased. The proposed reserves for some of the funds in the resources and environmental protection programs are not sufficient to address potential revenue shortfalls or unanticipated expenditures. The departments with problems in their reserve balances are Fish and Game, Parks and Recreation, Toxic Substances Control, and the Integrated Waste Management Board. (See pages B-42, B-49, B-57, and B-67.)

%Little Park Bond Funds Left. By the end of 1994-95, there will be relatively little bond funds (\$27.2 million) available for park-related projects. However, much of the available funds are earmarked for particular geographic areas and types of projects, thereby limiting the Legislature's ability to allocate these funds for its highest priorities. Depending on the outcome of a measure on the June ballot, there could be \$2 billion available for park and natural habitat purposes, although most of the funds are earmarked in one way or another. (See page B-29.)

%Water Resources Control Board Backlogs Need to Be Reduced. The board has significant backlogs in handling permits for waste discharge and water rights. The backlog in discharge permits reduces the board's ability to enforce water quality standards, thereby potentially resulting in a deterioration in the quality of the state's waters. It also increases the chances of the state losing federal funds. The backlog in water rights permits reduces the board's ability to ensure that water is used without harm to other

users, and may slow business development in the state. We recommend that the board report on how it plans to address these backlogs. (See page B-61.)

%Budget Proposes to Eliminate Habitat Conservation Fund (HCF). The budget anticipates that the voters will approve a measure to eliminate the HCF, established by the California Wildlife Protection Act of 1990 (Proposition 117). As a result, the budget proposes no funding for the HCF for 1994-95. The Legislature will have to decide whether to provide funding of \$30 million to the HCF, as required by Proposition 117. (See page B-24.)



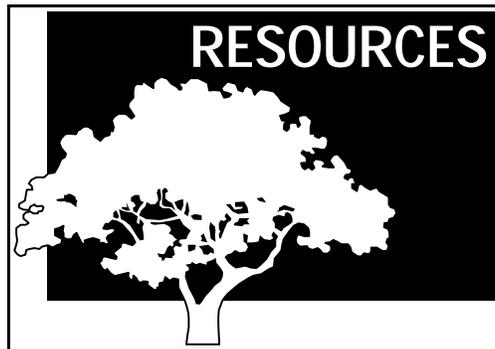
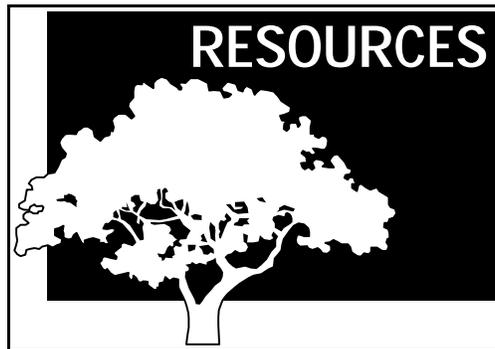


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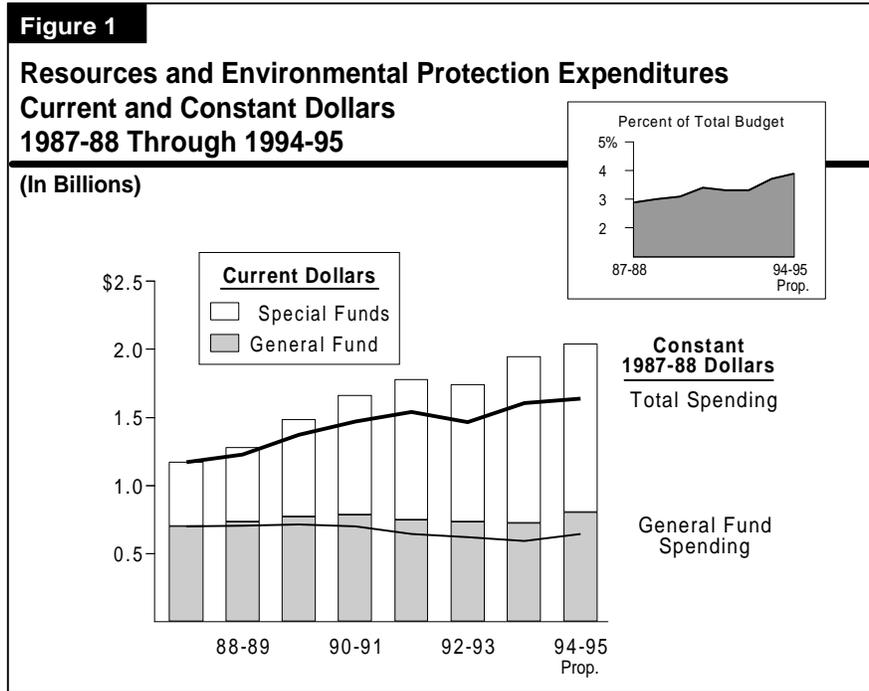
OVERVIEW

The proposed expenditure level for resources and environmental protection programs is slightly higher than estimated current-year expenditures. This increase—primarily in General Fund support—is not attributable to any single large change, but is due to a number of relatively small increases throughout the resources and environmental protection programs.

Expenditures for resources and environmental protection programs are proposed to total \$2 billion in 1994-95, which is 3.9 percent of all state funds and 2.1 percent of proposed General Fund expenditures. This level of expenditure is an increase of approximately \$92 million, or 4.7 percent over estimated expenditures for the current year. About 61 percent (\$1.2 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 39 percent (\$804 million) of these expenditures.

Figure 1 shows that resources and environmental protection expenditures from all state funds increased by approximately \$873 million since 1987-88, representing an average annual increase of approximately 8.3 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 4.9 percent. General Fund expenditures increased by a total of about 15 percent during this period. When

these expenditures are adjusted for inflation, however, General Fund support for these programs has declined since 1987-88.



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 3 shows similar information for four major *environmental protection* programs—those programs within the jurisdiction of the Secretary for Environmental Protection and the Cal-EPA.

Figure 2
**Resources Budget Summary
Selected Funding Sources
1992-93 Through 1994-95**
(Dollars in Millions)^a

Department	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Change From 1993-94	
				Amount	Percent
Energy Commission					
Energy Resources Programs Account	\$17.6	\$32.9	\$33.8	\$0.9	2.7%
Petroleum Violation Escrow Account	25.9	28.8	3.0	-25.8	-89.6
Other funds	21.2	39.1	14.3	-24.8	-63.4
Totals	\$64.7	\$100.8	\$51.1	-\$49.7	-49.3%
Conservation					
General Fund	\$13.0	\$13.9	\$14.5	\$0.6	4.3%
Recycling funds	338.1	376.2	376.6	0.4	0.1
Other funds	11.5	12.4	10.4	-2.0	-16.1
Totals	\$362.6	\$402.5	\$401.5	-\$1.0	-0.2%
Forestry and Fire Protection					
General Fund	\$277.4	\$249.8	\$263.7	\$13.9	5.6%
Special Account for Capital Outlay	1.1	4.4	—	-4.4	-100.0
Forest Resources Improvement Fund	12.8	13.9	16.9	3.0	21.6
Other funds	118.0	104.7	103.3	-1.4	-1.3
Totals	\$409.3	\$372.8	\$383.9	\$11.1	3.0%
Fish and Game					
General Fund	\$3.4	\$3.1	\$3.1	—	—
Fish and Game Preservation Fund	68.6	74.5	74.1	-\$0.5	-0.7%
Environmental License Plate Fund	11.5	10.0	10.6	0.6	0.6
Other funds	65.4	72.2	80.6	8.4	11.6
Totals	\$148.9	\$159.8	\$168.3	\$8.5	5.3%
Parks and Recreation					
General Fund	\$45.0	\$44.2	\$47.8	\$3.6	8.1%
State Parks and Recreation Fund	71.5	95.3	85.4	-9.9	-10.4
Park bond funds	24.1	21.6	5.1	-16.5	-76.4
Other funds	42.1	55.6	62.2	6.6	11.9
Totals	\$182.7	\$216.7	\$200.5	-\$16.2	-7.5%
Water Resources					
General Fund	\$15.4	\$14.9	\$19.2	\$4.3	28.8%
State Water Project Funds	564.7	910.3	942.5	32.2	3.5
Special Account for Capital Outlay	0.4	18.4	—	-18.4	-100.0
Other funds	70.0	122.1	272.1	150.0	122.8
Totals	\$650.5	\$1,065.7	\$1,233.8	\$168.1	15.8%

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

Figure 3

Environmental Protection Budget Summary Selected Funding Sources 1992-93 Through 1994-95

(Dollars in Millions)

Department/Board	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Change From 1993-94	
				Amount	Percent
Air Resources					
Motor Vehicle Account	\$70.1	\$71.0	\$74.0	\$3.0	4.2%
Other funds	33.9	36.0	33.9	-2.1	-5.8
Totals	\$104.0	\$107.0	\$107.9	\$0.9	0.8%
Integrated Waste Management					
Integrated Waste Management Account	\$27.2	\$40.3	\$34.1	-\$6.2	-15.4%
Solid Waste Disposal Site Cleanup and Maintenance Account ^a	7.5	8.0	5.0	-3.0	-37.5
California Used Oil Recycling Fund	2.6	17.5	33.4	15.9	90.9
Other funds	10.6	9.0	10.1	1.1	12.2
Totals	\$47.9	\$74.8	\$82.6	\$7.8	10.4%
Water Resources Control					
General Fund	\$27.4	\$27.8	\$29.5	\$1.7	6.1%
Underground Storage Tank Cleanup Fund	40.9	133.6	133.4	-0.2	-0.1
Water Pollution Control Revolving Fund	115.2	85.9	5.1	-80.8	-94.1
Other funds	75.7	124.0	63.3	-60.7	-50.0
Totals	\$259.2	\$371.2	\$231.3	-\$139.9	-37.7%
Toxic Substances Control					
Hazardous Waste Control Account	\$37.5	\$82.9	\$80.1	-\$2.8	-3.4%
Hazardous Substance Account ^b	30.0	5.5	5.0	-0.5	-9.1
Other funds	24.9	46.2	46.0	-0.2	-0.4
Totals	\$92.4	\$134.6	\$131.1	-\$3.5	-2.6%
Other^c					
General Fund	\$15.9	\$14.2	\$15.6	\$1.4	9.9%
Other funds	36.3	45.7	46.1	0.4	0.9
Totals	\$52.2	\$59.9	\$61.7	\$1.8	3.0%

^a Account was repealed by Ch 656/93 which created the Solid Waste Disposal Site Cleanup Trust Fund.

^b Account was combined with the Hazardous Waste Control Account by Ch 852/92.

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

Spending for Resources Programs. Figure 2 shows that of the major resources programs, the Department of Water Resources (DWR) will have the highest expenditure level in 1994-95, at \$1.2 billion. Most of the DWR's expenditures will be for the expansion of the state water project.

Figure 2 also shows that the General Fund provides a relatively small proportion of total support of resources programs except in the case of the Department of Forestry and Fire Protection (CDFFP) and the Department of Parks and Recreation (DPR). For 1994-95, the budget proposes \$263.7 million (69 percent) of the CDFFP's support be from the General Fund. For the DPR, the General Fund will constitute about 24 percent of the department's expenditures in 1994-95.

Spending for Environmental Protection Programs. As Figure 3 shows, the State Water Resources Control Board (SWRCB) is the largest environmental protection program, with expenditures proposed at \$231.3 million for 1994-95. The figure also shows that the budget proposes relatively stable funding for most environmental protection programs except for the SWRCB and the California Integrated Waste Management Board (CIWMB). For the SWRCB, the budget proposes a reduction of 38 percent, while it proposes an increase of 10 percent for the CIWMB.

As Figure 3 also shows, most environmental protection programs are supported by various special funds. For 1994-95, the budget proposes \$45.1 million in General Fund support for these programs, primarily for the SWRCB and for the Department of Pesticide Regulation.

MAJOR BUDGET CHANGES

Figures 4 and 5 present the major budget changes in resources and environmental protection programs respectively. As Figure 4 shows, the budget proposes a \$47.7 million reduction to the Petroleum Violation Escrow Account and the Katz Schoolbus Fund in the Energy Resources Conservation and Development Commission. These funds are used for projects which promote energy efficiency.

For the Departments of Forestry and Fire Protection and Parks and Recreation, the budget requests \$3.2 million and \$1 million respectively to replace telecommunications equipment. For the Department of Fish and Game, the budget requests \$7.6 million to complete the damage assessment of the Cantara spill and to initiate restoration measures. It also requests \$4.3 million to continue implementation of the Oil Spill Prevention and Response program and establish regional wildlife rescue and rehabilitation facilities.

Figure 4

**Resources Programs
Proposed Major Changes for 1994-95**

Energy Commission	Requested \$51.1 million
	:
	Decrease: \$49.7 million (-49.3%)

- \$25.8 million for one-time costs for energy-related projects
-  • \$21.9 million in the Katz Schoolbus Fund due to the near completion of the program which provides fuel-efficient school busses to school districts

Forestry and Fire Protection	Requested \$383.9 million
	:
	Increase: \$11.1 million (+3.0%)

- \$3.2 million for telecommunications equipment and staff
-  • \$1.2 million to improve air attack fleet
- \$1.2 million for additional operators for water and sewer systems at conservation camps

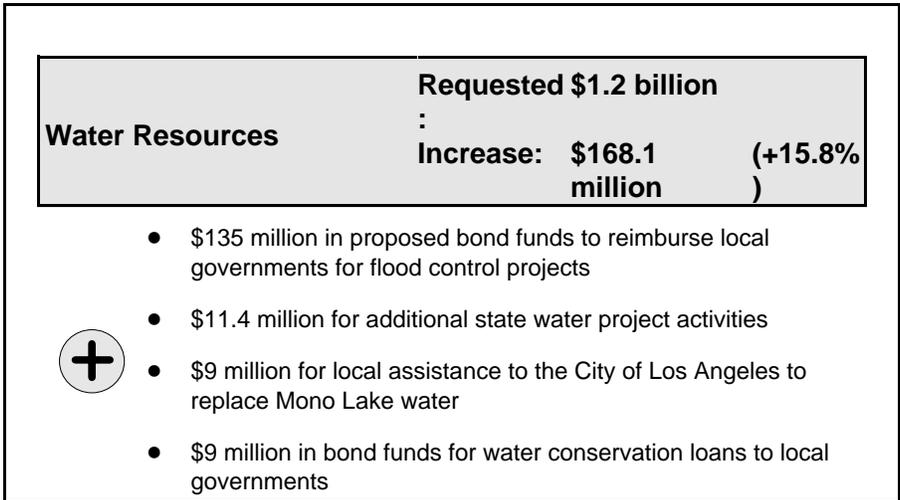
Fish and Game	Requested \$168.3 million
	:
	Increase: \$8.5 million (+5.3%)

- \$7.6 million to complete the Cantara spill assessment and to initiate restoration measures
-  • \$2.2 million for local assistance to establish regional wildlife rescue and rehabilitation facilities
- \$2.1 million to continue implementation of oil spill prevention program

Parks and Recreation	Requested \$200.5 million
	:
	Decrease: \$16.2 million (-7.5%)

-  • \$5.0 million for local assistance for off-highway vehicle recreation
- \$1.0 million to replace telecommunications equipment
-  • \$24.2 million in Habitat Conservation Fund and bond funds for local grants for park development

Continued



The budget proposes \$135 million in expenditures from bond funds for the Department of Water Resources to reimburse local governments for flood control projects. This amount is a portion of the Public Safety Bond proposed by the administration. In addition, it is requesting \$9 million for local assistance to the City of Los Angeles for projects to develop new water supplies in order to replace water from Mono Lake.

