



MAJOR ISSUES

- ***Reorganization of Resources Departments May Have Merit.*** Reorganizing several resources and environmental protection departments, as proposed, could produce savings and improve program coordination. However, the Governor has not yet submitted his reorganization plan to the Legislature for review. We offer some criteria for the Legislature to use when evaluating the proposal. (See page B-13.)
 - ***Progress of Performance Budgeting To Date is Mixed.*** The three resources and environmental protection departments participating in the performance budgeting pilot project have shown mixed progress, especially in the development of performance measures which are used to evaluate (1) how well each department is fulfilling its mission and (2) whether its performance is improving. (See page B-18.)
 - ***Plan to Modernize Air Operations Program Not Complete.*** The Department of Forestry and Fire Protection proposes to retrofit 4 of its 16 airtankers with turbo-prop engines, at a cost of \$10 million in 1995-96. The proposal is part of a multi-year plan to modernize the department's air operations for fire suppression. However, the department has not yet completed the multi-year plan, and we have concerns about the consultant report which forms the basis of the department's plan. (See page B-49.)
 - ***Natural Community Conservation Planning (NCCP) Program Falls Short of Legislative Requirements.*** The Department of Fish and Game's NCCP pilot program should not be made permanent at this time because (1) the program is still not sufficiently funded from reimbursements, as required by statute, and (2) the department has consistently failed to provide information required by the Legislature to assess the program's effectiveness. (See page B-56.)
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- ***Large Revenue Declines Projected for Waste Management Board.*** The board projects that fee revenues to one of its main funding sources (the Integrated Waste Management Account) could decline by as much as 48 percent between 1995-96 and 2000-01, depending on the state of the economy and the extent to which waste is diverted from landfills or exported to other states. Such a revenue decrease would necessitate major program reductions and/or new funding sources to increase revenues in future years. (See page B-74.)
 - ***Water Resources Control Board Implements Plan to Reduce Program Backlogs.*** The board has significant backlogs in the processing of waste discharge permits and water rights. The board has implemented a number of initiatives with the goal of eliminating most of the backlogs by the end of 1997-98. The board's four-year plan—which does not rely on increased funding—places a high priority on activities with the greatest environmental threat, while reducing emphasis on activities that pose only minimal threat to the environment. (See page B-77.)
 - ***More Reductions for Toxic Substances Control, But Some New Programs Too.*** As in past years, significant reductions are proposed in the Department of Toxic Substances Control programs supported by the Hazardous Waste Control Account. The reductions are proposed in part to adjust for a gap between account revenues and program expenditures. The gap exists because prior revenue projections for this account have been consistently overly optimistic, and program expansions made in the past (based on these projections) cannot now be supported by actual revenues. The reductions are also proposed, in part, to free up resources for two new statutory programs—the cleanup of illegal drug labs and an expedited hazardous waste site cleanup pilot. (See pages B-85 and B-87.)
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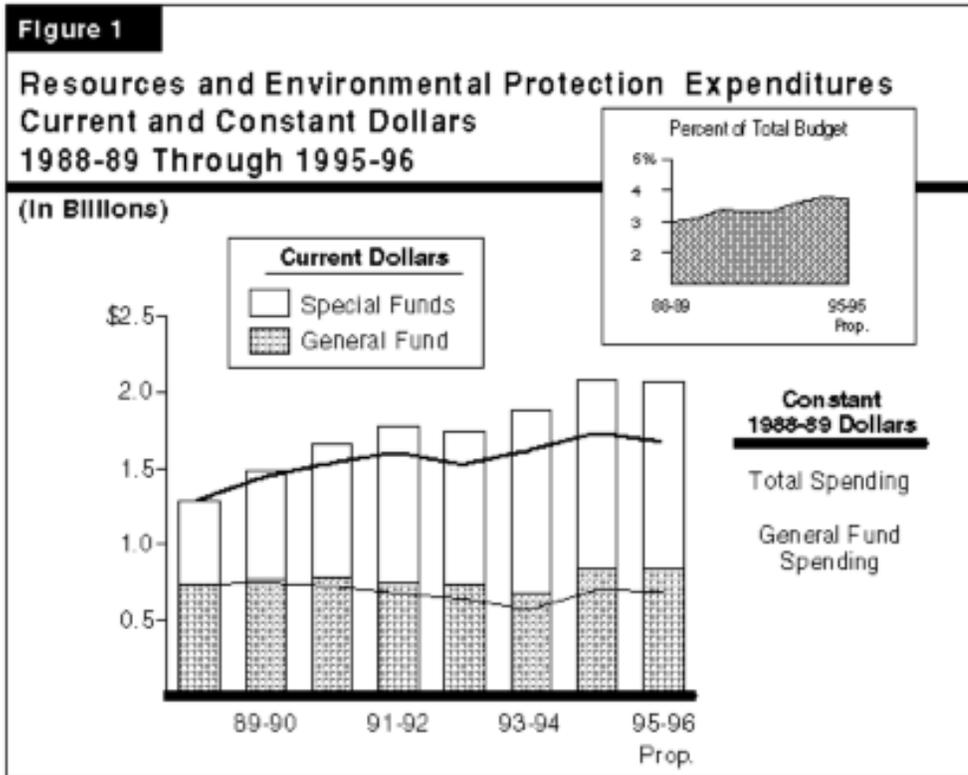


OVERVIEW

The proposed expenditure level for resources and environmental protection programs is essentially the same as current-year expenditures.

Expenditures for resources and environmental protection programs are proposed to total \$2.1 billion in 1995-96, which is 3.7 percent of all state funded expenditures proposed for 1995-96. This level is a slight decrease of approximately \$12.3 million, or 0.6 percent, below estimated expenditures for the current year. About 59 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 41 percent of these expenditures.

Figure 1 (see next page) shows that resources and environmental protection expenditures from all state funds increased by approximately \$791 million since 1988-89, representing an average annual increase of approximately 7.1 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 3.9 percent. General Fund expenditures increased at an average annual rate of 2 percent over this period. When these expenditures are adjusted for inflation, however, General Fund support has declined slightly since 1988-89.



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.

Spending for Resources Programs. Figure 2 shows that of the major resources programs, the Department of Water Resources will have the highest expenditure level in 1995-96, at \$971.7 million. Most of the department'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). In 1995-96, the General Fund will contribute \$302 million (67 percent) of the CDFFP's budget. For the DPR, the General Fund will constitute about 23 percent of the department's expenditures in 1995-96.

Figure 2					
Resources Budget Summary					
Selected Funding Sources					
1993-94 Through 1995-96					
(Dollars in Millions)					
Department	Actual 1993-94	Estimated 1994-95	Proposed 1995-96	Change From 1994-95	
				Amount	Percent
Conservation					
General Fund	\$13.7	\$14.8	\$7.4	-\$7.4	-50.0%
Recycling funds	333.1	345.1	172.2	-172.9	-50.1
Other funds	12.4	12.9	6.1	-6.8	-52.7
Totals	\$359.2	\$372.8	\$185.8	-\$187.0	-50.2%
Forestry and Fire Protection					
General Fund	\$267.3	\$310.6	\$302.0	-\$8.6	-2.8%
Special Account for Capital Outlay	5.7	—	—	—	—
Environmental License Plate Fund	5.6	4.2	4.4	0.2	4.8
Other funds	136.2	118.1	141.7	23.6	20.0
Totals	\$414.7	\$432.9	\$448.1	\$15.2	3.5%
Fish and Game					
General Fund	\$3.1	\$3.1	\$3.1	—	—
Fish and Game Preservation Fund	75.0	78.7	77.6	-\$1.1	-1.4%
Environmental License Plate Fund	10.0	10.6	9.8	-0.8	-7.5
Other funds	71.9	76.6	78.5	1.9	2.5
Totals	\$160.0	\$169.0	\$169.0	—	—
Parks and Recreation					
General Fund	\$44.1	\$47.7	\$48.0	\$0.3	0.6%
State Parks and Recreation Fund	86.8	82.3	96.6	14.3	17.4
Park bond funds	64.8	56.1	6.7	-49.4	-88.0
Other funds	46.9	90.8	55.5	-35.3	-38.9
Totals	\$242.6	\$276.9	\$206.8	-\$70.1	-25.3%
Water Resources					
General Fund	\$14.9	\$19.2	\$23.9	\$4.7	24.2%
State Water Project Funds	787.3	946.9	861.7	-85.2	-9.0
Special Account for Capital Outlay	17.9	0.9	—	-0.9	-100.0
Other funds	107.0	138.1	86.2	-51.9	-37.6
Totals	\$927.1	\$1,105.1	\$971.7	-\$133.4	-12.1%

Figure 2 also reflects significant decreases in the 1995-96 expenditures of the Department of Conservation (DOC). This is because the Governor's Budget proposes to consolidate most of its activities with those of the Energy Commission into a new Department of Energy and Conservation

(not shown in figure), beginning in January 1996. Also as part of the reorganization proposal, the budget proposes to transfer the Beverage Container Recycling program from the DOC to the California Integrated Waste Management Board (CIWMB) beginning in 1996. (This accounts for the significant increase in the CIWMB's expenditures shown in Figure 3.)

Figure 3

**Environmental Protection Budget Summary
Selected Funding Sources
1993-94 Through 1995-96**

(Dollars in Millions)

Department/Board	Actual 1993-94	Estimated 1994-95	Proposed 1995-96	Change From 1994-95	
				Amount	Percent
Air Resources					
Motor Vehicle Account	\$71.0	\$74.0	\$74.1	\$0.1	0.1%
Other funds	32.2	34.6	48.7	14.1	40.8
Totals	\$103.2	\$108.6	\$122.8	\$14.2	13.1%
Integrated Waste Management					
Integrated Waste Management	\$38.1	\$34.4	\$33.9	-\$0.5	-1.4%
Solid Waste Disposal Site Cleanup	8.0	5.0	5.0	—	—
California Used Oil Recycling Fund	29.5	24.8	23.0	-1.8	-7.3
Other funds	8.5	11.4	183.8	172.4	1,152.3
Totals	\$84.1	\$75.6	\$245.7	\$170.1	225.0%
Water Resources Control					
General Fund	\$27.8	\$29.0	\$29.2	\$0.2	0.7%
Underground Storage Tank Cleanup Fund	129.0	133.6	143.6	10.0	7.5
Water Pollution Control	3.7	5.1	5.2	0.1	2.0
Bond funds	53.9	51.2	37.8	-13.4	-26.2
Other funds	155.1	68.8	67.1	-1.7	-2.5
Totals	\$369.5	\$287.7	\$282.9	-\$4.8	-1.7%
Toxic Substances Control					
General Fund	\$1.8	\$0.6	\$0.9	\$0.3	49.2%
Hazardous Waste Control Account	81.6	72.9	61.8	-11.1	-15.3
Other funds	43.7	50.3	56.4	6.1	12.1
Totals	\$127.1	\$123.8	\$119.1	-\$4.7	-3.8%

Spending for Environmental Protection Programs. As Figure 3 shows, the State Water Resources Control Board (SWRCB) is the largest environmental protection program, with proposed expenditures of \$282.9 million

for 1995-96, slightly lower than the current year level. The figure also shows that the budget proposes a reduction in the funding level for the Department of Toxic Substances Control (DTSC) in order to adjust for overly optimistic revenue projections in past years.

As Figure 3 also shows, the budget proposes an increase of \$14 million in the Air Resources Board (ARB), and an increase of \$170 million in the CIWMB for 1995-96. In the case of the ARB, the increase will provide funds to reimburse the repair costs of engines damaged as a result of the use of reformulated diesel fuel. In the case of the CIWMB, the increase reflects the budget proposal to transfer the Beverage Container Recycling program from the DOC to the board.

MAJOR BUDGET CHANGES

Figures 4 (page 10) and 5 (page 11) present the major budget changes in resources and environmental protection programs, respectively. As Figure 4 shows, the budget proposes a \$10 million General Fund increase for the CDFFP to retrofit airtankers. The budget also proposes to increase funding for emergency fire suppression by \$20 million.

For the DPR, the budget proposes to use \$19.4 million from the California Beverage Container Recycling Fund to support the department's operations. This is in part offset by a reduction of \$10.4 million from the Harbors and Watercraft Revolving Fund. Additionally, the budget proposes a reduction of \$34.6 million in local assistance for park activities and \$33.7 million in capital outlay expenditures.

For the Department of Water Resources, the budget proposes to reduce local assistance for various activities by \$56.1 million, mainly as a result of the depletion of bond funds. Activities affected include development of safe drinking water projects, flood control, and formulation of the California Water Plan.

Figure 5 shows that the budget proposes an increase of \$14 million in ARB expenditures to reimburse the repair costs for damage of engines resulting from the use of reformulated diesel fuel mandated by the board. As pointed out earlier, the budget proposes to transfer the Beverage Container Recycling program to the CIWMB, and proposes half-year funding of \$172.2 million to that program in 1995-96.

For the SWRCB, the budget proposes an increase of \$10 million to handle additional claims workload and payments in the Underground Storage Tank Cleanup program. The budget also requests \$12.3 million less for local assistance for water reclamation, and for the construction

of wastewater treatment and storm drainage facilities, because of a lack of bond funds.

Figure 4

**Resources Programs
Proposed Major Changes for 1995-96**

Forestry and Fire Protection	Re- quested: Increase:	\$448.1 mil- lion \$15.2 million (+3.5%)
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\$20 million for emergency fire suppression

\$10 million to retrofit airtankers

Parks and Recreation	Re- quested: Decrease:	\$206.8 mil- lion \$70.1 million (-25.3%)
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\$19.4 million from California Beverage Container Recycling Fund for departmental support



\$34.6 million for local assistance for park operations

\$10.4 million from Harbors and Watercraft Revolving Fund for departmental support

Water Resources	Re- quested: Decrease:	\$971.7 mil- lion \$133.4 mil- lion (-12.1%)
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\$81.3 million in capital improvements on the State Water Project

\$56.1 million in local assistance from bond funds for safe drinking water projects, flood control, and formulation of water plan

\$5.1 million to plan, design, and construct State Water Project facilities

Figure 5 also shows that the budget proposes \$4.1 million for the DTSC to establish an expedited site remediation pilot program, and \$2.3 million to oversee cleanup of military bases. The budget also proposes to reduce the funding of various programs of the department and other state agencies from the Hazardous Waste Control Account by \$11.4 million to adjust for past overestimation of revenues, and to free up resources for new programs.

Figure 5

**Environmental Protection Programs
Proposed Major Changes for 1995-96**

Air Resources Board	Re-	\$122.8 mil-
	quested:	lion
	Increase:	\$14.2 million (+13.1%)



\$14 million on a one-time basis to reimburse owners of diesel-powered engines for repair costs

Integrated Waste Management Board	Re-	\$245.7 mil-
	quested:	lion
	Increase:	\$170.1 mil- (+225%)
		lion



\$172.2 million due to transfer of the recycling program from the Department of Conservation

\$1.9 million to provide loan servicing activities in the Recycling Market Development Zone program

State Water Resources Control Board	Re-	\$282.9 mil-
	quested:	lion
	Decrease:	\$4.8 million (-1.7%)



\$10 million for expanded workload in Underground Storage Tank Cleanup program

\$1.1 million to expand nonpoint source pollution control activities



\$12.3 million in local assistance for water reclamation and wastewater treatment facilities

\$1.2 million in reimbursable expenditures to oversee site cleanup

Toxic Substances Control	Re-	\$119.1 mil-
	quested:	lion
	Decrease:	\$4.7 million (-3.8%)



\$4.1 million to establish an expedited site remediation pilot

\$3 million to clean up illegal drug labs

\$2.3 million to oversee cleanup of military bases



\$11.4 million to adjust for past overestimation of revenues to the Hazardous Waste Control Account



CROSSCUTTING ISSUES

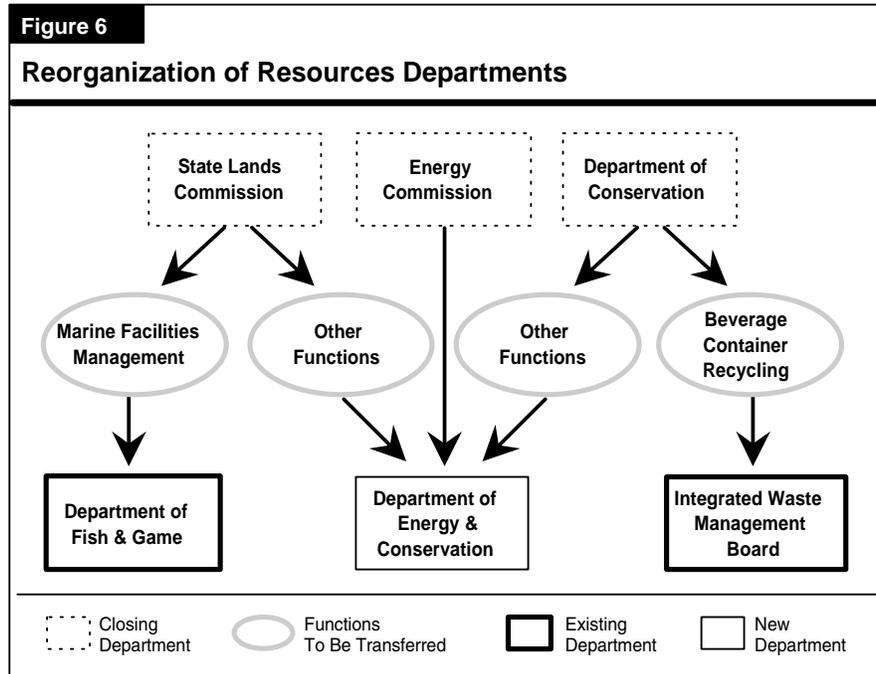
REORGANIZATION OF RESOURCES DEPARTMENTS

The Governor's Budget proposes to reorganize part or all of five Resources and Environmental Protection departments. We believe that opportunities to consolidate state programs to improve efficiency and program effectiveness ought to be explored, and that parts of the reorganization proposal have merit. We recommend that the Secretary for Resources and the Secretary for Environmental Protection report at budget hearings on the details and status of the Governor's reorganization plan.