Figure 5 shows that the budget proposes an increase of about \$21.4 million for the California Integrated Waste Management Board to provide grants to local governments for used oil collection facilities, to carry out other activities related to the use of recycled oil, and to provide loans to businesses using recycled materials. In contrast, the budget proposes a significant reduction in grants by the State Water Resources Control Board for local water reclamation, water quality and pollution control activities. For the Department of Toxic Substances Control, the budget proposes \$5.2 million for the department to coordinate the cleanup of closing military bases. Due to a projected decline in revenues to the Hazardous Waste Control Account which is the primary funding source of the department, the budget is also proposing a reduction in the department's base staffing level of about \$15.8 million.

Figure 5

**Environmental Protection Programs
Proposed Major Changes for 1994-95**

	Requested \$82.6 million
California Integrated Waste: Management Board	Increase: \$7.8 million (+10.4%)

-  • \$20 million in discretionary grants for local oil collection and recycling activities
-  • \$1.4 million to provide additional loans to businesses using recycled materials

-  • \$6.5 million in waste reduction and resource recovery activities
-  • \$3.0 million in solid waste site cleanup and maintenance

	Requested \$231.3
State Water Resources Control Board	: million
	Decrease: \$139.3 (-37.7%)
	million

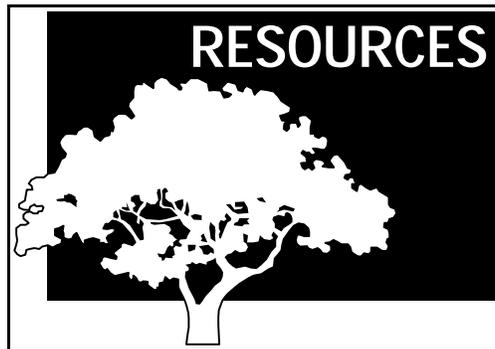
-  • \$2.4 million to augment underground storage tank cleanup activities

-  • \$124.6 million in local assistance for water reclamation, water quality, and pollution control activities
-  • \$1.4 million in the Bay Protection and Toxic Cleanup program related to a projected decline in revenues

	Requested \$131.1
Toxic Substances Control	: million
	Decrease: \$3.5 million (-2.6%)

-  • \$5.2 million to coordinate cleanup of closing military bases
-  • \$1.6 million to implement a certification of environmental technologies program
-  • \$1.3 million to perform "pay-as-you-go" facility permitting activities

-  • \$15.8 million in staff support due to a decline in revenues to the Hazardous Waste Control Account



CROSSCUTTING ISSUES

ENVIRONMENTAL PROGRAMS CONTINUE TO BECOME MORE “USER FRIENDLY”

The budget reflects recently enacted legislation to expedite and streamline environmental permitting processes and to coordinate environmental regulations and program activities. The budget also proposes several new or expanded programs to assist businesses in complying with environmental regulations.

Over the last couple of decades, California has enacted legislation intended to protect its environment. Some observers have expressed concerns that the legislation resulted in a complicated regulatory process.

In response to these concerns, the Legislature has recently enacted legislation to simplify the process by which the state's environmental standards are met. Generally, the objective of this legislation is to prevent the loss of business and jobs in the state by “streamlining” the regulatory process thereby making it easier and less expensive for business to comply with environmental regulations, while the state's environmental standards are maintained. The Governor's Budget reflects enactment of this legislation. In addition, the budget proposes a variety of new or expanded programs to assist business in complying with environmental regulations.

MAJOR REGULATORY STREAMLINING LEGISLATION

Figure 6 summarizes the major “streamlining” legislation. This legislation is of two types—first, that which streamlines the permit process, such as by consolidating several existing permits into a single permit, and second, that which requires environmental agencies to coordinate regulatory activities. This coordination is accomplished, for example, by clarifying the responsibilities of each agency, ensuring that regulations are consistent with one another, and eliminating duplication of regulations or program activities. It is hoped that such coordination will make the regulations more understandable, and therefore make it easier for business to comply with them. Since the legislation requiring these streamlining activities has just become effective, it is too early to assess the success of the legislation in achieving its objective.

Figure 6		
Environmental Protection Programs Regulatory Streamlining Legislation 1993-94		
Legislation	Department	Key Provisions
Permit Streamlining and Regulatory Coordination		
AB 1220 Ch 656/93 (Eastin)	ARB ^a CIWMB ^b SWRCB ^c	<ul style="list-style-type: none"> • Requires consolidation of CIWMB and SWRCB permit applications for solid waste disposal facilities • Requires coordination of regulations and clarification of responsibilities among ARB, CIWMB, SWRCB, regional water boards and local enforcement agencies for solid waste disposal and disposal facilities • Consolidates three fees paid by disposal facility operators
SB 1082 Ch 418/93 (Calderon)	ARB SWRCB DTSC ^d OES ^e SFM ^f	<ul style="list-style-type: none"> • Requires consolidation of regulation of offsite hazardous waste facilities • Requires development of a unified local level regulatory program regarding hazardous waste generators/treatment operations, underground storage tanks, emergency response, and hazardous materials inventory and permitting • Requires consolidation of all permits and development of a single fee system for local level regulatory program

Continued

Legislation	Department	Key Provisions
Permit Streamlining		
AB 1520 Ch 1180/93 (Aguiar)	ARB	<ul style="list-style-type: none"> Expedites permits for installation of air pollution control equipment
AB 2060 Ch 412/93 (Weggeland)	DTSC	<ul style="list-style-type: none"> Streamlines certification process for new, lower-risk environmental technologies
SB 27 Ch 410/93 (Wright)	DTSC	<ul style="list-style-type: none"> Standardizes hazardous waste storage facility permit application
SB 1185 Ch 419/93 (Bergeson)	All Cal-EPA departments	<ul style="list-style-type: none"> Requires Cal-EPA to establish process for a "consolidated permit agency" to manage multi-agency permit applications for a project Expedites appeals process for untimely actions by environmental agencies in permit process
Regulatory Coordination		
AB 697 Ch 523/93 (Bowen)	SWRCB DTSC	<ul style="list-style-type: none"> Mandates concurrent development of policies and procedures relating to hazardous substance removal and remedial action
AB 2061 Ch 1184/93 (Umberg)	All Cal-EPA departments	<ul style="list-style-type: none"> Establishes committee to designate lead agency to oversee investigation and remedial action at a hazardous materials release site
SB 1091 Ch 913/93 (Killea)	DTSC	<ul style="list-style-type: none"> Consolidates "household hazardous waste" legislation
<p>^a Air Resources Board.</p> <p>^b California Integrated Waste Management Board.</p> <p>^c State Water Resources Control Board.</p> <p>^d Department of Toxic Substances Control.</p> <p>^e Office of Emergency Services.</p> <p>^f State Fire Marshal.</p>		

Streamlining Permit Process. Recently enacted legislation makes significant changes in the permit process of both solid waste and hazardous waste, areas that are currently regulated by several boards and departments. For example, Ch 656/93 (AB 1220, Eastin) requires the consolidation of the solid waste disposal facility permit applications of the California Integrated Waste Management Board (CIWMB) and the State Water Resources Control Board (SWRCB). Chapter 656 also consolidates three fees into a single fee. In addition, Ch 418/93 (SB 1082, Calderon) mandates the consolidation of all permits and the development of a single fee system by January 1, 1996 for the regulation of businesses which use hazardous materials, generate hazardous waste or treat hazardous waste which they generate.

Coordination of Regulations. In addition to consolidating fees and permit application processes, Chapter 656 requires that regulations relating to solid waste be coordinated among the Air Resources Board (ARB), the CIWMB, the SWRCB, regional water boards and local enforcement agencies. Similarly, Chapter 418, dealing with hazardous waste, mandates that the Secretary for Environmental Protection develop a “unified local level hazardous materials regulatory program” by January 1, 1996 and coordinate the regulations and activities of several agencies, including the ARB, the SWRCB, the Department of Toxic Substances Control (DTSC), the Office of Emergency Services and the State Fire Marshal.

Efforts by Various Agencies. In addition to the recently enacted legislation which coordinates regulations, various departments and boards have also made efforts to prevent duplication of regulatory activities. For example, in the hazardous waste area, memoranda of understanding have been developed between the DTSC and both the federal government and local health programs to prevent duplication. Also, the DTSC has been made the lead California regulatory agency coordinating efforts in the cleanup of military bases which will be closed.

BUSINESS ASSISTANCE PROGRAMS

The budget proposes to establish new programs and expand existing programs which are designed to assist businesses in complying with environmental regulations. Figure 7 lists the assistance programs that are proposed.

While a number of these proposals would provide assistance similar to that given in the past, several of the proposals rely on a “market incentive” approach to environmental regulation. This approach involves providing business with incentives to comply with the regulations. The incentive may be in the form of creating a marketing advantage, such as the ARB’s environmental labeling program whereby very low polluting products would be rewarded with a recognition label. Alternatively, the incentive may be in the form of increased flexibility for business to meet given environmental standards in a variety of ways. This flexibility could include the ability of a business to pay to expedite the permit process, as proposed by the DTSC, or the ability of a business to develop alternate manufacturing processes to comply with a standard, as proposed by the ARB.

Figure 7

Environmental Protection Programs Proposed Business Assistance Programs 1994-95

(In Thousands)

Department	Amount	Proposed Program
Air Resources Board	\$874	<ul style="list-style-type: none"> • Conduct training courses to educate industry how to minimize pollution • Conduct inspections, at request of industry, to assist with compliance • Develop environmental labeling program to reward very low polluting products • Develop programs to allow manufacturers alternative means of regulatory compliance
California Integrated Waste Management Board	1,441	<ul style="list-style-type: none"> • Expand loan program to develop markets for recycled materials
Department of Pesticide Regulation	175	<ul style="list-style-type: none"> • Pursuant to Ch 963/93 (AB 771, Areias), grant interim registrations to allow earlier entry of safe pesticides into marketplace
Department of Toxic Substances Control	2,874	<ul style="list-style-type: none"> • Allow industry to choose to pay to expedite their permit or closure plan • Pursuant to Ch 412/93 (AB 2060, Weggeland), streamline certification process for new, lower-risk environmental technologies—provides marketing tool for state's environmental technology industry

ENVIRONMENTAL PROTECTION RELIES HEAVILY ON REGULATORY FEES

Our review finds that (1) regulatory fees fund a major portion of total environmental protection expenditures, (2) many opportunities to consolidate regulatory fees paid by a particular group of fee-payers have been acted upon in recent legislation, and (3) some of the revenue projections for the fee-based funds remain uncertain, such that revenues may not be sufficient to fund proposed activities in 1994-95.

The *Supplemental Report of the 1993 Budget Act* directed each department and board within the California Environmental Protection Agency (Cal-EPA) to submit to the Legislature a report which, among other things, identifies the regulatory fees assessed by the department or board in 1992-93.

Figure 8 summarizes the major regulatory fees assessed by each of the departments and boards within Cal-EPA. In 1993-94, these major fees are estimated to total about \$260 million for various regulatory programs.

Regulatory Fees Fund a Majority of Total Environmental Protection Expenditures. As Figure 8 shows, the departments and boards identified levy a number of fees on various businesses under their jurisdiction. In the *Analysis of the 1992-93 Budget Bill* (please see pages IV-19 through IV-25), we provided a recommended framework for financing environmental protection programs using fees, the General Fund, and a combination of fees and the General Fund. We found that regulatory fees are the appropriate means for financing these programs when the objective is to prevent or reduce the degradation of public resources (such as air and water) by private users of the resources that can be easily identified. The General Fund is a recommended funding source only in cases where it would be difficult or costly to identify the private users that have degraded or could degrade the public resources.

Figure 8					
Environmental Protection Programs					
Major Regulatory Fees					
(In Thousands)					
Fees	Primary FeePAYERS	Revenues			
		Actual 1992-93	Estimated 1993-94	Projected 1994-95	
Air Resources Board					
California Clean Air Act fee	Stationary sources emitting more than 500 tons of specified pollutants, and vehicle manufacturers	\$8,145	\$8,299	\$8,453	
Air toxics hot spots fee	Over 30,000 stationary sources	3,500	5,266	4,987	
California Integrated Waste Management Board					
Integrated waste management fee	Solid waste landfill operators	33,415	21,339	46,096 ^a	
Solid waste disposal site cleanup and maintenance fee	Solid waste landfill operators	21,027	20,000	— ^a	
California used oil recycling fee	Oil manufacturers	15,086	20,543	20,543	
Tire recycling management fee	Persons disposing of tires at tire dealer	3,470	4,119	4,219	
Department of Pesticide Regulation					
Mill assessment	Registrants, brokers, or dealers of registered pesticides sold for use in state	24,670	16,313	24,498	
Pesticide registration fee	Manufacturers of pesticides for use or sale in state	2,054	2,044	2,044	
State Water Resources Control Board					
Underground storage tank cleanup fee	Underground tank owners	83,018	85,000	85,000	
Waste discharge permit fee	Dischargers of waste into rivers/lakes/coastal waters and to specified lands	9,172	6,791	7,792	
Bay Protection and Toxic Cleanup Fund fee	Dischargers of waste into specified waters	2,997	2,700	2,700	
Stormwater fee	Dischargers of waste into stormwaters	2,332	3,300	3,700	

Continued

Fees	Primary FeePAYERS	Revenues		
		Actual 1992-93	Estimated 1993-94	Projected 1994-95
Department of Toxic Substances Control				
Land disposal fee	Persons disposing of hazardous waste or annually submitting more than 500 pounds of hazardous waste for instate disposal	22,718	15,010	13,875
Generator fee	Generators of more than 5 tons of hazardous waste, unless a facility fee has been paid	19,318	18,642	19,937
Facility fee	Operators of hazardous waste storage, treatment and disposal facilities	13,666	9,595	9,463
Environmental fee	Businesses with activities related to hazardous waste	8,715	8,818	8,818
Fines and penalties	Hazardous waste generators, facilities; businesses operating illegally	6,274	7,070	8,330
Permit-by-rule/tiered permitting fee	Lower-risk hazardous waste handlers; full permit or facility fee not then required	2,410	4,399	3,644
^a Fee has been consolidated with former solid waste disposal site cleanup and maintenance fee by Ch 656/93.				