If it appears that the plan will not be submitted to the Legislature in time for full consideration before the 1995-96 budget is adopted, then we recommend that full-year funding for the respective departments be reestablished. If legislation is subsequently enacted to consolidate or restructure these departments, the Budget Act should be amended accordingly at that time.

Outline of Proposed Reorganization Plan

The Governor's Budget proposes to abolish the Department of Conservation (DOC), the State Lands Commission (SLC), and the Energy Resources Conservation and Development Commission (ERCDC), and transfer their programs, with certain exceptions, to a new Department of Energy and Conservation. (Please see Figure 6 on the next page.)



Reorganization Plan Requirements

Current law requires that a Governor's Reorganization Plan be submitted to the Legislature in the form of a bill. Current law also requires the Governor, in transmitting the plan, to clearly specify its nature and purposes, and the advantages of the proposed reorganization.

Current law, however, does not specify in any detail the content of the reorganization plan other than it must provide for:

- The transfer between agencies of civil service employees, whose status and positions may not be affected by their transfer.
- The transfer of personnel records and the transfer of unexpended balances of appropriations, which may be used only for the purpose for which the original appropriation was made.

Reorganization Plan Process

Current law also specifies the procedure for submission and approval of a Governor's Reorganization Plan. The plan must be presented first to the Legislative Counsel for drafting. Subsequently, the Governor submits the plan to the Milton Marks Commission on California State Government Organization and Economy (the Little Hoover Commission), at least 30

days before submission to the Legislature, for study and recommendation by the commission. Once the Governor submits the plan to the Legislature, the Legislature has 60 days to either approve or reject the plan, but cannot amend it. At the time this *Analysis* was prepared, the Resources Agency had submitted a letter to the Little Hoover Commission describing an outline of the plan, but has not yet submitted the actual plan to the commission.

Criteria for Evaluating Reorganization Plan

The administration indicates that the purpose of the proposed reorganization is to consolidate like functions, improve service, and reduce costs. We think that opportunities to consolidate state programs in order to improve efficiency and program effectiveness ought to be explored. And, in past analyses, we have supported proposals that are similar to certain components of the Governor's current proposal. For instance, we have reviewed and concluded that there are potential benefits from consolidating the state's recycling functions. Similarly, we have supported consolidating certain programs of the Energy Commission and the Public Utilities Commission.

Because details of the reorganization plan are not yet available, we are not able to provide specific comments on the plan's proposals. Below, we offer some criteria for the Legislature to consider in evaluating the reorganization plan, once submitted by the Governor. In addition, we provide some general comments about the extent to which the Governor's proposal (as outlined broadly) stacks up against the criteria.

- **Efficiency.** Will consolidation produce savings? Several components of the Governor's proposal would likely result in savings. For example, savings are likely to occur from the elimination of overlapping and duplicative functions by transferring the Beverage Container Recycling program in the DOC to the California Integrated Waste Management Board (CIWMB), which has the mandate to promote recycling generally. Similarly, to the extent there is reduction in space or facilities needs, there would be additional savings. There could also be economies of scale in contracting for various services such as recycling promotion and marketing.
 - **Coordination.** Will consolidation result in increased program coordination among related, but currently separated programs? In our *Analysis of the 1993-94 Budget Bill* (p. B-36), we found that consolidating the Beverage Container Recycling program in the DOC with the overall recycling program in the CIWMB would likely improve coordination of state recycling efforts and eliminate any
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duplication or overlap between the programs. In particular, duplication or overlapping responsibilities would likely be reduced in such areas as public education curriculum development, recycling hotlines, and public agency procurement of recycled goods.

- **Mission Compatibility.** Are program missions compatible so that consolidating them will result in complementary programs being in the same department? For instance, the SLC has generally similar programs for oil, gas, and geothermal resources as the DOC, although on a smaller scale. However, the SLC's programs are oriented more towards state revenue generation and are not as regulatory in nature as the DOC's programs. Having one agency responsible both for generating revenue from oil and gas activity and enforcing oil and gas regulations might raise questions of conflict of interest.
- **Accountability.** What impact will consolidation have on opportunities for public involvement and accountability? Based on preliminary information, the reorganization plan replaces two commissions—the State Lands Commission and the Energy Commission—with a single department. A commission structure might provide greater public accountability because commissions are required to hold public meetings while departments are not. On the other hand, a department structure might provide greater accountability because responsibility for administration and oversight of the department is vested in one individual.
- **Legislative Priorities.** Does the proposed reorganization still meet legislative priorities? For example, in the past, the Legislature has distinguished between the responsibility of preventing oil spills and the responsibility for responding to such spills, and has placed primary emphasis on prevention. The Legislature would want to evaluate the reorganization plan for its consistency with such legislative priorities.
- **Comprehensiveness.** Has the plan considered all related programs in order to ensure a truly efficient and comprehensive reorganization? For instance, there is currently significant redundancy between the energy planning processes of the ERCDC and the Public Utilities Commission (not included in the Governor's plan).

Recommendation. We think that opportunities to consolidate state programs to improve efficiency and program effectiveness ought to be explored. Given that it is not certain when the plan will ultimately be presented to the Legislature, we recommend that the Secretary for Re-

sources and the Secretary for Environmental Protection report at budget hearings on the plan and its status. If it appears at that point that the plan will not be submitted to the Legislature in time for full consideration before the 1995-96 budget is adopted, then we recommend that full-year funding for the departments involved in the proposed reorganization be provided. If the reorganization plan is subsequently enacted, the Budget Act should be amended accordingly.

MIXED SUCCESS IN IMPLEMENTING PERFORMANCE BUDGETING

The progress of the three Resources and Environmental Protection departments in implementing performance budgeting has been mixed, particularly in the development of performance measures. We recommend that the three departments report at budget hearings on: (1) their progress to date, (2) their proposed performance measures and budget contracts with the Legislature for 1995-96, and (3) future plans for implementing performance budgeting.

Background

The Pilot Program. In January 1993, the Governor proposed to pilot test performance budgeting in four state departments. According to the 1993-94 Governor's Budget, the pilot program was being proposed because the state's traditional budget process was "seriously dysfunctional." The four departments were the Departments of Consumer Affairs, General Services, Parks and Recreation, and the Stephen P. Teale Data Center.

The Legislature subsequently enacted Ch 641/93—the Performance and Results Act of 1993 (SB 500, Hill)—to authorize the pilot program. Subsequently, the California Conservation Corps (CCC) was added to the pilot project by Ch 894/93 (AB 202, Collins), and the Department of Toxic Substances Control (DTSC) was added in 1994. (Currently, there are only five departments in the pilot, since one of the original pilot departments—the Teale Data Center—is no longer a participant, according to the Department of Finance.) Thus, of the five departments selected by the administration to participate in the performance budgeting pilot project, three are within the Resources or Environmental Protection Agencies. (Please see our Crosscutting Issues section in the State Administration chapter for an overview of all five departments.)

Performance Budgeting. Performance budgeting differs from the traditional approach to budgeting in that it focuses on outcomes, such as customer satisfaction, rather than processes or inputs, such as the number of employees in a given department. It allocates resources based on expectations of performance, and it measures performance in order to assess (1) how well a department is achieving its desired outcomes, and (2) whether its performance is improving over time. By focusing attention on

performance measures, it attempts to improve governmental performance and thus enhance public satisfaction with services.

Performance budgeting includes several components, including performance measures, strategic plans, quality improvement programs, and budget contracts. Because performance measures are an especially critical element of performance budgeting, the following analysis focuses largely on the quality of these measures which have been developed by the three Resources and Environmental Protection departments. As this review indicates, we think that the CCC has made more progress in this regard than either the DPR or the DTSC, even though both of these departments, and in particular DPR, have completed many of the necessary steps to implement performance budgeting.

Current Status of Resources and Environmental Protection Departments

Most of the progress to date in the Resources and Environmental Protection departments has been in completing the preparatory steps necessary to implement performance budgeting. The three departments have shown different degrees of progress in completing these steps.

Department of Parks and Recreation. The department completed a strategic plan in 1994 outlining the department's mission and goals. Based on the results of that plan, the DPR entered into a Memorandum of Understanding (MOU) with the Legislature in 1994-95 (contained in the *Supplemental Report of the 1994 Budget Act*), which committed the department to meeting various performance measures in return for receiving its requested level of funding for 1994-95. The DPR will report both in March 1995, and at the end of 1994-95, on its progress in meeting the performance measures specified in its 1994-95 MOU. In January 1995, DPR submitted its draft contract for 1995-96, which closely resembles its current-year contract.

California Conservation Corps. The CCC began its performance budgeting efforts in April 1994. Since then, the department has completed a strategic plan, and prepared a 1995-96 contract, including performance measures, for submission to the Legislature. At the time this analysis was prepared, the CCC had not yet submitted that contract to the Legislature because it is under review by the Resources Agency and the Department of Finance for approval. (However, the department has shared draft performance measures for 1995-96 with legislative staff.)

Department of Toxic Substances Control. The DTSC also began its performance budgeting efforts early in 1994. The DTSC has developed a draft strategic plan. However, due to recent changes in management and personnel, the DTSC has put its performance budgeting efforts on hold. It is uncertain at this point whether the department will continue with the pilot. The DTSC has not submitted a 1995-96 budget contract, and it appears likely that, if it proceeds with performance budgeting, it will not be in a position to submit a budget contract until 1996-97.

Progress to Date Mixed. While all three departments have taken concrete steps towards implementing performance budgeting, our review indicates that progress has been mixed. In particular, we think that two departments—CCC and DPR—vary widely in their success in developing performance measures. (We focus on these two departments because they have submitted or will submit budget contracts for 1995-96, whereas DTSC most likely will not.)

- **Performance Measures Should Relate to Outcomes.** As indicated above, the primary purpose of performance budgeting is to produce *outcomes*, in terms of improved governmental performance and enhanced public satisfaction. For the most part, the CCC's proposed performance measures are good indicators of such *outcomes*—that is, they provide an indication of how well the department is accomplishing its goals and fulfilling its mission. For example, one of the department's goals is to develop capable and skilled youth. One measure which the CCC will use to assess how it is achieving this goal is the percentage of eligible corps members who obtain their General Education Diplomas (GEDs) or high school diplomas. For 1995-96, the department indicates that it will commit to increasing this number by 10 percent over 1994-95.

In contrast, most of the DPR's proposed 1995-96 performance measures relate to performance *outputs* or processes—the amount of work the department accomplishes. For example, one of the department's proposed 1995-96 performance measures is to establish a new motorcycle safety training program, to be given in State Vehicular Recreation Areas. Another proposed measure is to develop a plan for reducing visitor dissatisfaction with the department's reservation system for camping in park units. We think that in both of these cases, more meaningful performance measures would be those that determine the extent to which motorcycle injuries have been reduced and visitor satisfaction increased.

- **Performance Measures Should Provide for Consistency.** In drafts shared with legislative staff, most of the CCC's 1995-96 performance measures committed the department to improvement over several years. For example, the CCC indicates that it will increase the percentage of corps members who leave the corps for positive reasons—such as graduating or finding better-paying employment—by specified amounts both in 1995-96 and subsequent years as well.

The DPR's proposed 1995-96 performance measures, by and large, do not allow the Legislature to evaluate the department's progress from one year to the next with the same degree of consistency as the CCC's. This is partly because the focus of many of those measures is on undertaking new initiatives—such as establishing a new program or developing a new plan—which means that there is little or no current baseline data for these activities. Also, in most of its performance measures, the department has committed to a specified level of performance for only one year.

- **Performance Measures Should Enable Funding to Be Tied to Outcomes.** Our review indicates that in developing its performance measures, the CCC has begun to examine the relationship between the funding it receives and the outcomes it achieves with that funding. For example, the CCC has conducted a survey of corps members and department staff to assess how the department's various activities—such as fighting wildfires or building trails—contribute to its overall mission, and how much of the department's funding is allocated to performing each function. At the time this analysis was prepared, it was not known whether the CCC's proposed 1995-96 contract would include this information. We think that this kind of information, linking the funding that departments receive and the results they achieve, will enhance the Legislature's ability to set priorities and allocate resources accordingly.

With regard to DPR's progress, the administration indicates that in 1995-96, the DPR will begin to match specific funding amounts to expected results, and that by 1996-97, DPR's entire program will be expressed in terms of budgeted funds and results. However, we think that the department is unlikely to achieve this goal, given that neither its 1994-95 nor its proposed 1995-96 contracts show any progress in this direction, and contain no information on the relationship between the funding the department receives and the results it achieves.

Real Progress Will Require Time and Commitment. Developing performance measures that relate to outcomes, that provide consistency in measuring performance across years, and that help establish a link between funding and outcomes, is one prerequisite for successful performance budgeting. However, achieving concrete performance budgeting results—in the form of improved program performance, enhanced public satisfaction, savings, and greater accountability—will require three additional elements.

- ***Time.*** Fundamentally changing the state's budgetary system will take time. As we indicated in our October 1993 policy brief *Performance Budgeting: Reshaping the State's Budget Process*, an adequate test of performance budgeting could require several years.
- ***Administrative Commitment.*** Implementing performance budgeting and achieving real improvement in governmental performance will be a long-term process. This means that strong and consistent administrative and management support over the years will be crucial to the program's success.
- ***Legislative Commitment.*** Achieving lasting results will also require commitment from the Legislature. As we indicated in our October 1993 policy brief, fundamental budget change is impossible without a change in the Legislature's perspective towards the budget process, including a willingness to relinquish some controls over departments and programs and accept a longer-term view of program implementation and results.

Recommendation. The experience to date of the three Resources and Environmental Protection departments involved in performance budgeting suggests that development of meaningful performance measures will be a key element in making performance budgeting work. We recommend that the three departments report at budget hearings on their progress to date and their proposed budget contracts and performance measures with the Legislature for 1995-96, and their future plans for implementing performance budgeting.

Substantial Flexibility Might Yield Substantial Results

We recommend that the Legislature consider negotiating a performance budgeting contract with the CCC which provides substantially more administrative flexibility than it might be willing to approve for other performance budgeting departments. Should the Legislature decide to provide the CCC with such increased flexibility, we further recommend that the Legislature design appropriate rewards, sanctions, and reporting requirements to complement this increased flexibility.

The administration has indicated that performance budgeting, along with other management techniques such as quality improvement and strategic planning, offers the potential for substantial savings, improved program performance, enhanced public satisfaction, and greater accountability in the delivery of state services. As we discuss in our Crosscutting Issues section of the State Administration chapter of this *Analysis*, however, significant results cannot be expected from relatively minor changes in administrative flexibility. For that reason, we believe that it would be worthwhile to test the effect on performance of providing substantially greater administrative flexibility to an appropriate department.

California Conservation Corps an Appropriate Candidate. In this context, we think that the CCC would be a likely candidate, for the following reasons:

- ***Small Size.*** With a total budget proposed for 1995-96 of \$56.7 million and 416 positions, the CCC is a relatively small department.
- ***Focused Mission.*** The CCC's mission, to instill the state's young people with skills and a work ethic and conserve the state's natural resources, is focused and lends itself to being measured.
- ***Meaningful Performance Measures.*** To date, we think that the CCC's performance measures—which focus not on *output* but *outcomes*—show the most promise of the three Resources and Environmental Protection departments.
- ***Management Willing to Delegate.*** The CCC's strategic plan indicates a willingness on the part of the department to relocate control, decision-making, and accountability to the lowest possible levels and shift scarce resources to high value-added functions.

Legislature Has Called for CCC to Be Entrepreneurial. The Legislature has already expressed its interest in providing the CCC with more flexibility than is granted to most departments. For example, in Ch 894/93 (AB 202, Collins), the Legislature expressed its intent that the CCC be an entrepreneurial and incentive-based program. To this end, the Legislature created a new fund—the Collins-Dugan California Conservation Corps Fund—to be continuously appropriated to the corps for activities including program expansion and corps members education. Reimbursements which the departments receives from various state and local agencies can be deposited into this fund for use by the department.

For 1995-96, however, the Governor's Budget caps expenditures from reimbursements at \$20.3 million. Consequently, if the CCC is successful in generating more activities for which they are fully reimbursed, the CCC will not be able to carry out these activities without further approval by the Department of Finance and notification of the Legislature. Similarly, any excess reimbursements (accumulated over time) cannot be expended without further appropriation. While the CCC should be held accountable for its use of revenues in the fund, we think it would be consistent with performance budgeting to let the department use the fund as envisioned in statute. This would entail permitting the department to deposit revenues from reimbursements directly into the Collins-Dugan Fund, and continuously appropriating the funds to the department for a specified period—such as two years—for the purposes specified in statute.

Rewards, Sanctions, and Reporting Requirements Should Be Specified. We think that performance budgeting should include appropriate rewards for departments that use increased flexibility to improve their performance. For example, departments might be permitted to reinvest a portion of any savings resulting from increased efficiency in program improvements. Appropriate incentives and rewards likely will encourage innovation and staff commitment to the performance budgeting pilot program.

While increased managerial flexibility may lead to improved departmental performance, it also carries with it a potential for increased failure. If the Legislature should grant the CCC significant administrative flexibility, we think it is particularly important that all parties—the administration, the CCC, and the Legislature—agree to appropriate sanctions in the event that the CCC fails to use its increased flexibility to meet its performance measures. We think that such sanctions should not take the form of budgetary or administrative constraints, which could have an adverse impact on departmental programs, but rather be sanctions applicable to those making the promises and those possessing the authority to fulfill them. For example, appropriate sanctions might include not granting a pay increase to those individuals making the promises, or removing them from their positions.