Our review of the environmental protection programs shows that, consistent with this financing framework, regulatory fees support a majority of the total expenditures for environmental protection by the departments/boards. For instance, regulatory fees provide almost 100 percent and 70 percent, respectively, of the support of the CIWMB and the DTSC in 1993-94. Similarly, a mill tax on the sale of pesticides is the DPR's main source of revenues and alone provides about 55 percent of the department's 1993-94 support. The administrative costs of collecting the environmental regulatory fees are typically relatively low because of automated billing handled internally by the department or under contract with the Board of Equalization. For example, the projected cost of collecting over \$46 million of integrated waste management fee revenues in 1994-95 is \$315,000, or less than 1 percent of revenues.

Environmental Protection Fee Structure Revised by Recent Legislation. Frequently, businesses within a certain industry group, such as hazardous waste management, have to pay several fees to different environmental regulatory agencies. As discussed earlier, recently enacted legislation has changed the fee structure in the environmental protection area. Specifically, the Legislature has:

- Consolidated three fees paid by operators of solid waste landfills into a single “integrated waste management fee.” The three fees are the integrated waste management fee and the solid waste disposal site cleanup and maintenance fee, both collected by the CIWMB, and the waste discharger fees collected by the SWRCB.
- Adopted a single fee to fund a new unified local hazardous materials regulatory program beginning in 1996. The fee is to be set at a level to pay costs incurred by agencies involved in carrying out the unified program.
- Revised the fee structure of the DTSC, including reducing some fees (such as the disposal fee on cleanup wastes) and increasing others (such as the generator fees).
- Increased fees paid by operators of specified hazardous waste facilities.

Most of the recent fee consolidations affect a particular industry group, such as solid waste landfill operators. Such consolidations are likely to result in administrative savings to both government and the private sector. It is less clear, however, whether there are similar savings to be had from consolidating fees paid by differing industry groups, with differing products and perhaps differing environmental protection concerns. Additional opportunities for such consolidation may be identified after the impact of the recent fee revisions can be fully reviewed.

Revenue Projections Remain Uncertain. In past analyses, we have pointed out that the revenue estimates for a number of the regulatory fees have been overly optimistic. Our concerns have been based, in part, on the highly uncertain assumptions concerning the projected amount of waste disposed or the projected impact of new legislation on industry behavior. Despite these uncertainties, past budgets often have not included an adequate reserve for contingencies in a number of fee-based funds. This has proven to be a problem in prior years for some departments. For example, the DTSC had to reduce program expenditures in the current year because revenues came in lower than expected, resulting in insufficient funds to cover expenditures. For the budget year, the projected condition of the CIWMB's Integrated Waste Management Account and the DTSC's Hazardous Waste Control Account raise similar concerns. We discuss our concern in the analyses of the CIWMB (Item 3910) and the DTSC (Item 3960) in subsequent sections.

“QUALITY GOVERNMENT” PROGRAMS WILL BENEFIT REGULATED INDUSTRIES

We recommend that funding for the “quality government” programs be supported by regulatory fees, instead of the General Fund, because these programs benefit the regulated industries. (Reduce Items 3900-001-001 by \$86,000, 3930-001-001 by \$100,000, 3940-001-001 by \$116,000 and 3960-001-001 by \$80,000.)

Chapter 418, Statutes of 1993 (SB 1082, Calderon) requires that Cal-EPA and its constituent departments, boards, and offices institute “quality government” programs on or before December 31, 1997. The objective of these programs is to increase the quality, efficiency and cost-effectiveness of the state's environmental protection programs. A quality government program is to include the following components:

- A process for obtaining the views of the regulated industries, the public, government, employees and environmental organizations regarding setting performance objectives for the environmental agencies, and evaluating the agencies' performance in meeting such objectives.
- Processes for continually improving quality and for training personnel.

Figure 9 summarizes the proposed budget-year expenditures for “quality government” programs in the various agencies. The budget proposes total expenditures of \$382,000 from the General Fund for these programs. While we think that the amount requested to implement Chapter 418 is warranted, we believe that the regulated industries will be the primary beneficiaries of these programs. This is because to the extent the departments improve on the efficiency and cost-effectiveness of their regulatory activities, the cost to regulated industries—in the form of regulatory fees, as well as compliance time and costs—will be less. Thus, the costs for these programs should be paid from the primary regulatory fee that supports each of the various departments. Our review shows that there are sufficient balances in the primary fee-based funds of these departments or the departments can redirect funds from other uses to support the quality government programs, without any increase in fees. Accordingly, we recommend the deletion of funding from the General Fund and the addition of funding from the respective fee-based funds for these programs.

Figure 9

**Environmental Protection Programs
Proposed “Quality Government” Expenditures
1994-95**

(In Thousands)

Department	Amount	Fund
Air Resources Board	\$86	General
California Integrated Waste Management Board	— ^a	
Department of Pesticide Regulation	100	General
State Water Resources Control Board	116	General
Department of Toxic Substances Control	80	General
Office of Environmental Health Hazard Assessment	— ^b	
Secretary for Environmental Protection	120	Reimbursements/ special funds
Total	\$382^c	

^a Shares program staff with Air Resources Board.

^b Shares program staff with Department of Pesticide Regulation.

^c Excludes reimbursements, special funds.

FUND CONDITIONS FOR RESOURCES 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 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 three categories: (1) resources special funds, (2) park-related bonds, and (3) bonds for water programs.

Special Funds

Our review of the major special funds in the resources area indicate that, if the Legislature approves the Governor's spending proposals, there will be little money available for legislative priorities. Additionally, there will be virtually no money in the Habitat Conservation Fund (HCF) to meet expenditure requirements of Proposition 117. The Legislature will need to determine whether funds ought to be transferred into the HCF in compliance with Proposition 117.

Figure 10 summarizes for selected special funds the total amount of funds available, the Governor's expenditure proposals, and the balances projected to remain at the end of 1994-95.

Special Account for Capital Outlay (SAFCO). Funds in this account are derived from state lease revenues arising from oil and gas development in state tidelands. Money from the SAFCO is used primarily for capital outlay purposes, but is available for other General Fund purposes as well.

The budget estimates that tidelands oil and gas revenues in the current year will be significantly less than originally anticipated. Consequently, the budget estimates that \$11.9 million will be deposited in the SAFCO in the current year instead of \$41.5 million as originally anticipated. For the budget year, *no* deposit will be made to the special account and *no* expenditures from the SAFCO for resources-related programs are proposed. (In fact, the budget proposes essentially no expenditures from the SAFCO for any purpose. Any tidelands revenues will instead be deposited in the General Fund.)

Figure 10				
Conditions of Selected Special Funds Resources Programs^a				
1994-95				
(In Thousands)				
	Estimated Expenditures 1993-94	Estimated Total Available 1994-95	Governor's Proposal	
			Total Spending	Fund Balance
Special Funds				
Special Account for Capital Outlay ^b	\$24,124	NA	—	NA
Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund ^b	17,641	NA	—	NA
Environmental License Plate Fund	21,565	\$29,071	\$27,085	\$1,986
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	25,563	25,446	23,498	1,948
Habitat Conservation Fund	40,393	1,662	1,662	—
Totals	\$129,286	\$56,179	\$52,245	\$3,934
^a Based on Governor's Budget.				
^b Figures are for resources-related and environmental projects only.				
NA - Not Applicable.				

In order to partially offset the loss of SAFCO funding, the budget proposes \$8.2 million from the General Fund for resources-related programs in 1994-95.

Outer Continental Shelf Land 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. For 1993-94, estimated funding for resources-related programs from Section 8(g) funds is \$17.6 million.

According to the budget, Section 8(g) funds have declined in recent years, and resources programs should be funded directly out of the General Fund in order to ensure that these functions continue to have stable funding on an ongoing basis. Consequently, unlike past years, the budget proposes transferring all Section 8(g) funds—projected to be \$23.5 million—into the General Fund. Instead of appropriating Section 8(g) funds to various resources programs, the budget proposes funding these activities directly from the General Fund. Funding will be at a reduced level relative to 1993-94, at \$9 million.

However, our analysis indicates that revenues to the Section 8(g) Fund have not declined by any significant amount in recent years. Rather, as Figure 11 indicates, revenues are estimated to be \$23.5 million for 1994-95, which is \$948,000, or 4.2 percent, over their 1991-92 level. Thus, the administration's proposal reflects a policy decision rather than a particular funding situation. Given the state's current fiscal situation, this proposal may represent a reasonable approach. However, it is a different approach to funding these programs than in recent years when the Legislature has allocated funds directly from the Section 8(g) Fund in accordance with legislative priorities.

Figure 11	
Revenues to Section 8(g) Fund	
(In Millions)	
	Total Revenues
1991-92	\$22.5
1992-93	24.7
1993-94 (estimated)	25.0
1994-95 (projected)	23.5

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.
- 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 total expenditures of \$27.1 million from the ELPF, an increase of \$5.5 million above estimated current-year spending. The increase is due primarily to an increase in the support of the Department of Parks and Recreation, and additional funds to various conservancies for capital outlay purposes.

The budget, however, proposes *no* transfer from the ELPF to the Habitat Conservation Fund (HCF) in 1994-95 to meet funding requirements of Proposition 117 (1990). As a result, the budget shows a reserve in the ELPF of \$2 million at the end of 1994-95.

Public Resources Account, Cigarette and Tobacco Products Surtax Fund. The Public Resources Account (PRA) receives 5 percent of the revenues 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 \$23.5 million. This is a decrease of \$2.1 million (8.2 percent) below estimated spending in the current year. The decrease is due primarily to the lower expenditures proposed for the Department of Parks and Recreation.

Additionally, as in the case of the ELPF, the budget proposes *no* transfer from the PRA to the HCF. However, of the total proposed expenditures, \$2.2 million is requested for the Santa Monica Mountain Conservancy to partially compensate the conservancy for the loss of funding from the HCF. As shown in Figure 10, the PRA will have a reserve of \$1.9 million at the end of 1994-95.

Habitat Conservation Fund (HCF). The HCF was created by Proposition 117, the California Wildlife Protection Act of 1990. The proposition requires that the fund receive annual revenues of \$30 million primarily for wildlife habitat acquisitions and improvements. To provide this funding 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.

The budget proposes not to make any transfers into the HCF for 1994-95. The budget indicates that an amendment to Proposition 117 will be submitted to the voters in 1994 to eliminate the HCF, including the requirements to (1) transfer money into the fund and (2) allocate \$11 million annually from the HCF to the Wildlife Conservation Board. As a result, only the balance in the fund at the end of 1993-94—\$1.7 million—will be available in 1994-95. The budget proposes to allocate most of this balance to the board.

Figure 12 shows the funding requirements of Proposition 117 and the funding proposed in the budget. The figure shows that the budget proposes a spending level that is about \$20 million less than called for by Proposition 117. In view of the budget proposal, the Legislature will need to determine (1) whether, or not, to transfer funds into the HCF in compliance with Proposition 117, and (2) if funds are transferred, from what sources and in what amounts. Given the state's fiscal condition, we

think that the administration's proposal would have the benefit of relieving the budget from another statutory constraint that limits the state's ability to meet statewide priorities.

Figure 12			
Proposition 117 Funding Requirements Versus Governor's Budget Proposal 1994-95			
(In Thousands)			
	Proposition 117	Budget Amount	Source
California Tahoe Conservancy	\$500	\$483	ELPF
Wildlife Conservation Board	11,000	1,624	HCF
State Coastal Conservancy	4,000	1,000	ELPF
Department of Parks and Recreation	4,500	38	HCF
Santa Monica Mountains Conservancy	10,000	7,000	ERPA/PRA
Totals	\$30,000	\$10,145	
ELPF = Environmental License Plate Fund ERPA = Energy Resources Programs Account HCF = Habitat Conservation Fund PRA = Public Resources Account			

Substantial Drop in Funding From Special Funds Not Compensated by General Fund. Figure 13 compares the proposed funding level of resources programs from various special funds with estimated current-year levels. The figure shows that the budget proposes a significantly lower spending level from these funding sources than in the current year as a result of (1) shifting the support of certain programs from the SAFCO and Section 8(g) funds to the General Fund, and (2) not funding the HCF, as required by Proposition 117.

Figure 13

**Resources Programs
Funding From Various State Funds
1993-94 Versus 1994-95**

(Dollars in Millions)

Fund Source	Amount		
	1993-94	1994-95	Percentage Change
SAFCO	\$24.1	\$8.2 ^a	-66.0%
Section 8(g)	17.6	9.0 ^a	-48.9
ELPF	21.6	27.1	25.5
HCF	40.4	1.7	-95.8
PRA	25.6	23.5	-8.2
Totals	\$129.3	\$69.5	-46.2%

^a Funding to be from General Fund.

Summary: Little Special Fund Money Is Available for Legislative Priorities. In 1994-95, a total of only \$4 million will be available in the PRA and the ELPF for legislative priorities if the Governor's spending proposals are approved, as shown in Figure 10. The amount available to fund legislative priorities is actually less than \$4 million given the need to maintain adequate reserves in these funds. Additionally, the Legislature will have to determine whether it wants to transfer funds to meet Proposition 117 requirements for the HCF, and if so, from what fund sources and in what amounts. To the extent that the remaining PRA and ELPF monies are used to meet Proposition 117 requirements, there will be no money left for meeting any legislative priorities in 1994-95.

Park-Related Bonds

Currently, little bond money is left for park-related projects. However, the amount of bond funds could rise significantly depending on the outcome of a June 1994 bond initiative.