In order to ensure that increased administrative flexibility produces the desired results—savings, program performance, public satisfaction and accountability—the Legislature may also want to require the CCC to provide semi-annual reports. Such reports might identify Collins-Dugan Fund revenues and expenditures, and the impact of the increased flexibility on the department's progress in meeting its performance measures.

Recommendation. We believe that the CCC might be able to demonstrate that significant administrative flexibility can produce significant results. Accordingly, we recommend that the Legislature consider negotiating a budget contract with the CCC which provides substantially more administrative flexibility than it might be willing to provide to other performance budgeting pilot departments. We further recommend that the Legislature design appropriate rewards, sanctions, and reporting requirements to complement the increased flexibility.

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 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. (We discuss the condition of various environmental protection funds in the write-ups of the individual departments and boards.)

Special Funds and Park-Related Bonds

Based on our review of selected special funds and bond funds, we conclude that, if the Legislature approves the Governor's spending proposals, there will be little money available in (1) special funds for legislative priorities and (2) park-related bond funds to start new park projects.

Figure 7 summarizes the totals available, the expenditures proposed in the Governor's Budget, and the reserve balances available for selected special funds. Below we discuss the status of individual funds and provide some general comments.

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. For the budget year, however, no deposit will be made to SAFCO, and no expenditures from the account are proposed, leaving a projected balance at the end of 1995-96 of \$1.7 million. Tidelands revenues will instead be deposited in the General Fund.

Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund. Revenues to this fund come from royalties and other payments for the 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.

Figure 7

**Selected Special Funds
Resources Programs^a
1994-95 and 1995-96**

(In Millions)

	1994-95 Expenditure	1995-96		Fund Balance
		Resources	Expenditure	
Special Funds				
Special Account for Capital Outlay ^b	\$1.3	\$1.7	—	\$1.7
Outer Continental Shelf Lands Act	18.3	NA	—	—
Environmental License Plate Fund	25.2	22.0	\$21.1	0.9
Public Resources Account	22.2	19.3	18.5	0.8
Habitat Conservation Fund	53.0	31.6	30.4	1.1
Totals	\$120.0	\$74.6	\$70.0	\$4.6

^a Based on Governor's Budget.

^b Figures are for resources-related programs only.

NA - Not applicable.

For 1995-96, the budget proposes to transfer all of these revenues (\$23.9 million) to the General Fund. Departments and programs which rely on Section 8(g) funds are proposed to receive funding from the General Fund instead. (In the 1994-95 Budget Act, the Legislature rejected a similar proposal, and continued to fund Section 8(g) departments out of the 8(g) fund.)

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 and ecological reserves.
- 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 sedi-

ment into the water of the Lake Tahoe region.

The budget proposes expenditures totaling \$21.1 million from the ELPF, a decrease of \$4.2 million (16 percent) from estimated current-year spending. The decrease in spending is due primarily to a proposed transfer from the ELPF to the Habitat Conservation Fund (HCF) of \$5.9 million.

Public Resources Account, Cigarette and Tobacco Products Surtax Fund. The Public Resources Account (PRA) receives 5 percent of the revenue from the Cigarette and Tobacco Products Surtax Fund. The budget projects account resources to be about \$22.7 million in 1995-96. 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.

Of the projected revenues, the budget proposes to transfer about \$3.4 million to the HCF. This will leave \$19.3 million available for other expenditures from the PRA, of which the budget proposes expenditures for various departments totaling \$18.5 million. This is a decrease of \$3.7 million (17 percent) from estimated current-year expenditures. This decrease is due largely to the elimination of PRA funding to the Department of Water Resources (DWR) for support and capital outlay.

Habitat Conservation Fund. 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, Cigarette and Tobacco Surtax 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 to transfer about \$27.4 million from various funds into the HCF in 1995-96. These funds are proposed to fund activities of the California Tahoe Conservancy, State Coastal Conservancy, Department of Parks and Recreation, and the Wildlife Conservation Board (WCB). Specifically, the budget proposes \$21.4 million to be allocated to the WCB. Beginning in 1995-96, the Santa Monica Mountains Conservancy, in accordance with Proposition 117, will not receive any funding from the HCF.

Park-Related Bonds. Figure 8 shows the amounts available in selected park bond funds and the expenditures proposed for 1995-96. Park development projects and land acquisitions have traditionally been funded by various bonds passed by the voters. The availability of bond funds has contributed to the Legislature's flexibility in funding its priorities in past

years. This is because the Legislature has been able to free up funds in the ELPF and the PRA by using bond funds to the greatest extent possible to fund various projects.

Figure 8

**Selected Park Bond Funds
Resources Programs^a
1994-95 and 1995-96**

(In Millions)

	1994-95 Expenditure	1995-96		Fund Balance
		Resources	Expenditure	
Bond Funds				
State, Urban and Coastal Park Fund (1976)	\$0.3	—	—	—
Parklands Fund of 1980	0.9	\$1.1	\$0.8	\$0.3
Parklands Fund of 1984	12.7	4.4	4.0	0.4
Fish and Wildlife Habitat Enhancement Fund of 1984	1.3	5.0	2.2	2.7
State Coastal Conservancy Fund of 1984	1.8	0.2	0.2	—
California Wildlife, Coastal and Park Fund of 1988 ^b	75.7	27.0	15.6	11.4
Wildlife and Natural Areas Conservation Fund of 1988	9.5	2.8	2.7	—
Totals	\$102.2	\$40.4	\$25.5	\$14.9

^a Based on Governor's Budget.

^b Figures reflect all bond allocations including those not subject to Budget Bill appropriations.

The budget projects available park-related bond fund balances totaling \$40.4 million at the beginning of 1995-96, as shown in Figure 8. The figure also shows that the fund balance at the end of 1995-96 is estimated to be \$14.9 million. Of this amount, \$11.4 million is in the 1988 Park Bond. Much of these funds are earmarked for the development of particular geographic areas and for certain categories of projects. Consequently, the amount of funding that is available for projects that do not fall into these categories will actually be less than \$11.4 million.

Water Bonds

Based on our review of bond funding for water programs, we conclude that (1) there are sufficient funds available in 1995-96 to continue local water supply and wastewater treatment programs, but (2) there is little money available for new water projects not yet in the "pipeline."

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

As indicated in Figure 9, the budget reflects expenditures totaling \$74.8 million for these programs.

Figure 9			
Selected Water Bond Funds^a			
1995-96			
(In Millions)			
	Resources	Expenditures	Fund Balance
Safe drinking water			
1986 California Safe Drinking Water Fund	\$62.7	\$13.4	\$49.3
1988 California Safe Drinking Water Fund	23.3	5.5	17.8
Subtotals	(\$86.0)	(\$18.9)	(\$67.0)
Water supply			
1986 Water Conservation and Water Quality Fund	\$30.3	\$24.9	\$5.5
1988 Clean Water and Water Reclamation Fund	33.2	10.0	23.2
1988 Water Conservation Fund	11.4	5.3	6.0
Subtotals	(\$74.9)	(\$40.2)	(\$34.7)
Wastewater treatment			
1984 State Clean Water Fund	\$46.0	\$15.6	\$30.4
Totals	\$206.9	\$74.8	\$132.1

^a Based on Governor's Budget.

Safe Drinking Water. The budget projects total expenditures of \$18.9 million in 1995-96, leaving a balance of \$67 million at the end of 1995-96. The DWR advises, however, that it has pending grant applications against most of this balance.

Water Supply. The budget reflects \$40.2 million in expenditures for water supply programs in 1995-96, leaving a balance available for 1996-97 of \$34.7 million. According to staff at the DWR and the State Water Resources Control Board, most of this balance is for pending applications for projects.

Wastewater Treatment. The budget proposes expenditures of \$15.6 million from the 1984 State Clean Water Fund to fund wastewater treatment projects in 1995-96. This will leave a balance in the fund of \$30.4 million at the end of 1995-96. The budget indicates that a majority 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 1995-96 at the levels proposed in the budget. However, it appears that most of the remaining fund balances are not available for new projects in 1996-97 given pending applications for projects already in the pipeline.



DEPARTMENTAL ISSUES

SECRETARY FOR ENVIRONMENTAL PROTECTION (0555)

The Secretary for Environmental Protection heads the California Environmental Protection Agency (Cal-EPA). The Secretary is responsible for overseeing and coordinating the activities of the following departments that make up Cal-EPA:

- Air Resources Board (ARB)
- California Integrated Waste Management Board (CIWMB)
- Department of Pesticide Regulation (DPR)
- Department of Toxic Substances Control (DTSC)
- Office of Environmental Health Hazard Assessment (OEHHA)
- State Water Resources Control Board (SWRCB)

Major activities of Cal-EPA have included permit and regulatory reform, the promotion of pollution prevention, the development of markets for environmental technologies, and the establishment of business assistance programs such as the "one-stop permitting" centers. Many of Cal-EPA's initiatives have been implemented in conjunction with the constituent agencies within Cal-EPA and with other state agencies, such as the Trade and Commerce Agency.

The budget proposes total expenditures of \$2.5 million for the Secretary in 1995-96. Of these expenditures, about \$1.6 million are for personal

services (salaries and benefits) of 22.9 personnel-years. These levels of expenditures for staff are about the same as estimated current-year expenditures. This staffing level does not include a large number of positions which currently are on loan to the Secretary from various Cal-EPA boards and departments.

Loaned Employees Nearly Double Secretary's Staff

At least 36 employees will be loaned to the Secretary from other Cal-EPA boards and departments in 1994-95. This represents expenditures of \$1.2 million in 1994-95, in addition to the \$1.6 million of personal service expenditures reflected in the Secretary's budget.

The *Supplemental Report of the 1994 Budget Act* required the Secretary to report to the Legislature on a quarterly basis on the number of employees loaned to work for the Secretary from other departments or boards within Cal-EPA. The report required information on salary and benefits paid as well as evidence to support compliance with rules of the State Personnel Board which govern interagency loans of employees.

Current law provides that employees may be loaned between state agencies generally for up to two years for training purposes or "to enable an agency to obtain expertise to meet a compelling program or management need." Rules of the State Personnel Board define such a compelling need as needs which are "urgent," "nonrecurring," and "have a broad and significant impact on departmental operations and efficiency." Loaned employees remain employees of the agency from which they are lent for the duration of the loan.

We have reviewed the Secretary's two quarterly reports for the first half of the current year. The following summarizes the reports:

- Thirty-six employees (about 23 personnel-years) have been loaned to the Secretary as of December 31, 1994; 16 of these represent full-time, full-year loans, 20 represent part-time and/or part-year loans.
 - Salary and benefits for these employees while on loan to the Secretary total \$1.2 million in the current year (this is about 70 percent of the staffing expenditures reflected in the Secretary's budget for 1994-95).
 - Of the 36 employees on loan, 11 are loaned from the DTSC; 10 from the SWRCB and the Regional Boards; 8 from the ARB; 4 from the CIWMB; 2 from the DPR; and 1 from OEHHA.
 - Twenty-two of these employees have been assigned to work for two interagency initiatives sponsored by and overseen by the
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Secretary: 16 for the "one-stop permitting" centers and 6 for the California Environmental Technology Partnership.

- Of the remaining 14 employees, 7 are assigned to secretarial or administrative support functions, and most of the balance are working on policy development matters which cut across Cal-EPA departments and boards, such as permit reform and the coordination of enforcement programs.
- With one apparent exception, no employee has been loaned for more than two years.

The Secretary has advised us that it is likely that many of the positions currently filled by employees loaned to the Secretary from Cal-EPA boards and departments will be filled by loaned employees in 1995-96. The Secretary does not anticipate that the number of loaned employees will increase in 1995-96.

The existence of employee loans is not reflected in the budgets of either the Secretary or the constituent boards and departments from which the employees are loaned. Given the extent of the employee loans, this complicates the oversight by the Legislature of the activities of both the Secretary and the departments within Cal-EPA.

Legislative Oversight Needed for Environmental Technology Initiatives

In order for the Legislature to be fully informed of the various environmental technology projects and programs initiated by Cal-EPA, we recommend that the Secretary report at budget hearings on: (1) Cal-EPA's strategic plan for the development and commercialization of the environmental technology industry, setting out both short and long-term goals; (2) how the various programs and entities that have been established, or are proposed, fit within the strategic plan; (3) the role of state agencies other than Cal-EPA in the various initiatives; and (4) the cost, funding sources, and personnel-years for the various initiatives.

The Cal-EPA has initiated a number of projects relating to the development and commercialization of California's environmental technology industry. Our review shows that most of these initiatives were administratively established without legislative authorization. Funding and staff support for the initiatives has been provided from Cal-EPA's constituent departments. Below we review these initiatives.

California Environmental Technology Partnership. The California Environmental Technology Partnership was initiated administratively by

Cal-EPA in 1993 as a public-private partnership “to promote the research, development, commercialization, and export of California's \$20 billion environmental technology industry.” The partnership consists of Cal-EPA, the Trade and Commerce Agency, and representatives from industry, universities, laboratories, and public interest groups. The partnership has developed a “strategic plan” for California's environmental technology industry, with a number of goals, including:

- Increasing consistency in the regulatory processes for the testing and demonstration of new environmental technologies.
- Enhancing environmental technology companies' access to the marketplace.
- Implementing an integrated communications strategy to provide information to California's environmental technology companies.
- Supporting research and development of new environmental technologies.
- Establishing the infrastructure to train the workforce needed for a growing environmental industry.

In the current year, six staff have been loaned from Cal-EPA boards and departments to provide support to this partnership. The partnership activity is in addition to activities in individual departments and boards related to technology development. For instance, in the current year, the budget provides \$1.6 million (reimbursements) for the DTSC to implement a streamlined certification of new, lower-risk technologies, and \$1.2 million (Motor Vehicle Account) for the ARB to provide research grants for technology development.

California Environmental Technology Center. The California Environmental Technology Center, created administratively in August 1994, is a public-private partnership between Cal-EPA and the Scripps Institution of Oceanography at the University of California at San Diego (UCSD). The center's objective—which is broad in scope—is to promote the development of environmental technologies and create markets for their use. The center helps to fund and coordinates public and private resources for environmental research and development projects, and provides business strategies and analyses of marketplace opportunities.

A majority of the center's funding will support research partnerships among industry, laboratories, universities and federal and state governments. Expenditures for the center in 1994-95 are about \$1.2 million, redirected from various boards and departments within Cal-EPA. This amount includes \$400,000 of in-kind services representing staff loaned to the center from Cal-EPA boards and departments.

The budget proposes expenditures of about \$1.9 million in 1995-96, a 38 percent increase over the current year. Of this amount, \$750,000 will be redirected from funding of various boards and departments in Cal-EPA. Additionally, the budget requests an augmentation of \$1.1 million from various special funds supporting Cal-EPA boards and departments. In-kind services of \$300,000 will also be provided by the UCSD. The administration anticipates that ongoing funding for the center's activities in future years will come primarily from federal research and development grants.

Office of Environmental Technology. The Governor's Budget states that Cal-EPA will establish an Office of Environmental Technology. It has yet to be decided where this new office will be located. Currently, new environmental technologies are evaluated for permitting purposes (for both sale and use) by potentially several regulatory agencies within Cal-EPA. The proposed office would offer a one-stop evaluation and "certification" of the effectiveness and efficiency of new environmental technologies, so as to expedite the permitting process. The overall objective is to enhance the ability of these technologies to access, and be used in, the market. While reference is made to establishing the office by redirecting certain scientific and engineering programs from various Cal-EPA boards and departments, no details have been provided.

Need for Legislative Oversight. While the Legislature has reviewed and approved technology development activities in various boards and departments, the above Cal-EPA projects have been initiated without prior review by the Legislature. While we see merit in promoting the development and commercialization of California's environmental technology industry, we believe that the Legislature ought to be fully informed of the objectives, scope and funding of these initiatives before they are undertaken in order to ensure that they are consistent with legislative priorities, coordinated, and not duplicative of one another.

Accordingly, we recommend that the Secretary report at budget hearings on the following:

- The California Environmental Technology Partnership's strategic plan for the development and commercialization of California's environmental technology industry, setting out both short and long-term goals.
 - How the various programs and entities that have been established, or are proposed, fit within the strategic plan.
 - The role of state agencies other than Cal-EPA in the various initiatives.
 - The cost, funding sources, and personnel-years for the various initiatives.
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CALIFORNIA CONSERVATION CORPS (3340)

The California Conservation Corps (CCC) provides on-the-job training and education opportunities to California residents aged 18 through 23 with projects that conserve and enhance the state's natural resources and environment. The CCC headquarters in Sacramento operates 13 residential base centers, one nonresidential service district, and 30 satellite centers. The CCC also develops and provides funding for 11 community conservation corps in neighborhoods with large concentrations of minority youth and high youth unemployment.

The budget proposes expenditures totaling \$56.7 million in 1995-96. This amount includes (1) \$27.5 million from the General Fund, (2) \$5.6 million from the Energy Resources Programs Account, (3) \$2.1 million from the Petroleum Violation Escrow Account, and (4) \$20.3 million in reimbursements. Total proposed expenditures are \$2.2 million (or 3.7 percent) lower than estimated current-year expenditures. The reduction is due primarily to reduction of one-time funding of \$2.7 million provided in the current year to settle a Fair Labor Standards Act lawsuit.

As we discuss under the Crosscutting Issues section of this chapter, the CCC is one of five departments selected by the administration for a pilot project in performance budgeting.