Figure 14 shows the amount available in selected park bond funds and the expenditures proposed for 1994-95. 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 where possible to fund various projects.

Figure 14
**Conditions of Selected Park Bond Funds
Resources Programs^a
1994-95**

(In Thousands)

	Estimated Expenditures 1993-94	Estimated Total Available 1994-95	Governor's Proposal	
			Total Spending	Fund Balance
Bond Funds				
State, Urban and Coastal Park Fund (1976 Bond)	\$4,064	—	—	—
Parklands Fund of 1980	2,555	\$849	\$745	\$104
Parklands Fund of 1984	26,144	3,021	3,000	21
Fish and Wildlife Habitat Enhancement Fund of 1984	3,448	2,719	—	2,719
State Coastal Conservancy Fund of 1984	3,463	565	539	26
California Wildlife, Coastal, and Park Land Conservation Fund of 1988 ^b	108,544	51,006	21,409	29,597
Wildlife and Natural Areas Conservation Fund of 1988	10,612	1,619	1,595	24
Totals	\$158,830	\$59,779	\$27,288	\$32,491

^a Based on Governor's Budget.^b Figures reflect all bond allocations including those not subject to Budget Bill appropriations.

The budget proposes expenditures totaling \$27.3 million from the various bond funds. This level is significantly lower than estimated current-year spending of \$158.8 million. The reduction reflects the spending down of available fund balances.

The proposed expenditures would leave \$32.5 million in bond funds still available at the end of 1994-95. As Figure 14 shows, most of this remaining money will be in one 1988 bond fund, much of it earmarked for development of particular geographic areas and for certain categories of projects.

Available Bond Funds Could Be Significantly More. The amount of park bond funds available in 1994-95, however, could be higher than is projected. This is because scheduled for the June 1994 ballot is a bond initiative which, if adopted by the voters, would authorize almost \$2 billion in general obligation bond funds for park development and other natural habitat preservation purposes. Most of these funds are earmarked for particular geographic areas and for certain categories of projects.

Water Bonds

Based on current projections, there will be sufficient bond funds to continue local water supply and wastewater treatment programs in 1994-95 at the levels proposed in the budget.

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, and water reclamation; and (3) the wastewater treatment program.

As indicated in Figure 15, the budget reflects expenditures totaling \$118.9 million from water bond funds for these programs.

Figure 15			
Conditions of Selected Water Bond Funds^a			
1994-95			
(In Thousands)			
	Estimated Total Available	Governor's Proposal	
		Total Spending	Fund Balance
Safe drinking water			
1986 California Safe Drinking Water Fund	\$70,112	\$16,093	\$54,019
1988 California Safe Drinking Water Fund	39,055	26,679	12,376
Subtotals	(\$109,167)	(\$42,772)	(\$66,395)
Water supply			
1986 Water Conservation and Water Quality Fund	\$39,442	\$35,574	\$3,868
1988 Clean Water and Water Reclamation Fund	31,655	10,687	20,968
1988 Water Conservation Fund	40,553	23,435	17,118
Subtotals	(\$111,650)	(\$69,696)	(\$41,954)
Wastewater treatment			
1984 State Clean Water Fund	\$48,144	\$6,434	\$41,710
Totals	\$268,961	\$118,902	\$150,059

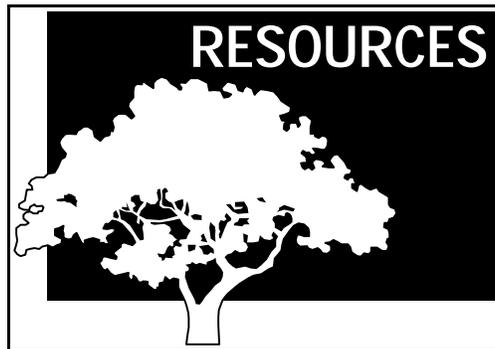
^a Based on Governor's Budget.

Safe Drinking Water. The budget projects total expenditures of \$42.8 million in 1994-95, leaving a balance of \$66.4 million at the end of 1994-95. The Department of Water Resources (DWR) advises, however, that it has pending grant applications against most of this balance.

Water Supply. The budget reflects \$69.7 million in expenditures for water supply programs. The balance available for these programs in 1995-96 is projected to be \$42 million. According to staff at the DWR and the State Water Resources Control Board (SWRCB), all of this balance is for pending applications for projects in the pipeline.

Wastewater Treatment. The budget proposes expenditures of \$6.4 million from the 1984 State Clean Water Fund to fund wastewater treatment projects in 1994-95. This will leave a balance in the fund of \$41.7 million at the end of 1994-95. The SWRCB staff indicate that all of the balance is for projects considered to be in the pipeline.

In summary, based on the projected expenditures of water bond funds, there will be sufficient amounts to continue funding water programs in 1994-95 at the levels proposed in the budget. However, it appears that the remaining fund balances are not available for new projects given pending applications for projects already in the pipeline.



DEPARTMENTAL ISSUES

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 a total of \$383.9 million for the department, including amounts from the General Fund (\$263.7 million), various other state funds (\$22.5 million), and federal funds and reimbursements (\$97.8 million). This is an increase of \$11.1 million, or 3 percent, over estimated current-year expenditures. The increase is due primarily to an increase in the General Fund of \$13.9 million, or 3.7 percent, partially offset by reductions in other funding sources for the department.

Department Reorganizes But Still Needs to Develop Strategic Planning Process

The department is undergoing a reorganization before it develops a strategic plan as directed by the Legislature. We recommend that the CDFFP report at budget hearings on its progress in developing a strategic plan and how the current reorganization fits into that plan.

In the *Supplemental Report of the 1993 Budget Act*, the Legislature directed the CDFFP to develop a long-term strategic plan that would delineate the department's mission and goals and the fiscal and policy means of achieving them, thereby providing the basis for setting the department's 1995-96 budget priorities. The Legislature required the CDFFP to provide quarterly reports on this planning process, beginning in October 1993. The department has not yet produced a plan or submitted the quarterly reports to the Legislature (although it has reported verbally to legislative staff). However, it has begun a reorganization in the current year with the intent of focusing more narrowly on high priority tasks.

Reorganization Intended to Enhance Fire-Protection Activities. Beginning January 1994, as part of the reorganization, CDFFP plans to increase the fire protection staff by 35. The department will do so by eliminating 25 positions in the Sacramento headquarters and the regional offices, many of them administrative, and redirecting the funds for the support of 35 fire-fighting positions in the field units.

More Staff Without Additional Funding. According to the CDFFP, the reorganization will result in an overall net increase of ten positions for fire protection without a need for additional funds for the positions' support. This is because the newly created positions will be at lower salary levels than the ones that will be eliminated such that total expenses for staff support will actually be less. The department anticipates that the resulting savings will be adequate to cover equipment and operating expenses associated with the increased fire-fighting personnel for the field units in 1994-95.

Consolidation of Regions. In addition to redirecting staff resources, a central feature of the reorganization is the consolidation of statewide command from four to two regions, with command centers located in Redding and Riverside, respectively. Currently, there is a command center in each of the four regions besides the Sacramento headquarters command center which dispatches and coordinates resources among the regions on a routine basis. Under the new organizational structure, the two regions will take over the dispatching and routine coordination responsibilities formerly held by headquarters. Headquarters will dispatch resources only on occasions when the regions simultaneously encounter serious fire or emergency situations. The department anticipates some long-term savings on telecommunications equipment as a

result of having to equip fewer regional command centers. The department believes that there will not be a loss of command and control with fewer command centers and a revised role of the headquarters center.

Reorganization Entails Some Risk. Faced with budget constraints, various departments have reorganized themselves in recent years with the goal of increasing efficiency and effectiveness of their programs. We commend the department for its efforts in this regard. However, the department's failure to develop a strategic plan before undertaking this reorganization leaves the Legislature in a position where it is not able to evaluate the appropriateness of the reorganization relative to the department's mission and strategic plan. This is particularly so in that we have identified a couple of potential risks with the department's reorganization proposal.

First, the consolidation of four regions into two regions means that each regional command center will have to coordinate resource allocation and deployment among more field units than currently. For example, each command center will handle about 11 units, instead of the five or six units that they handled formerly. At this time, it is not known whether this new structure will result in improved coordination when multiple field units encounter increased need for resources concurrently.

Second, the change in the role played by headquarters in Sacramento also entails some risk, since headquarters will not track the deployment of resources as closely as it did under the previous organizational structure, but will still need to coordinate and mediate demands when the two regional offices are competing for resources. The CDFFP staff estimate that such situations occur infrequently, about once a year on average. However, these situations are also the most critical because they occur when the state's limited fire-fighting resources are stretched to the limit and must be deployed in a way to minimize loss statewide.

Importance of Strategic Planning Process. The CDFFP reorganization reflects the department's effort to improve its fire-fighting capability by redirecting staff positions. Whether it can better achieve its mission, however, and to what extent is unclear because the department is still in the process of defining that mission and its strategic plan for achieving it. We believe that it is critical that the CDFFP's reorganization be consistent with its mission and strategic plan. We therefore recommend that the CDFFP report at budget hearings on its progress in developing a strategic plan, the relationship of the reorganization to that plan, and the likelihood that this plan will provide the basis for setting the CDFFP's 1995-96 budget priorities.

Cost-Effectiveness of Department Training Needs to Be Demonstrated

We withhold recommendation on \$461,000 and seven training positions pending the department's review of the cost-effectiveness of alternative methods of providing staff training. We further recommend that the CDFFP report prior to budget hearings on the results of that review.

Background. The department requests \$461,000 in the budget year from the General Fund for seven positions as training officers in field units, beginning January 1994. Funds would be redirected from savings generated by the departmentwide reorganization. According to the department, 15 of its 22 field units currently have a training officer or will assign training responsibilities to staff in the current year. This proposal would create training officer positions in each of the remaining seven units. The primary duties of training officers are to analyze and document unit-level training needs and act as a facilitator coordinating and scheduling locally presented training courses and in-house courses, and to evaluate training effectiveness.

Current Unit-Level Training Inadequate. The department indicates that the new positions will help address a deficiency in providing training to unit-level fire protection staff. After receiving basic training at the CDFFP Training Academy and three years of unit-level apprenticeship training, unit-level fire protection staff are supposed to receive ongoing refresher training in subjects ranging from fire engine operations to hazardous materials handling. However, based on our analysis, we conclude that the level of training provided to fire-fighters in the field units does appear to be inadequate. For example, a departmental study found that staff are not receiving ongoing training, and that staff are consequently failing to retain much of the knowledge they gained at the Academy.

While we agree with the department that it needs to improve the training of staff, we have the following concern with the department's proposal.

Effectiveness of Decentralized Training Officers Not Clear. The department's approach to providing training is essentially a decentralized strategy in that it relies on the 22 field units to assess training needs and determine how to meet those needs. For some types of training (for example, routine first aid training), such an approach may be appropriate. However, for many of the department's training needs, a *centralized* approach to providing that training may be more cost-effective and ensure greater consistency.

- **Cost-Effectiveness.** In addition to ongoing training in fire-fighter safety, unit-level staff require training in such specialized areas as hazardous materials handling, blood-borne pathogens, peace officer conduct, and sexual discrimination awareness. With specialized training needs such as these, hiring additional CDFFP Academy trainers to provide training in the field is likely to be more cost-effective than requiring every unit to individually contract with a local provider or have its own in-house trainer. (For many units, especially those in remote parts of the state, relying on a local provider may not even be an option for such specialized training.)
- **Consistency Across Field Units.** One problem with the department's current training attempts is a lack of consistency across units. Under the reorganization it will be even more crucial than before that field units be able to assist other units and work outside their boundaries. The highly specialized training needs of field staff make consistency and coordination especially important. Centralized training may provide greater consistency.

Recommendation. While we agree that the CDFFP's ongoing training program needs to be improved, we think that the department needs to examine the alternative costs and benefits of providing the training in a centralized fashion, using additional academy training staff, versus hiring additional field unit staff. Therefore, we withhold recommendation on the \$461,000 for the budget year pending the department's further review of the alternative methods of providing the training. We further recommend that the department report, prior to budget hearings, on the relative cost-effectiveness of requiring field units to provide training versus increasing staff at the CDFFP Academy. In the absence of such an analysis, the Legislature would have no basis for approving the department's current proposal.

Replacement of Telecommunications Equipment and Air-Attack Planes Appears Reasonable

The budget proposes \$3 million to fund the replacement of telecommunications equipment and \$1.2 million for the replacement of air-attack planes, both from the General Fund. These requests appear to be reasonable and are in keeping with our recommendations in the past that the Legislature adopt a "pay-as-you-go" approach to funding CDFFP equipment.

In order to continue the department's multi-year telecommunications renovation program, the budget proposes \$3 million from the General

Fund for equipment, and \$239,000 from the General Fund to permanently fund four positions for telecommunications staffing. The budget also proposes \$1.2 million from the General Fund to replace old air-attack planes and acquire infrared capabilities.

In the past, SAFCO and the Outer Continental Shelf Lands Act, Section 8(g) funds were used to provide replacement of telecommunications and air fleet equipment. For 1994-95, however, the budget proposes no funds to be transferred to the SAFCO. Additionally, the budget proposes transferring all Section 8(g) funds into the General Fund, and requests funding for various activities directly from the General Fund. Presumably, this would allow for the better prioritization of the use of these funds. Our review shows that the request is reasonable and is consistent with past legislative actions to fund replacement of the department's aircraft and telecommunications equipment on a "pay-as-you-go" basis.

In the *Supplemental Report of the 1993 Budget Act*, the Legislature required the department to report by January 1994 on options for modernizing the air operations program. At the time this analysis was prepared, this report was still being prepared by a contractor. According to the department, the report focuses primarily on the capabilities of air tankers, and assumes that the air-attack planes—planes used to direct air tankers—will be replaced. Thus, funding the air-attack plane replacement before the report is completed does not appear to create future programmatic or technical problems for the department in its air operations program.

STATE LANDS COMMISSION (3560)

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

The budget requests a total of \$8.6 million for support of the commission in 1994-95 including amounts from the General Fund (\$4.7 million), the Oil Spill Prevention and Administration Fund (\$2.5 million), and reimbursements (\$1.4 million). This is a decrease of \$7.5 million, or 46 percent, from estimated current-year expenditures. This level of funding reflects the administration's proposal to eliminate the commission, as discussed below.