Development of New Energy Center Hinges on Proposed Legislation

We withhold recommendation on the request for \$2.8 million from the Petroleum Violation Escrow Account (PVEA) and from reimbursements for a new Energy Center in Southern California, because the proposal hinges on passage of legislation in 1994-95. We further recommend that the CCC report at budget hearings on the status of this legislation, and its plans to fund and develop the center in the event that funding is not provided for 1994-95.

Since 1979, the CCC has operated an Energy Center in Placer County, which provides training to corps members in implementing a range of energy and water conservation projects, including weatherization, water conservation and plumbing, and solar energy installation. Project sponsors include federal, state, and local governments, schools, nonprofit

organizations, and utility companies. Sponsors typically pay for materials and reimburse the CCC for much of its labor costs.

Budget Request. The budget requests \$2.1 million from the Petroleum Violation Escrow Account (PVEA) and \$706,000 in increased reimbursements for the development in 1995-96 of a new Energy Center in Southern California. Of the total requested, about \$1.2 million is for corps member salaries, \$596,000 is for staff costs, and \$932,000 is for operating expenses and equipment, including vehicles, tools, and staff training costs.

The budget indicates that the Governor has committed to increasing the size of the CCC by 50 percent by the year 2000. According to the CCC, the proposed energy center is one step towards this expansion. The new center is expected to be approximately the same size and cost as the Placer Energy Center, and will conduct similar operations. It will have training capacity for a total of 90 corps members, including residential accommodations for 66 corps members. The department anticipates ongoing, annual costs to operate the center of \$2.1 million beginning in 1996-97.

Request Depends on Passage of Legislation. The department currently has statutory authority to add another energy center. However, the department proposes to start the center in the current year and, in order to do so, indicates that it plans to seek funding (through legislation) for the center. The department plans to request \$609,000 from the PVEA to cover the costs of center development for three months (April through June). This includes \$547,000 for facility start-up costs, such as minor renovations to bring a residential facility into compliance with health and safety codes. At the time this analysis was prepared, the proposed legislation had not been introduced.

The department indicates that it has not selected a final location, but has examined various alternative locations near Compton for the new center, as well as a Department of Water Resources facility at Castaic Lake. According to the department, if it does not receive funding for the current year, it may have to request an amendment to the budget request in order to provide additional funding for facility start-up costs in the budget year.

Recommendation. Based on our review, we believe the expansion proposal has merit. However, it is not known at this time whether legislation will be enacted providing funding to the CCC in the current year to develop the Energy Center. Because the amount needed in 1995-96 for the center's development depends on whether the CCC can perform some of the development tasks in 1994-95, we withhold recommendation on the budget-year request pending the enactment of legislation.

We further recommend that the CCC report at budget hearings on the status of the proposed legislation and the CCC's plans to fund and develop the center in the event that the legislation does not pass. If it be-

comes apparent that the requested level of funding for the current year will be provided, then we recommend approval of the request for 1995-96. Otherwise, the CCC and the Department of Finance will need to revise the budget-year request, and the revised request should be reviewed at that time.

DEPARTMENT OF CONSERVATION (3480)

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

The DOC proposes expenditures totaling \$185.8 million in 1995-96, a decrease of about \$187.0 million, or 50 percent, from estimated current-year expenditures. This level of funding reflects the administration's proposal to eliminate the DOC beginning January 1, 1996, as discussed below.

Budget Proposes to Eliminate the Department of Conservation

At the time this analysis was prepared, it was not possible to determine if the Governor's reorganization proposal for various resources and environmental protection departments has merit because the details of the plan have not been provided to the Legislature. If it appears that the Governor's reorganization plan will not be submitted to the Legislature in time for full consideration before the Budget Act is adopted, we recommend that full-year funding for the DOC be reestablished. The Budget Act should be amended if legislation to eliminate or restructure the DOC is subsequently enacted.

As we discuss in the Crosscutting Issues section of this chapter, the budget proposes to eliminate the DOC and transfer its recycling program to the California Integrated Waste Management Board, and its other programs to a newly formed Department of Energy and Conservation. Reflecting this proposal, the budget proposes to fund the DOC only for the first half of 1995-96.

Given that it is not certain when the Governor's reorganization plan will ultimately be presented to the Legislature, we recommend that the Secretary for Resources and the Secretary for Environmental Protection report at budget hearings on the plan and its status. If it appears at that point that the plan will not be submitted to the Legislature in time for full consideration before the Budget Act is adopted, then we recommend that full-year funding for the DOC be reestablished. If legislation

is subsequently enacted to consolidate or restructure the department, the Budget Act should be amended accordingly at that time.

Proposed Expansion of Mineral Classification Program Exceeds Statutory Responsibilities

We recommend (1) a reduction of \$679,000 from the Surface Mining and Reclamation Account and six positions and (2) an increase of \$100,000 in reimbursements for the classification of the state's mineral resources, because (1) the proposed workload for these positions exceeds the workload required under current law and (2) any workload resulting from petitions should be funded from reimbursements. (Reduce Item 3480-001-035 by \$679,000 and increase reimbursements in Item 3480-001-001 by \$100,000.)

Under the Surface Mining and Reclamation Act of 1975 (SMARA), the State Geologist is required to classify certain areas of the state on the basis of their mineral resources. Areas are to be classified as containing little or no mineral deposits, containing significant deposits, or requiring further evaluation. This classification is carried out by the department's Division of Mines and Geology (DMG), which provides staff for the State Geologist. In the current year, the DMG has a staff of 12.5 positions and a budget of \$1.1 million to perform its mineral classification responsibilities.

Budget-Year Proposal. For 1995-96, the budget requests an additional \$579,000 from the Surface Mining and Reclamation Account in the General Fund to support six positions for the mineral classification program. This would bring the total support for the program to \$1.7 million and 18.5 positions. According to the department, the positions are justified in order that the State Geologist and the DMG can complete mineral classification of the *entire* state in a timely manner.

Plan to Classify Entire State Exceeds Statutory Responsibilities. Our review, however, indicates that the State Geologist is *not* required by statute to classify the mineral resources of the entire state. Rather, under current law, the State Geologist is required to classify only those areas which fall into at least one of the following three categories: (1) areas identified by the Office of Planning and Research (OPR) based on specified criteria; (2) other areas specified by the State Mining and Geology Board (the board has broad policy responsibilities for mineral resource conservation and mining in California); and (3) areas for which classification has been requested by a petition, submitted by either a government or private entity, which has been accepted by the board.

Thus, the department's intent to complete a mineral classification of the entire state goes beyond the responsibilities delineated in current law. Furthermore, the department has not provided justification as to why there is a need to do so. A better prioritization of workload in accordance with statutory direction would likely not result in a need for six additional staff.

Program Workload Could Increase Due to Increased Petitions. Our analysis further indicates that the number of areas identified by OPR or the board for classification has not increased significantly in recent years. However, there *has* been an increase in the requests for mineral classification from outside entities. In recent annual work plans, for example, the DMG has consistently pointed to a flow of new petitions and repeated requests of mining industry groups for mineral classification of additional areas. The increased petitions could result in higher classification workload if the board accepts more petitions in 1995-96 than in previous years. (In past years the board has tended to approve no more than four petitions annually.)

Reimbursements Should Fund Increased Workload Resulting From Petitions. If the board should accept more classification petitions in 1995-96 than in past years, our analysis indicates that the resulting increase in workload would most appropriately be funded from reimbursements, not from the Surface Mining and Reclamation Account. This is because under current law, petitioners are required to pay the costs associated with the workload they create for the department. Specifically, Ch 1097/90 (AB 3551, Sher) requires that petitioners pay the reasonable costs of classifying an area for which they have requested classification.

Reimbursements Should Also Fund More of Existing Workload. In addition, our analysis indicates that the department should also fund a greater portion of its *existing* workload through reimbursements, instead of the Surface Mining and Reclamation Account. This is because although the department has conducted about four petitioned classifications annually in recent years, it has consistently failed to collect reimbursements from petitioners to cover the costs it incurs in preparing these petitions, as required by Chapter 1097.

We estimate that the average cost to the department of providing mineral classification for an area in response to a petition is about \$25,000. Thus, the department should be reimbursed by about \$100,000 for petitioned work, and the work should not be funded from the Surface Mining and Reclamation Account.

Recommendation. Our analysis indicates that the department's intent to complete mineral classification of the entire state goes beyond its re-

sponsibilities as delineated in current law. Our analysis further indicates that any classification workload resulting from petitions for mineral classification should be funded not out of the Surface Mining and Reclamation Account, but out of reimbursements. We therefore recommend a reduction of \$679,000 in Surface Mining and Reclamation Account funds and six new positions. We further recommend that reimbursements be increased by \$100,000.

Review of the Department's Landslide Hazard Map Program

A private contractor has completed a review of the department's implementation of the Landslide Hazard Identification Program and has made various recommendations relating to the department's ongoing implementation of the program. We recommend that the department report at budget hearings on the current status of its implementation of the review's recommendations.