Proposal to Eliminate Funding of the State Lands Commission Premature

We recommend that full-year funding for the SLC be reestablished in the existing budget items for the commission, instead of in items for a new Department of Energy and Conservation, because elimination of funding for the SLC is premature. (Eliminate Item 3350-001-001 [\$4,708,000] and Item 3350-001-320 [\$2,502,000] and augment Item 3560-001-001 by \$4,708,000 and Item 3560-001-320 by \$2,502,000.)

The budget essentially proposes to fund the SLC only for the first half of 1994-95. For the second half of 1994-95, funding for the SLC programs is requested under a new Department of Energy and Conservation (Item 3350-001-001 and Item 3350-001-320), to be authorized in subsequent legislation. At the time this analysis was prepared, no details were available about this proposal. For instance, it is not known what other programs will be included in the new department besides those of the SLC and what other responsibilities the new department will have. As a result, it is not possible to assess the benefits of placing the SLC's programs with other programs under a new department.

While we think that opportunities to consolidate state programs to improve efficiency and program effectiveness ought to be explored, the administration has not provided any information to indicate that eliminating the SLC for the second half of 1994-95 and placing its programs under a new department will achieve these improvements.

Because various issues, including what programs should be consolidated, and what the organizational structure and funding level of the new department ought to be, will have to be addressed through the enactment of legislation, funding the SLC for only a half year in the Budget Act is premature. We therefore recommend that the Legislature provide full-year funding for the SLC under the existing budget items. If legislation is enacted to consolidate or restructure the SLC and other programs, at that time the Budget Act should be amended accordingly.

School Lands Proposal Goes Beyond Legislative Direction

We recommend that the Legislature reject the SLC's proposal to add three new positions for the purpose of investing school lands revenues in commercial investments. We further recommend adoption of supplemental report language directing the SLC not to engage in commercial investment activities using school land revenues, but rather to rely on the State Teachers' Retirement System (STRS) to perform such investments. (Reduce reimbursements by \$168,000.)

Background. Under its School Lands program, the SLC manages all state school lands. These are lands that were granted by the federal government to the state to help support public education. In 1984, the Legislature passed the School Land Bank Act, which authorized the SLC to use revenues from the sale of school lands to purchase other properties, thereby consolidating school land parcels into contiguous holdings to facilitate their effective management.

Budget-Year Proposal. The budget proposes to add three new staff (and \$168,000 in reimbursements) to identify and pursue new investment opportunities for proceeds generated from the sale of school lands. Specifically, these positions would be used to identify and invest school lands revenues in commercial real estate properties.

School Lands Program Strategy Goes Beyond Legislative Direction. In our view, the SLC's proposal illustrates how the commission recently has become increasingly involved in commercial real estate investments unrelated to the consolidation of school lands. For example, according to the SLC's 1992-93 annual report, the SLC's current strategy is to use the revenues from the sale of marginal school lands specifically to "consolidate capital and purchase income properties." The report makes no mention of consolidating existing school lands—the SLC's traditional responsibility. Similarly, criteria proposed by SLC staff for screening properties for investment opportunities make no mention of building on existing school land holdings. One example of the commission's current strategy is its plan to fund construction of a commercial office building in downtown Sacramento. While we think that buying and selling school

lands for the purpose of consolidating and better managing school land holdings is well within the SLC's statutory charge, it would be beyond that authority for commission staff to be reinvesting sales proceeds in commercial real estate.

Investment Can Be Done More Efficiently by STRS. If the best use of revenues from the sale of school lands is investment in commercial real estate, a more appropriate entity than the SLC to undertake these investments is the State Teachers' Retirement System (STRS). This is because revenues resulting from school lands management and sales are placed in the State Teachers' Retirement Fund after the SLC recovers its own costs. The STRS, with a portfolio of \$48 billion, has the staff expertise and organizational structure for identifying investment opportunities and managing the investments. Therefore, the STRS is better positioned than the SLC to invest the proceeds of sale of school lands. There is no analytical reason why the SLC should hire its own staff to seek investment opportunities for these funds when they could be invested more efficiently by the STRS.

Therefore, we recommend that the Legislature reject the SLC's proposal to increase reimbursement authority by \$168,000 for three new positions. In order that the SLC does not engage in the investment of school land revenues in commercial properties, we recommend that the Legislature adopt the following supplemental report language:

It is the intent of the Legislature that the State Lands Commission not engage in activities relating to investment of school lands revenues in commercial properties. Such investment activities ought to be conducted by the State Teachers' Retirement System.

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 \$168.3 million from all sources for support of the DFG in 1994-95. This is an increase of \$8.5 million, or 5.3 percent, over estimated current-year expenditures. The increase is due in large part to an increase of \$7.6 million requested for damage assessment and restoration for the Cantara spill.

Reserve May Not Be Adequate

The budget projects only a small balance in the Fish and Game Preservation Fund (FGPF) at the end of 1994-95. We recommend that the department report at budget hearings on its plans to reduce expenditures in the event that there is a funding shortfall.

Almost half of the DFG's budget is supported by the Fish and Game Preservation Fund (FGPF). This fund receives revenues primarily from the sale of hunting and sportfishing licenses, commercial fishing permit fees, and landing taxes, 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 supports programs related to hunting and fishing, but also supports other fish and wildlife protection and management activities. In contrast, dedicated revenues are reserved for purposes relating specifically to the sources from which they were collected. For example, funds in the Sea Urchin Dedicated Account of the FGPF are generated by a sea urchin landing tax and reserved for sea urchin research and management.

The department projects that hunting, sport and commercial fishing fee revenues to the FGPF-ND will total about \$52 million in 1993-94 and \$55 million in 1994-95.

Small Balance in FGPF Projected. The budget projects a reserve of \$7.6 million in the FGPF at the end of 1994-95. However, only \$1.1 million of this amount is nondedicated. This amount represents 1.7 percent of total 1994-95 nondedicated expenditures. The department advises that settlement with one of the parties involved in the Cantara spill is likely to occur in 1993-94, and anticipates that this settlement will provide \$2 million to the non-dedicated FGPF. This sum is not reflected in the fund balance in the 1994-95 budget.

However, our analysis indicates that settlements for the Cantara spill may not be available to fund department activities. This is because in the 1992 Budget Act, the Legislature appropriated \$6.6 million in Outer Continental Shelf Lands Act Section 8(g) funds for the Cantara spill. At the same time, the 1992 Budget Act required that any reimbursements the state receives must first be used to repay the Section 8(g) Revenue Fund.

Given the relatively small reserve, if revenues fall short of projections or if there are unanticipated expenditures, the department will need to either obtain additional funding elsewhere or decrease other expenditures in order to keep the FGPF in balance.

Revenue Projections for 1993-94 Accurate to Date, but Uncertainty Regarding Current- and Budget-Year Projections Remain. While our review shows that the DFG's revenue projections have improved in recent years and are on target for the first part of 1993-94, there still remains some uncertainty surrounding the revenue estimates. Under certain circumstances, revenue shortfalls could be significant enough to result in a year-end deficit in the nondedicated account, given the proposed spending plan for 1994-95. Two types of revenue included in the 1994-95 projections are particularly uncertain.

- ***Future of Environmental Review Fee Revenues Not Certain.*** Chapter 1706, Statutes of 1990 (AB 3158, Costa) allows the DFG to charge a fixed fee to applicants for projects or activities that are subject to review under the California Environmental Quality Act. The fee defrays the costs of the DFG's reviews as well as the cost of the department's other fish and wildlife protection and management activities. The DFG estimates that these revenues will total \$4.3 million annually in 1993-94 and 1994-95. However, the future of this revenue source is uncertain, because legislation has been introduced (AB 899, Costa) to eliminate this fee.
- ***Sportfishing License Revenue Projections Based on New Proposals.*** Sales of sportfishing licenses account for about 60 percent of the department's total FGPF-ND revenues. In an effort to increase sales of sportfishing licenses, which have been in decline since the early 1980s, the department plans to implement

two new proposals. It estimates that these proposals will result in increased revenues totaling \$6.4 million in 1993-94 and 1994-95.

First, effective March 1994, the department will require anglers to wear their licenses on an outer garment in order to increase compliance with purchasing fishing licenses. The department anticipates that this requirement will produce an additional \$1.1 million in 1993-94 and \$3.2 million in 1994-95, as a result of a 10 percent increase in annual license sales. Second, anglers will be permitted to use two rods simultaneously, and will be required to buy a stamp for the additional rod. The department expects this proposal to generate \$2.1 million in revenues in 1994-95. This proposal, however, requires legislation to become effective.

Department Preparing for Potential Revenue Shortfalls. The department advises that, in recognition of the funding condition, it is developing a plan to reduce expenditures, in the event that revenues do not materialize as anticipated or expenditures are unexpectedly higher. At the time this analysis was prepared, no further detail was available on potential reductions. We recommend that the department report at budget hearings on what program activities would be reduced in the event that revenues are lower than projected.

Success of Geographic Information System Depends on Standards Development

We recommend the adoption of supplemental report language requiring the department to report on its progress in developing standards for all the natural resource data to be collected and used in its Geographic Information System (GIS) in order that the Legislature can be informed of the implementation of the GIS.

The budget requests an increase of \$765,000 for the department to continue the second-year development of a GIS, including \$245,000 from the FGPF and \$520,000 from the Oil Spill Prevention and Administration Fund. The requested amount will result in total funding for the project in 1994-95 of \$1.4 million. The project, which the department expects to cost a total of \$6.4 million over 5 years, is intended to improve the department's collection, analysis and dissemination of fish and wildlife resource inventory information. Of the requested amount, \$498,000 (or 65 percent) is for equipment, including microcomputers and related computer hardware which will be installed in the department's regional offices in 1995.

Effective Collection and Use of Data Central to Fulfilling Department's Mission. The department spends significant amounts of money and staff time annually to collect resource information, such as the boundaries of deer ranges or the location of endangered species, which is critical to its management of the state's plant and animal wildlife resources. In 1990-91, for example, department staff spent about 383,000 hours collecting basic resource assessment information, at a cost of \$14 million (or 12 percent of the department's total expenditures).

The department does not have a database and information technology for storing and managing this information. This limits the department's ability to evaluate and analyze the data collected. In addition, this results in problems such as redundant data collection by different units of the department, lost data, and lack of consistency in the type or quality of data collected.

GIS to Provide Data Management System. The department has determined that better management and use of resources data would improve its effectiveness in accomplishing its resource protection and management mission. To address this need, the department has begun to develop a GIS—a database application—to systematically store, manage and analyze spatial data. While we commend the department for recognizing this need and undertaking the GIS project, we have several concerns about its implementation.

Required Reports Not Submitted to Legislature, but Project Is Moving Ahead. In accordance with state administrative procedures, the Office of Information Technology (OIT) required the department to submit quarterly reports to the Legislature, beginning July 1993, on the progress of the project. The department has not submitted any of the required reports. Consequently, the Legislature has not been kept informed of the status of the project. Under revised state administrative procedures beginning in 1994, the project will no longer be required to submit quarterly reports. Consequently, the Legislature will not be informed on a periodic basis of the progress of the project.

Our review also shows that while the Feasibility Study Report for the project anticipated that the development of standards for the collection and use of data in the system would be completed by the end of 1993, project staff now advise that work on this task is only in the early stages, and anticipate that development of standards will be an ongoing task due to the wide variety of data that the department must collect. Based on experience with other GIS systems, this phase of the project is the most prone to complications and delays. Because of the project's significance to the department's ability to carry out its mission, OIT has requested that a Special Project Report be submitted by June 1994 in order to track the project's progress.

Standards for Uniform Information Collection Key to GIS. The development of standards is critical to the successful implementation of the project because a GIS can be useful only if the data are collected in a uniform manner, meeting specified accuracy standards. Unless proper standards are developed and adhered to by department staff in their collection of data to be entered into the GIS, the system will not provide the intended benefits, and the department will continue to have to expend a significant amount of staff time annually to collect and revise resources data. Furthermore, the problems of having redundant, as well as inconsistent, data will persist.

Recommendation. In order that the Legislature can be informed of the department's progress in implementing the GIS, we recommend adoption of the following supplemental report language:

By January 1, 1995, the department shall submit a report to the Legislature on its progress in developing standards for the natural resources data entered into its GIS. The report shall describe (1) the total staff time and funds that the department plans to allocate to collection of natural resources data in 1994-95 and 1995-96, (2) the department's schedule for completing development of GIS standards for this data, and (3) strategies for ensuring that the data collected are consistent with those standards and suitable for entry into the GIS.

Funding Level for Cantara Spill Effort Reasonable

The proposal for \$10.6 million in loans from the Oil Spill Prevention Trust Fund to the FGPF to continue the Cantara spill efforts (\$3 million in 1993-94 and \$7.6 million in 1994-95) is reasonable. We recommend that the department report at budget hearings on (1) the estimated total costs for its Cantara spill efforts, including costs beyond 1994-95, (2) the status of the state's success in seeking reimbursement from responsible parties, and (3) alternative sources of funding for spill cleanup efforts because, in the event that reimbursements fall short of DFG's costs, the Legislature will need to determine the funding source for those costs.

Budget-Year Request. The DFG is the lead agency for responding to the July 1991 Cantara Loop chemical spill that damaged aquatic life along 45 miles of the Sacramento River above Lake Shasta. The DFG has incurred costs for cleanup and response, damage assessment, and litigation. The department anticipates that reimbursement for these costs will ultimately come from the Southern Pacific Transportation Company and other potentially responsible parties, but it is uncertain when settlement will occur.

The budget proposes loans of \$3 million in the current year and \$7.6 million in the budget year from the Oil Spill Prevention Trust Fund (OSPTF) to the FGPF, for the department to complete damage assessment activities, continue restoration measures, and support on-going litigation.

Of the amount requested for 1994-95, \$5.5 million is for various contracts with other state agencies and the private sector. These include contracts for economic loss evaluation, legal representation, injury determination, and restoration and recovery monitoring.

Cantara Funded to Date Primarily by Federal 8(g) Funds. The budget request will bring the total amount expended by the department for the spill through 1994-95 to \$19.7 million. As Figure 16 indicates, most of the funds prior to 1993-94 have been loans from the Section 8(g) Fund.

Figure 16		
Cantara Spill Funding Through 1994-95		
(In Millions)		
Year	Amount	Fund Source
1991-92	\$2.5	Section 8(g) loan (\$2 million); FGPF (\$0.5 million)
1992-93	6.6	Section 8(g) loan
1993-94	3.0	Oil Spill Prevention Trust Fund loan
1994-95	7.6	Oil Spill Prevention Trust Fund loan
Total	\$19.7	

Complications if Full Reimbursement Not Received. The loans from the Section 8(g) Fund and the OSPTF will have to be repaid under conditions to be set by the Department of Finance. In the event that reimbursement from responsible parties does not materialize or is insufficient to cover all the costs incurred by the department, it is not clear at this time which funds will bear the burden. Our analysis indicates that it would be inconsistent with legislative intent for OSPTF to bear those costs because funds from the trust fund are only to be used for *oil* spill-related activities.

However, repaying the loans with FGPF-ND funds also raises problems. First, under current law, the FGPF must be used to support programs primarily of benefit to hunters and fishers. However, the effects of the spill were not limited to game species or sportfish, and the use of FGPF exclusively to repay the loans would be inconsistent with statute. In addition, hunting and fishing revenues to the FGPF have been declining over time. Whether the FGPF has the capacity to repay the loans if the responsible parties do not fully reimburse the department and still adequately fund the department's other programs is questionable.

In the 1992-93 *Analysis* (page IV-59), we argued that an appropriate funding source for the Cantara damage assessment and cleanup would be the Hazardous Substances Account (currently consolidated with the Hazardous Waste Control Account [HWCA]), which provides funds for

(1) cleanup of sites where hazardous substances have been released and (2) the costs of damage assessments related to a hazardous substance release. However, as we discuss in our analysis of the Department of Toxic Substances Control (Item 3960), the HWCA also faces a funding problem in the current and budget years.

Consequently, there does not appear to be an easily identifiable alternative source of funds to pay for the Cantara spill, in the event that the responsible parties do not cover the entire costs.

Recommendation. It is costing a significant amount to clean up and mitigate the effects of the Cantara spill. Thus far, it is not clear how much of the costs will be reimbursed by responsible parties. The Legislature should be informed of the likely total costs of cleanup and how much the state can expect to be reimbursed. If the reimbursements are not sufficient, the Legislature will have to determine how those costs should be funded. To provide the Legislature with the needed information, we recommend that the DFG report at budget hearings on its assessment of the total costs of cleanup, including costs beyond 1994-95, the status of seeking settlements and reimbursements, and when those funds are expected. We further recommend that the department report on the potential alternative sources of funding for the spill cleanup work.

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, vehicle recreation areas, and state trails. 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 268 units, including 38 units administered by local and regional park agencies. The system contains approximately 1.3 million acres of land with 285 miles of ocean and 814 miles of lake, reservoir, and river frontage. During 1994-95, about 63 million visitor-days are anticipated at state parks and beaches operated by the department, down from an anticipated 70 million in 1993-94. The current recession accounts for the bulk of that decline.

Budget-Year Proposal. The budget proposes expenditures for the department totaling \$200.5 million for support and local assistance in 1994-95. This is an decrease of \$16.2 million, or 7.5 percent, from estimated current-year expenditures. Of the total expenditures, the budget requests \$184.7 million for support of the department, which is a net increase of \$6.4 million, or 3.6 percent, above the estimated current-year level. In addition, the budget proposes a total of \$15.8 million (from special and federal funds) for local assistance grants. This is a decrease of \$22.6 million, or 59 percent, below estimated current-year spending for local assistance.

The department is one of four departments selected by the administration for a pilot project in performance-based budgeting. Through a strategic planning process it is undertaking, the department intends to identify performance measures, and hopes to have these measures in place for use in 1995-96. In our analysis of crosscutting issues under the State Administration chapter in this volume, we provide a further discussion of performance budgeting.

Department Faces Revenue Shortfall in Current Year

We recommend that the department report at budget hearings on its expenditure priorities and how it intends to reduce expenditures or raise

revenues in order to avoid a shortfall in the State Parks and Recreation Fund (SPRF).

The department relies heavily on the SPRF for its support. The Governor's Budget estimates that in the current year, the SPRF will account for about \$95 million (or 53 percent) of total support expenditures, and is proposed to make up 46 percent of departmental support for 1994-95. The remaining support for the department comes from a variety of sources, primarily the General Fund.

Governor's Budget Projects Slim Balances for SPRF for Both Current and Budget Years. The bulk of funding for the SPRF—about 67 percent for 1994-95—comes from state beach and park user fees. In the current year, the budget estimates that revenues from beach and park user fees will total \$56 million, an increase of \$6.8 million (or 14 percent) over actual 1992-93 fee revenues. The budget projects a similar revenue level for 1994-95.

Even with these revenue estimates, the budget projects tenuously low levels of reserves for the SPRF for both 1993-94 and 1994-95, as shown in Figure 17. Projected reserves at the end of 1993-94 in the SPRF are \$1.2 million. For 1994-95, the projected reserve is even lower, at only \$238,000.

Figure 17		
State Parks and Recreation Fund Condition		
Governor's Budget		
1993-94 and 1994-95		
(In Thousands)		
	1993-94	1994-95
Beginning Balance	\$6,576	\$1,232
Revenues and Transfers	90,248	84,086
Total resources	\$96,824	\$85,318
Expenditures	95,592	85,080
Ending balance	\$1,232	\$238

Department Faces Current-Year Shortfall in Revenues. Since the Governor's Budget was prepared, more recent information shows that the budget's fee revenue projections are not being borne out. The department now advises that it faces a shortfall in fee revenues in the current year of between \$5 million to \$6 million—up to 11 percent less than estimated fee revenues. According to the department, this shortfall results from a decline in visitor attendance caused primarily by the recession, weather conditions, and fee increases. The lower fee revenues will result in a

deficit in the current year in the SPRF of between \$3.8 million and \$4.8 million, if no expenditure adjustments are made.

State Parks and Recreation Fund Shortfall to Continue in 1994-95. Given the current-year shortfall, the department will face funding problems again in the budget year. Due to the ongoing recession, the department expects only 63 million visitor-days in 1994-95, which is 7 million fewer visits than was projected for 1993-94. The budget, however, still projects revenues from beach and park user fees at \$56 million for 1994-95, the same level as for 1993-94. With no reserve in the SPRF at the beginning of 1994-95, and with revenues likely to be lower than projected, total resources in the account will not be sufficient to fund expenditures of \$85 million proposed for 1994-95.

Options for Balancing SPRF. In order to avoid a shortfall in the SPRF, the Legislature and the department must find other means of increasing revenues and/or reducing expenditures to keep the SPRF in balance. Three options and their limitations are discussed below.

- **Use Alternative Fund Sources.** In recent years, the Legislature has made up SPRF fee revenue shortfalls by redirecting money from other funds, including the Motor Vehicle Fuel Account (funded from the gasoline tax) and the Off-Highway Vehicle Fund (OHVF), to the SPRF. The Legislature, however, will have fewer such options at its disposal for 1994-95, because similar transfers are already proposed as part of the department's budget. For 1994-95, for example, the budget already proposes transfers from the Motor Vehicle Fuel Account to the SPRF of \$14.2 million. The budget also proposes to transfer \$2 million from the OHVF to the SPRF. (This transfer will leave no balance in the OHVF as the budget also proposes to expend all other OHVF resources in support of the department.)
- **Increase Revenues.** Another option is to continue to increase revenue, as the department has done in recent years. The department reports that increases in fees have already resulted in a decrease in visits. Other options that the department is currently exploring for generating revenues include private sector sponsorships of selected parks and park merchandising programs.
- **Decrease Expenditures.** In the past, the department has managed to sustain budget cuts without a significant impact on services by decreasing other expenditures, such as deferring expenditures for operations and maintenance. However, the ability of the department to continue such deferrals is limited. For example, the department currently estimates accumulated deferred maintenance costs of over \$30 million.

Department Should Report on Plans to Balance the SPRF. In order that the Legislature is informed of actions the department plans to take in order to avoid a shortfall in the SPRF in both the current and budget years, we recommend that the department report at budget hearings on how it plans to generate additional revenue and/or reduce expenditures in order to balance the SPRF.

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 \$1.2 billion in 1994-95, an increase of \$168 million, or 16 percent, from total estimated current-year expenditures. Of this total increase, \$135 million or 80 percent is for local flood control assistance. Total expenditures include \$943.5 million in expenditures financed with SWP funds and \$40.6 million in bond funds for safe drinking water loans and grants. Appropriations in the Budget Bill provide the remaining \$248 million, of which \$19.3 million is from the General Fund. The General Fund amount is \$4.3 million, or 29 percent, above the estimated current-year expenditures.

Funding For Local Flood Control Depends on Bond Proposal

The budget proposes \$135 million in prospective bond funds to meet the state's share of funding for local flood control projects for 1994-95 and to address a backlog of obligations from past years.

Local agencies in California rely heavily on federal and state funding for their flood control projects. The DWR estimates that out of a total cost of \$1.8 billion for local projects that are currently underway, the state's share of cost is about \$362 million or 20 percent. Of the remaining funding, about 90 percent is provided by the federal government. Construction of the Santa Ana Mainstem Flood Control Project in Orange, Riverside, and San Bernardino Counties has accounted for much of the total cost of local flood control projects incurred since 1992.

In the past, the state has paid its share of the costs for local flood control projects (20 percent) out of the Special Account for Capital Outlay (SAFCO). However, due to the state's budget condition in recent years, the state has been unable to pay fully its share of costs of these projects.

For 1994-95, the budget proposes \$135 million to pay for the state's share of project costs. As shown in Figure 18, the \$135 million will address a backlog in the state's share of costs from prior years, cover claims anticipated for 1994-95, and provide funding that has been withheld to date. (The State Controller's Office audits all local flood control projects, and the department withholds a portion of the state's reimbursement pending this audit.)

Figure 18	
State's Costs for Local Flood Control Projects	
(In Millions)	
Unfunded claims prior to 1993-94	\$66.8
1993-94 claims	38.3
1994-95 claims	16.8
Retentions ^a	13.0
Totals	\$134.9

^a Released after completed state audit of local project.

Funding With Bonds Is Appropriate but Uncertain. The budget proposes the \$135 million to be funded from a "Public Safety Bond" measure, proposed to be placed on the 1994 ballot (June or November election, yet to be determined). Our analysis indicates that, in general, bond funds are an appropriate funding source for capital improvements, such as flood control projects. However, whether that funding will eventually materialize is uncertain. Depending on the outcome of the bond proposal, the Legislature may need to consider alternate funding sources to pay for flood control projects, or further defer payment of these costs. The Legislature may also want to reevaluate its role in the funding of local projects.

Funding for Los Angeles/Mono Lake Project Depends on Amendment of Proposition 117

We recommend that the Legislature adopt Budget Bill language to provide \$8.6 million from the Unallocated Account of the Cigarette and Tobacco Products Surtax Fund to the City of Los Angeles only if Proposition 117 (the California Wildlife Protection Act of 1990) is amended.

Background. The budget proposes \$9 million for local assistance funding to the City of Los Angeles for a waste water reclamation project, including \$8.6 million from the Unallocated Account of the Cigarette and Tobacco Products Surtax Fund (the Unallocated Account) and \$387,000 from the Energy Resources Programs Account of the General Fund. The California Supreme Court has ruled that diversions by the City of Los Angeles of water destined for Mono Lake diminish the lake's ecological value and that this impact must be minimized. In response to the court decision, the city has developed a reclamation project which it expects will reduce diversions from Mono Lake by one-third beginning in 1998. The project is estimated to cost a total of \$50 million, of which the DWR plans to provide a total of \$36 million.

Project Consistent with Legislative Intent. For some years, the Legislature has recognized the need to preserve and protect Mono Lake. For example, Ch 715/89 and Ch 716/89 (AB 444, Isenberg and AB 1442, Baker) created the Environmental Water Fund (EWF), to be funded by revenues from the State Water Project. The Legislature intended that the EWF would provide a total of \$60 million through 1999 for the protection of Mono Lake, including City of Los Angeles projects. However, due to the condition of the state General Fund, funds that would otherwise have been deposited in the EWF have been redirected for DWR support instead.

Proposed Use of Unallocated Account Funds Assumes That Proposition 117 Will Be Amended. While the project proposed for funding is consistent with legislative intent, our analysis indicates that the availability of funds from the Unallocated Account is uncertain. This is because the proposal cannot be funded from the Unallocated Account under current law, and would depend on voters amending Proposition 117 (adopted in 1990).

Proposition 117 established the Habitat Conservation Fund (HCF) and required that 10 percent of the money in the Unallocated Account be transferred annually to that fund. Our review shows that Proposition 117, unless amended, precludes the budget proposal in two respects. First, Proposition 117 specifies the departments and programs which can receive funds from the Unallocated Account for natural resources or environmental protection programs. The DWR is not one of the specified departments for receipt of these funds.

Second, even if the Unallocated Account funds could be used for the project, the account will not have sufficient funds to meet the Proposition 117 requirement and still have enough of a balance to fund the Los Angeles City project in 1994-95. This is because, based on the budget's revenue projections, Proposition 117 will require approximately \$11 million to be transferred from the Unallocated Account to the HCF for 1994-95. Allocating the \$8.6 million for the Los Angeles/Mono Lake

project in addition to this transfer would result in a deficit in the Unallocated Account of about \$5.4 million.

Consequently, to fund the project with Unallocated Account money will require that Proposition 117 be amended to allow the use of Unallocated Account funds for purposes beyond those specified in the measure. If Proposition 117 is not amended, another source of funding for the Los Angeles project will be needed or the project deferred. In order to ensure that money in the Unallocated Account is used in accordance with statutory requirements, we recommend that the Legislature adopt the following Budget Bill language (Item 3860-101-236):

Funds appropriated in this item are available only if the California Wildlife Protection Act of 1990 (Proposition 117) is amended to allow the use of funds in the Unallocated Account, Cigarette and Tobacco Surtax Fund for the Mono Lake project.

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD (3910)

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

The budget requests a total of \$82.6 million from various funds for support of the CIWMB in 1994-95. This amount is \$7.8 million, or 10 percent, more than estimated current-year expenditures. The net increase results primarily from (1) an increase of \$20 million from the California Used Oil Recycling Fund for discretionary grants to local governments and nonprofit entities for used oil market and collection promotion activities, (2) an increase of \$1.4 million for loans to develop markets for businesses using recycled materials, (3) a reduction of \$6.5 million in various waste reduction and resource recovery activities, and (4) a reduction of \$3.0 million in the solid waste site cleanup and maintenance program. To a large degree, these reductions in the waste reduction and site cleanup programs reflect the implementation of Ch 656/93 (AB 1220, Eastin). (We discuss this legislation in the crosscutting section of this chapter.)

Inadequate Reserve in Integrated Waste Management Account

The projected reserve in the Integrated Waste Management Account (IWMA) is not sufficient to address potential revenue shortfalls or unanticipated expenditures. We recommend that the CIWMB submit, prior to budget hearings, a plan for establishing a reserve for economic uncertainty at the end of 1994-95 that is equal to 5 percent of proposed expenditures in the IWMA.

The budget proposes that \$34.1 million (41 percent) of the CIWMB's total 1994-95 expenditures be funded from the IWMA. This is a net reduction of \$6.2 million, or 15 percent, from estimated current-year expenditures from this account. The IWMA is the board's primary funding source supporting the board's permitting and enforcement functions and its waste reduction and resource recovery program. The

account derives its revenues primarily from integrated waste management fees (referred to as “tipping” fees) levied on operators of solid waste landfills.

Negligible Reserve Proposed to Protect Against Contingencies. The budget proposes a reserve for economic uncertainty in the IWMA of \$292,000 (or 0.7 percent of proposed expenditures) at the end of 1994-95. As we have discussed in past analyses, programs that are funded from fees generally should have a reserve in the fund of approximately 5 percent of total estimated expenditures. The purpose of a reserve is to address revenue shortfalls and unanticipated expenditures that may occur during the year. Since the board essentially proposes no reserve to address these unanticipated events, any shortfall in revenues or unanticipated expenditures that occurs during the year will require program reductions, an increase in fees, or a combination of the two.

Past Revenue Estimates Overly Optimistic. Our analysis indicates that there is a history of overly optimistic projections of fee revenues for the IWMA.

Figure 19 shows that the actual revenues collected from tipping fees fell significantly short of projections for 1991-92, 1992-93, and 1993-94. Tipping fees are levied based upon the total amount of solid waste that is placed in a landfill in the year, which varies depending on the total amount of waste generated and the proportion of waste diverted from landfills (related to the board's waste reduction and resource recovery efforts).

Figure 19			
Integrated Waste Management Fee^a			
Projected Versus Actual Revenues			
1991-92 Through 1993-94			
(In Millions)			
Revenues	1991-92	1992-93	1993-94
Projected	\$37.0	\$38.0	\$31.9
Actual/estimated	27.6	33.4	21.3 ^b
Overestimation	\$9.4	\$4.6	\$10.6

^a Revenues from tipping fee.

^b Reflects partial “rebate” of about \$5.2 million to fee-payers in 1993-94, as mandated by Chapter 656.

Revenue Assumptions in Budget Are Uncertain. The budget's estimates of fee revenues for 1993-94 and 1994-95 are based on the assumption that the volume of landfill waste per quarter for the current and budget years will be the same as the volume for the last quarter of 1992-93. In general, there is a direct relationship between the condition of the state's economy and the total amount of waste generated and then disposed of in a landfill. Usually, the stronger the economy, the more waste that is generated and sent to a landfill. The budget's estimates of fee revenues are based on the assumption that the California economy will recover in the current and budget years. Given the relatively weak economic recovery experienced by the state to date, the board's revenue projections for tipping fees are subject to considerable uncertainty .

Proposal to Establish Reasonable Reserve. We think that it would be prudent to establish a larger reserve for economic uncertainty in the IWMA than proposed by the budget, particularly in light of the history of overly optimistic revenue projections for IWMA fee revenues and given the budget's uncertain revenue assumptions. 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 1994-95 of approximately \$2 million, or approximately 5 percent of proposed total expenditures from the IWMA.

The proposal should include (1) a recommendation as to whether to establish the reserve through increased fees (which would require legislation) or through program reductions or some combination thereof, (2) 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 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.

Report to Legislature on 1994-95 Consultant Contracts

The CIWMB proposes more work to be done by consultant contracts. For 1994-95, contracted services will comprise 25 percent of all board expenditures.

A large proportion of the board's expenditures is in the form of contracts with other state agencies or with external consultants. For instance, in 1993-94, contract expenditures account for about 23 percent of total board expenditures. This proportion is proposed to increase to about 25 percent in 1994-95.

The *Supplemental Report of the 1993 Budget Act* required the CIWMB to report to the Legislature on its proposed contracts for 1994-95, with information on the nature, purpose, estimated cost, funding source and

proposed term of each contract. Our review of the report shows that the budget proposes contracts for consultant and professional services for 1994-95 totaling \$20.5 million, including \$2.1 million for interdepartmental consultant services and \$18.4 million for external services. This is \$3 million, or 17 percent, more than the estimated expenditures for 1993-94.

Our review shows that the board has identified specifically the contracting parties for about \$2.8 million of the proposed expenditures. Another \$5 million is requested to fund the cleanup of various "orphan" solid waste disposal sites where either no responsible party can be identified or the responsible party financially cannot pay for the cleanup. Of the remaining expenditures, \$12 million (or 59 percent) will be funded from the California Used Oil Recycling Fund for research, information, and education programs, and the establishment of used oil collection centers in connection with the board's used oil recycling program. According to the board, most of these expenditures will be in the form of discretionary grants to nonprofit entities and private businesses. The board is currently developing guidelines and ranking criteria in order to judge the grant applicants. Thus, the contracting parties are still undetermined for these funds.

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. These regional boards are funded by the state board and are under the state board's oversight.

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

The budget proposes total expenditures of \$231.3 million from various funds for support of the SWRCB in 1994-95. This is a reduction of \$140 million, or 38 percent, from estimated current-year expenditures. The decrease results primarily from (1) a reduction of \$124.6 million in grants to local entities for water reclamation, water quality and pollution control activities mainly due to a decrease in federal funds, (2) an increase of \$2.4 million to expand the Underground Storage Tank Cleanup Fund program, and (3) a reduction of \$1.4 million in the Bay Protection and Toxic Cleanup program related to a projected decline in revenues.

Regulatory Programs Seriously Backlogged

The board's core program for regulating water quality through the issuance of permits to dischargers of waste has significant backlogs. Similarly, the board has a significant backlog in its program for issuing and enforcing water rights. We recommend the board submit, prior to budget hearings, a plan for addressing backlogs in each of the two programs.

Our review of the SWRCB shows that the board has serious backlogs in its core water quality regulatory program as well as its water rights program.

Water Quality Program. The budget proposes \$27.6 million (or 12 percent of the SWRCB's total expenditures) for support of the board's core water quality program. This amount is \$1.6 million, or about 6 percent, more than estimated current-year expenditures. The board's core regulatory program is comprised of three programs, all involving the issuance of permits by the regional boards:

- **National Pollutant Discharge Elimination System (NPDES) Program—NPDES Permits.** The board administers this program under agreement with the federal EPA, in accordance with the federal Clean Water Act. The program regulates dischargers of waste into the state's streams, rivers, lakes, or coastal waters. The NPDES permits must be renewed every five years.
- **Chapter 15 Program—Waste Discharge Requirements.** Under this program, the board regulates dischargers of waste to waste management units such as landfills. The regional boards issue Waste Discharge Requirements (referred to as Chapter 15 WDRs) which stipulate the conditions to be met for discharging waste and which must be updated periodically to reflect changes in federal and state laws, pollution control technology, and water quality conditions.
- **Non-Chapter 15 Program—Waste Discharge Requirements.** Pursuant to the Porter-Cologne Water Quality Control Act, the board regulates dischargers of waste to land, excluding landfills and other specified lands. As is the case with Chapter 15 WDRs, the regional boards issue Waste Discharge Requirements (Non-Chapter 15 WDRs) which must be updated periodically.

Each of these three programs involves, in addition to the issuance and periodic renewal and update of permits, (1) inspection of waste treatment works, (2) evaluation of monitoring data, and (3) enforcement of water quality standards.

Core Water Quality Program Funding. Figure 20 shows the sources and amount of funding in support of the board's core regulatory program from 1992-93 through 1994-95. The funding comes from a number of sources, including the General Fund, the Waste Discharge Permit Fund (into which the permit fee revenues are deposited), the Integrated Waste Management Account, and federal funds.

Figure 20					
State Water Resources Control Board					
Water Quality Core Program Funding^a					
1992-93 Through 1994-95					
(In Millions)					
	General Fund	Waste Discharge Permit Fund	Integrated Waste Management Account	Federal Funds	Totals
1992-93	\$11.2	\$6.3	\$3.1 ^b	\$3.3	\$23.9
1993-94 (Estimated)	11.0	6.6	4.3	4.1	26.0
1994-95 (Projected)	11.6	7.4	4.7	3.9	27.6

^a Core regulatory program is defined to include National Pollutant Discharge Elimination System (NPDES) Program (exclusive of the Stormwater program), Chapter 15 Program (Chapter 15, Title 23, California Code of Regulations) and Non-Chapter 15 Program (Porter-Cologne Water Quality Control Act).

^b Includes \$0.9 million of funding from Solid Waste Disposal Account, now consolidated with Integrated Waste Management Account.

Figure 20 shows that total funding for the board's core water quality regulatory program has increased slightly since 1992-93. However, the budget projects a small decrease in federal funds for the programs in 1994-95. The federal EPA has indicated that it is unlikely that the board will receive additional grant assistance beyond the level of past years to enhance the core regulatory program.

Backlogs in Renewal and Update of Water Quality Permits. While the funding for the program has increased only slightly, the board has experienced a constantly increasing number of permit applicants. Additionally, the permit process has increased in complexity due to changes in federal and state laws. As a consequence, the board has not been able to keep up with its regulatory workload and has developed significant backlogs in the renewal and update of all three classes of permits.

Figure 21 shows the extent of the backlog in 1992-93, and as anticipated for the current and budget years. For the NPDES Program, a permit which has expired in a prior year and has yet to be renewed is considered "backlogged." For the Chapter 15 and Non-Chapter 15 Programs, a "backlog" is an out-of-date waste discharge requirement which was not updated in a prior year as it was scheduled to be. As shown by Figure 21, the total backlog for the three groups of permits is expected to increase from the current year to the budget year. The board projects that the workload, and thus the extent of backlogs, in the core programs will

continue to increase as more dischargers are subject to regulation. Thus far, the regional boards are able to issue new, first-time permits in a timely manner such that backlogs do not exist. However, the continual increase in the number of new permittees over the past several years further restricts the amount of resources that may be allocated to permit renewals or updates.

Figure 21				
State Water Resources Control Board				
Water Quality Core Regulatory Backlog				
1992-93 Through 1994-95				
Program	Beginning Backlog	New Workload^a	Work Completed^a	Ending Backlog
1992-93				
NPDES ^b	464	220	264	420
Chapter 15 ^c	576	163	72	667
Non-Chapter 15 ^d	1,324	346	253	1,417
Totals	2,364	729	589	2,504
1993-94 (Estimated)				
NPDES	420	341	374	387
Chapter 15	667	140	116	691
Non-Chapter 15	1,417	423	281	1,559
Totals	2,504	904	771	2,637
1994-95 (Projected)				
NPDES	387	343	465	265
Chapter 15	691	146	109	728
Non-Chapter 15	1,559	439	307	1,691
Totals	2,637	928	881	2,684
^a Includes both new permittees and permits for renewal or update. ^b National Pollutant Discharge Elimination System. ^c Chapter 15, Title 23, California Code of Regulations. ^d Pursuant to Porter-Cologne Water Quality Control Act.				

Water Rights Program. Under this program, the board (1) evaluates requests to take 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.

Water Rights Program Funding. The budget proposes \$8 million, including \$7.2 million from the General Fund, for support of the board's water rights program. While this amount is the same as estimated current-year expenditures, it will be lower than actual expenditures for five of the seven years between 1986-87 and 1992-93. While funding for the program has declined, program workload has been increasing as a result of increasingly complex environmental reviews of water diversions and increasing complaints about existing water diversions.

Backlogs in Water Rights Program. As a result, the board has developed significant backlogs in the water rights program. Figure 22 shows the backlogs anticipated at the end of 1994-95. As shown in Figure 22, the backlogs exist in all areas of the water rights program, and, for the most part, are expected to increase from the current year. The most significant backlog is in the area of compliance inspections. These inspections are designed to ensure that permit-holders comply with the permit requirements and that people do not take water without permits.

Figure 22				
State Water Resources Control Board				
Water Rights Program Backlog				
1994-95 (Projected)				
	Beginning Backlog	New Workload	Work Completed	Ending Backlog
Applications for water rights	280	150	180	250
Compliance inspections	6,070	240	15	6,295
Environmental impact report review	620	380	170	830
License issuance	935	215	50	1,100
Requests for project changes	410	215	200	425
Hearings on unresolved petitions	60	20	10	70

Impact of Backlogs. The continuing increase of backlogs in the board's water quality core regulatory program as well as the water rights program means that the board is unable to carry out promptly its regulatory responsibilities. Backlogs in the water quality function impair the board's ability to enforce water quality standards—that conform to changing state and federal laws, pollution control technology, and water quality conditions—and can result in a deterioration of the quality of the state's waters. Furthermore, backlogs in the renewal of NPDES permits

mean that the state is not enforcing the federal Clean Water Act and therefore is risking losing federal grant funds.

Similarly, backlogs in the water rights program impair the board's ability to ensure that water is properly used without harm to the environment or other users, and can significantly delay business development where a water rights permit is required.

Recommendation. In order that the Legislature can be informed of how the board intends to reduce this workload, we recommend that the board submit, prior to budget hearings, a report identifying options for addressing the backlogs in the programs. The report should also include workload information, a timeline for eliminating the backlogs, and a setting of priorities which will identify how the board may redirect resources to reduce the backlogs.

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 hazardous substances and oversees the cleanup 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 by fees paid by persons that generate, store, treat or dispose of hazardous wastes.

The budget proposes total expenditures of \$131.1 million from various funds for support of the DTSC in 1994-95. This is a decrease of \$3.5 million, or 2.6 percent, from estimated current-year expenditures. The decrease results primarily from (1) an increase of \$5.2 million to coordinate the cleanup of closing military bases, (2) an increase of \$2.9 million for various business assistance programs, and (3) a reduction of \$15.8 million in departmental support due to a decline in revenues in the Hazardous Waste Control Account (HWCA), the department's primary source of funding.

Revenues Uncertain, Reserve Inadequate

We find that (1) the department's revenue projections for the Hazardous Waste Control Account (HWCA) are uncertain and (2) the budget does not include an adequate reserve for contingencies despite the uncertainty in revenue estimates. We recommend that the DTSC submit, prior to budget hearings, a plan for reducing program expenditures or increasing revenues to the HWCA in order to establish a reserve for economic uncertainty at the end of 1994-95 in the HWCA that is equal to at least 5 percent of proposed expenditures.

The budget proposes \$80.1 million (61 percent) of the DTSC's total 1994-95 expenditures be funded from the HWCA. This is a net reduction of \$2.8 million, or 3.4 percent, from estimated current-year expenditures from this account. The HWCA is primarily supported by fees, 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. In addition, the HWCA is

funded by cost recoveries in the site mitigation program, as well as by revenues from fines and penalties.

Past Revenue Estimates Have Often Had to Be Revised Downward. In recent years, the department has notified the Legislature, subsequent to the enactment of the budget, that it was reducing program expenditures because revenue projections for the HWCA were not being met. In part, the difficulty in projecting HWCA revenues has arisen from the uncertainty regarding the revenue impact of legislative changes. For instance, in the *Analysis of the 1993-94 Budget Bill* (page B-73), we discussed the difficulty in projecting HWCA revenues as a result of the significant changes made by Ch 852/92 (SB 1469, Calderon) and Ch 1435/92 (AB 1772, Polanco). Indeed, the department has informed us that it has to revise its estimates for current-year HWCA fee revenues downward based on actual experience of the impact of Chapter 852.

As a result of the overall HWCA revenue declines, the budget proposes to reduce departmentwide program expenditures by \$8.6 million in the current year and \$15.8 million (102 personnel-years) in the budget year in order to keep the HWCA in balance.

Revenue Assumptions in Budget Remain Uncertain. Given the recent revision in departmental revenue projections, we believe that its estimates are likely to be more accurate compared to past projections. Nevertheless, a number of assumptions used by the department in its revenue projections remain highly uncertain.

- ***Revenues from Treatment Facility Permitting May Be Optimistic.*** The department estimates revenues of \$4.4 million and \$3.6 million for the current and budget years, respectively, from the permitting of certain lower-risk hazardous waste treatment facilities. The 1992-93 actual revenues from these fees were \$2.4 million. The department's estimates for 1993-94 and 1994-95 assume that the group of facilities applying for these permits will increase significantly above the 1992-93 level. Should the number of filers not increase as expected, the budget would overstate HWCA fee revenues for both the current and budget years.
- ***Impact of Ch 1145/93 on Other Fee Revenues Unknown.*** The 1993-94 and 1994-95 revenues are projected based on assumptions regarding the impact of the several fee changes required by Ch 1145/93 (SB 922, Calderon). For the budget year, the department anticipates total revenues to be about \$1.8 million lower as a result of Chapter 1145. However, the department's estimate is only a best "guess" because Chapter 1145 became effective January 1, 1994 and the department has no experience on which to base its estimates. Consequently, actual revenues could be higher or lower than estimated.

Given Revenue Uncertainty, Reserve Is Inadequate. The budget proposes a reserve for economic uncertainty in the HWCA of \$1.5 million (or 1.9 percent of proposed expenditures) at the end of 1994-95. As we have discussed in past analyses, programs that are funded from fees generally should have a fund reserve of approximately 5 percent of total estimated expenditures. The purpose of the reserve is to address revenue shortfalls and unanticipated expenditures that may occur during the year.

Given the budget's uncertain revenue assumptions, we recommend that the department submit, prior to budget hearings, a proposal to establish in the HWCA a reserve for economic uncertainty at the end of 1994-95 of about \$4 million, or approximately 5 percent of proposed total expenditures from the HWCA. The proposal should include (1) a recommendation as to whether to establish the increased reserve through increased fees or through program reductions or some combination thereof, (2) a schedule of any fee increases that the department proposes to establish, and (3) identification of specific programs that the department proposes to reduce, and the programmatic effects of the reductions, to the extent that the department proposes program reductions to establish the reserve.

Transfer of Fine and Penalty Revenues to the General Fund

The budget's proposal to exempt the HWCA from the 1993 Budget Act's requirement that current-year fine and penalty revenues be transferred to the General Fund is reasonable, particularly given the magnitude of program expenditure reductions proposed for both the current and budget years.

The 1993 *Budget Act* requires the transfer to the General Fund of fine and penalty revenues in various special funds, including the HWCA. The department estimates revenue from fines and penalties to the HWCA, and to the Hazardous Substance Account (HSA) which has been consolidated with the HWCA, to be about \$7.1 million for 1993-94.

However, the department's 1994-95 budget is prepared based on the assumption that the HWCA will be exempt from the transfer requirement. Even if this occurs, the budget proposes a reduction in HWCA expenditures of \$15.8 million, and 102 personnel-years, as a result of the decline in overall HWCA revenues, as discussed earlier.

Figure 23 compares the HWCA condition for 1993-94 and 1994-95 with and without the transfer of fine and penalty revenues to the General Fund. With the transfer of fine and penalty revenues to the General Fund, total resources in 1994-95 will not be sufficient to pay for proposed expenditures, resulting in a shortfall of \$5.6 million in the HWCA. To

avoid this shortfall would necessitate a further reduction in program expenditures beyond what is already proposed in the budget, or an increase in revenues, or a combination of both. In light of the major program expenditure reductions that the department has made in the current and budget years, we think that the budget proposal to exempt the HWCA from a transfer to the General Fund of 1993-94 fine and penalty revenues is reasonable.

Figure 23		
Hazardous Waste Control Account		
Fund Condition Projection		
1993-94 Through 1995-96		
(In Millions)		
	LAO Estimate^a	
	Without Transfer	With Transfer
1993-94		
Beginning reserve	\$20.9	\$20.9
Revenues/transfers ^b	64.6	64.6
Fines/penalties	7.1	—
Total resources	\$92.6	\$85.5
Total expenditures	83.0	83.0
Ending reserve	\$9.6	\$2.5
1994-95		
Beginning reserve	\$9.6	\$2.5
Revenues/transfers ^b	63.7	63.7
Fines/penalties	8.3	8.3
Total resources	\$81.6	\$74.5
Total expenditures	80.1	80.1
Ending reserve	\$1.5	-\$5.6
1995-96		
Beginning reserve	\$1.5	-\$5.6
Revenues/transfers ^b	63.7	63.7
Fines/penalties	8.3	8.3
Total resources	\$73.5	\$66.4
Total expenditures	80.1	80.1
Ending reserve	-\$6.6	-\$13.7

^a Estimate based on 1994-95 Governor's Budget, and assumes no change in revenues or expenditures for 1995-96 compared to 1994-95.

^b Excludes fine and penalty revenues to Hazardous Waste Control Account and Hazardous Substance Account.

Shortfall in HWCA Likely in 1995-96

Unless revenues increase significantly, the Legislature will need to either reduce program expenditures or increase fees in order to keep the HWCA in balance in 1995-96.

Figure 23 also shows the condition of the HWCA in 1995-96, assuming that revenues and expenditures remain the same as in 1994-95. The figure shows that expenditures will exceed resources resulting in a deficit—absent corrective action—of \$6.6 million to \$13.7 million. A deficit occurs because there is essentially no beginning reserve for 1995-96. In prior years, the beginning reserve had helped to bridge the gap between revenues and expenditures. Thus for 1995-96, the Legislature will need to either reduce program expenditures or increase revenues.

Department Failed to Comply with Legislative Direction Concerning Business Assistance Program

We withhold recommendation on \$343,000 from the HWCA for the implementation of a business assistance program pursuant to Ch 1117/92 (AB 3541, Lempert), pending receipt of required information.

During hearings on the 1993-94 budget, the Legislature stated that it intended the HWCA to be used to support the implementation of a business assistance program, pursuant to Ch 1117/92 (AB 3541, Lempert), in 1993-94 *only*. As a result, the Legislature adopted language in the *Supplemental Report of the 1993 Budget Act* requiring the department to submit to the Legislature, by January 10, 1994, information justifying the amount and source of funding requested for 1994-95 to implement the business assistance program.

At the time this analysis was prepared, the department had not submitted this information to the Legislature. Consequently, this limits the Legislature's ability to evaluate the department's budget proposal regarding the Chapter 1117 business assistance program. Accordingly, we withhold our recommendation on \$343,000 in HWCA funds requested to implement the Chapter 1117 business assistance program, pending the receipt of the required information.

LIST OF FINDINGS AND RECOMMENDATIONS

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Crosscutting Issues

1. **Environment Programs Continue to Be More “User Friendly.”** Recently enacted legislation aims at expediting and streamlining environmental permitting processes as well as coordinating environmental regulations. The budget also proposes programs to assist businesses in complying with environmental regulations. B-13
2. **Environmental Protection Relies Heavily on Regulatory Fees.** Fees fund a major portion of total environmental protection expenditures. B-18
3. **“Quality Government” Programs Will Benefit Regulated Industries. Reduce various items by \$382,000 from the General Fund.** Recommend programs be supported by regulatory fees instead of the General Fund because these programs will benefit the regulated industries. B-22

Fund Conditions for Resources Programs

4. **Little Money Available in Special Funds.** If the Legislature approves the Governor's spending proposals, there will be little money available in various special funds for legislative priorities. Additionally, there will be virtually no money in the Habitat Conservation Fund (HCF) to meet expenditure requirements of Proposition 117. The Legislature will need to determine whether funds ought to be transferred into the HCF in compliance with Proposition 117. B-24
5. **Little Bond Money Left for Park-Related Projects.** There is little money left from existing park-related bond programs for projects. However, the amount of bond funds B-29

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could rise significantly depending on the outcome of a June 1994 bond initiative.

6. **Sufficient Bond Funds for Local Water Supply and Wastewater Treatment Programs in 1994-95.** Based on the projected expenditures of water bond funds, there will be sufficient amounts to continue funding water programs in 1994-95 at the levels proposed in the budget. However, it appears that the remaining fund balances are not available for new projects given pending applications for projects already in the pipeline. B-31

Department of Forestry and Fire Protection

7. **Department Reorganizes, But Still Needs to Develop a Strategic Planning Process.** Recommend that CDFFP report at budget hearings on its progress in developing a strategic plan and the relationship of the department's reorganization to that plan. B-33
8. **Cost-Effectiveness of Department Training Needs Review.** Withhold recommendation on \$461,000 proposed for departmental training pending further review by the department. Further recommend that department report prior to budget hearings on the results of such review. B-36
9. **Replacement of Telecommunications Equipment and Air-attack Planes Appears Reasonable.** Request for \$3 million to replace telecommunications equipment and \$1.2 million for air-attack fleet replacement from the General Fund is reasonable and consistent with past decisions to fund equipment replacement on a pay-as-you-go basis. B-37

State Lands Commission

10. **Proposal to Eliminate Funding of the State Lands Commission Premature.** Recommend full-year funding for the State Lands Commission. Budget Act should be amended based on enabling legislation that consolidates or restructures the SLC and other programs. B-39

11. **School Lands Proposal Goes Beyond Legislative Direction. Reduce reimbursements by \$168,000.** B-40
Recommend reduction in reimbursements because the commission is not the appropriate agency to invest school lands revenues in commercial investments. Further recommend supplemental report language directing the commission not to engage in commercial investments of school lands revenues.

Department of Fish and Game

12. **Reserve May Not Be Adequate.** B-42
Recommend that the department report at budget hearings on how it plans to reduce expenditures in the Fish and Game Preservation Fund in the event revenues are lower than projected.
13. **Success of GIS Depends on Development of Standards for Data Collection.** B-44
Recommend supplemental report language requiring department to submit a report by January 1, 1995 on its progress in developing standards for resources data to be entered into the Geographic Information System (GIS) which the department is developing.
14. **Cantara Spill Effort Relies on Oil Spill Fund.** B-46
Proposal for \$10.6 million loan from the Oil Spill Prevention Trust Fund to continue Cantara spill cleanup efforts is reasonable. Recommend the department report at budget hearings on estimated total cost of cleanup efforts, the status of the department's seeking for reimbursements and when reimbursements are expected, and alternative funding sources for the cleanup efforts.

Department of Parks and Recreation

15. **Department Faces a Revenue Shortfall for 1993-94.** B-49
Recommend department report at budget hearings on how it intends to reduce expenditures or raise revenues to avoid a shortfall in the State Parks and Recreation Fund.

Department of Water Resources

	Analysis Page
16. Bond Funding for Local Flood Control Uncertain. Budget proposal for \$135 million to pay for local flood control projects depends on the success of a bond measure to be proposed in 1994.	B-53
17. Funding for Mono Lake/Los Angeles Water Project Uncertain. Recommend Budget Bill language to make funds available only if Proposition 117 of 1990 is amended to allow proposed use.	B-54

California Integrated Waste Management Board

18. Insufficient Reserve in Integrated Waste Management Account (IWMA). The proposed reserve in the IWMA is not sufficient to address potential 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 1994-95 that is equal to 5 percent of proposed expenditures in the IWMA.	B-57
19. More Work Done by Consultant Contracts. For 1994-95, contracted services will comprise 25 percent of all board expenditures. Proposed contracts total \$20.5 million, a 17 percent increase from the current year.	B-59

State Water Resources Control Board

20. Board's Programs Are Backlogged. The board's program for renewing and updating permits to dischargers of waste, and for issuing and enforcing water rights permits, have significant backlogs. Recommend that the board submit a plan to address the backlogs in programs.	B-61
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Department of Toxic Substances Control

21. **Toxics Funding Uncertain, Reserve Inadequate.** B-67
Recommend that the department submit, prior to budget hearings, a plan for reducing expenditures from or increasing revenues to the Hazardous Waste Control Account (HWCA) in order to establish a reserve for economic uncertainty at the end of 1994-95 in the HWCA that is equal to 5 percent of proposed expenditures.
 22. **Exemption from General Fund Transfer of Fine and Penalty Revenues is Reasonable.** B-69
Budget's proposal to exempt the HWCA from 1993 Budget Act sweep of fine and penalty revenues to the General Fund is reasonable.
 23. **Shortfall in HWCA Likely in 1995-96.** B-71
Revenues will not be sufficient to fund department's current level of activities in 1995-96, without program reductions or revenue increases in the amount of \$6.6 million.
 24. **Department Fails to Comply With Legislative Directive.** B-71
Withhold recommendation on \$343,000 from the HWCA for a business assistance program, pending receipt and review of required information.
-