Current law requires the department to review its implementation of the Landslide Hazard Identification Program which identifies and maps areas of the state subject to landslide hazards. The department is further required to submit this review to the Legislative Analyst for review and comment. Our review indicates that the department has completed the required review, which was submitted to the department by a private contractor, and that the review addressed the elements specified in statute. For example, the consultant's review indicated that the department had mapped about 2,600 square miles of landslide-prone areas as of September 1993, and was in the process of mapping an additional 814 square miles.

The consultant's review also found that landslide hazard mapping had progressed slowly, however, and that the department lacked an overall plan to establish mapping priorities. To address these and related problems, the review recommended that the department (1) develop a new master plan and mapping priorities for the program; (2) better inform cities and counties about the program; and (3) increase its productivity so as to complete all mapping within 10 to 15 years.

Given the importance of the program to public safety, we recommend that the department report at budget hearings on its implementation of the review's recommendations.

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 \$417.4 million from the General Fund (\$296.3 million), various other state funds (\$22.2 million), and federal funds and reimbursements (\$98.9 million) for support of the CDFFP in 1995-96. This is a decrease of \$14.9 million, or 3.4 percent, from estimated current-year expenditures. The decrease is due primarily to a decrease in the General Fund of \$14.3 million, or 4.6 percent, resulting largely from a decrease in the level of funds budgeted for emergency fire suppression costs below current-year estimated expenditures.

Legislature Not Yet Informed of Results of Reorganization

At the time of our Analysis, the department had not yet submitted to the Legislature a required report on the status of the department's reorganization. We recommend that the department report at budget hearings on the status of the reorganization.

In 1994-95, the department reorganized, with the intent of focusing more narrowly on high priority tasks including emergency fire suppression. The department indicated that it would redirect staff resources to increase its fire protection staff by 35, and consolidate its statewide command from four to two regions, with command centers located in Redding and Riverside.

Concerns Raised About Reorganization. In our *Analysis of the 1994-95 Budget Bill* (p. B-33), we raised concerns about the department's proposed reorganization. Specifically, the department was undertaking its reorganization before submitting to the Legislature a long-term strategic plan that outlines its statutory mission and the fiscal and policy means of achieving it, as required by the *Supplemental Report of the 1993 Budget Act*. As a consequence, the Legislature was not able to evaluate the appropriateness

of the reorganization relative to the department's mission and strategic plan, particularly given potential risks we identified with the reorganization proposal.

Report on Reorganization Not Yet Presented to Legislature. Because of these concerns, the Legislature required the department to submit a report by January 1, 1995, on the status of the department's reorganization, and any future reorganization phases which the department was considering. At the time this analysis was prepared, the report had not yet been submitted to the Legislature.

Elements of Reorganization Appear to Have Been Successful, but Questions Remain. One of the risks we pointed out in 1994 was that CDFFP headquarters in Sacramento would not track the deployment of emergency fire suppression resources as closely as it did under the previous organizational structure, but would still need to coordinate and mediate demands when the two regional offices were competing for resources. While these situations occur infrequently, such situations would be critical because they would occur when the state's fire-fighting resources were already stretched to the limit.

Based on discussions with department field staff, it appears that under the new reorganized structure, CDFFP has avoided any serious, statewide breakdowns in its system of allocating resources. To this end, the department should be credited for its efforts to date. However, other problems have been identified that need to be resolved. For example, the consolidation of command centers has highlighted limitations in CDFFP's telecommunications and dispatch system. During the course of the 1994-95 fire season, for example, the Redding command center encountered difficulties communicating with ranger units and equipment located in coastal areas once served by the Santa Rosa command center.

Recommendation. Given the impact of the department's fire-fighting mission on public safety and management of the state's forest resources, we recommend that the department report at budget hearings on the status of the reorganization and discuss any future reorganization plans under consideration to resolve problems encountered in its operations as a result of the current reorganization.

Emergency Fire Suppression Budget More Realistic

The budget requests \$40 million specifically for emergency fire suppression. This amount represents a more realistic projection of the likely costs of emergency fire-fighting in 1995-96 than that provided in previous years, and reduces the likelihood that the department will require a deficiency appropriation for emergency fire suppression.

The budget requests \$40 million for the department to suppress emergency wildfires in State Responsibility Areas (SRAs) in 1995-96. As in 1994-95, the budget also requests authority for the Department of Finance to allocate up to \$10 million to the department from the Special Fund for Economic Uncertainties for emergency fire suppression. Thus, the total funding provided for in the Budget Act for emergency fire suppression in 1995-96 is \$50 million.

Department Incurs High Annual Costs for Emergency Fire Suppression. The CDFFP incurs emergency fire suppression costs when it responds to large wildland fires or keeps field staff and equipment at full strength during times of high fire activity. Although annual costs in suppressing wildland fires fluctuate, these costs represents a significant drain on the General Fund. From 1989-90 through 1993-94, for example, the average annual cost of emergency fire suppression was about \$41 million. Estimated expenditures on emergency fire suppression in the current year exceed this five-year average, at about \$56 million.

Past Budgets Consistently Underbudgeted for Emergency Fire Costs. Funding provided in the Budget Act has often been inadequate in the past to meet the high costs of emergency fire suppression. In recent years, the Budget Act has usually allocated \$20 million to the department for these costs. In addition, the Budget Act has authorized the Department of Finance to allocate up to \$10 million from the Special Fund for Economic Uncertainties for emergency fire suppression. If \$30 million is inadequate, the department must then seek additional funding through a deficiency appropriation.

Budget Proposal More in Line With Recent Costs. The \$50 million requested for 1995-96 represents a more realistic projection of the costs of emergency fire suppression than in previous years. This level of funding reduces the likelihood that the department will require a deficiency appropriation to fund emergency fire suppression, as in past years.

Land Use Proposal Lacks Clear Policy Objective

We recommend a reduction of \$401,000 for four land use coordinators because the efficacy of these positions will be limited by the lack of a clear policy regarding the department's appropriate role and objectives in shaping federal and local land use decisions. (Reduce Item 3540-001-140 by \$401,000.)

The budget proposes \$401,000 from the Environmental License Plate Fund for four "land use coordinators." These coordinators would have two principal objectives: (1) to provide departmental input into local land use decisions, to improve the fire safety of local development occurring in SRAs and (2) to review and comment on federal land use practices to encourage better fuel management on federal lands.

Concept of Stronger Department Role in Land Use Planning Has Merit. The Legislature has recognized the need for involvement by CDFFP in local land use planning that affects the state's fire protection mission in SRAs. Under current law, for example, county planning agencies are required to submit drafts of safety elements of the county's general plan, or any amendments to the safety element, to the Board of Forestry. The board is required to comment in writing on these submissions.

Recently, the Legislature has sought to strengthen the department's statewide role in shaping local land use decisions. In 1994, for example, the Legislature passed AB 3812 (V. Brown). (This legislation was vetoed by the Governor.) Assembly Bill 3812 would have required county planning agencies to submit to the board not only the safety elements of their general plans, but also draft conservation and land use elements.

Department Lacks Clear Policy on Role in Land Use Planning. We believe that appropriate departmental involvement in local and federal land use planning could result in better management of wildland and forest resources and safer development. However, we are concerned that this proposal will not achieve those goals at either the federal or local levels for the following reasons.

- *Federal Level.* Currently, there is no requirement for federal agencies to incorporate the department's comments into their land use decisions. There also appears to be neither clear agreement between federal agencies and the department about the appropriate role of the department in federal land use decisions, nor a process for the department to be involved in federal land use decisions. Without such an agreement or process, the efficacy

of hiring additional department staff to review federal land use decisions is not clear.

- **Local Level.** In past reviews, the department has found that its involvement in the local land use planning process has been inconsistent because it lacked a comprehensive policy on CDFFP's role in local land use planning processes. Although these reviews called for the development of such a policy, the department still has not yet done so. The lack of a policy will limit the efficacy of the requested positions. For example, according to the department, over 50 percent of all counties fail to enforce their adopted wildland fire protection policies. Adding staff to review local land use decisions is unlikely to improve local land use significantly without a policy on how the state will respond to the lack of enforcement at the local level.

Accordingly, we recommend a reduction of \$401,000 because the efficacy of the requested land use coordinator positions will be limited by the lack of a clear policy on the department's appropriate involvement in federal and local land use decisions.

Proposal for Airtanker Retrofit Depends on Multi-Year Plan

We withhold recommendation on \$10 million for airtanker retrofit pending receipt of the department's plan for modernizing its air operations program. (Withhold recommendation on \$10 million in Item 3540-001-001.) Further recommend that the department report at budget hearings on the projected costs of, and schedule for, modernizing its air operations program.

The budget proposes \$10 million from the General Fund to replace the piston engines with turbo-prop engines in four of the department's 16 S-2 airtankers, which are used to extinguish wildland fires. (The retrofitted airtankers will be known as S-2Ts.) This proposal is the first part of a two-year retrofit plan. The department plans to request an additional \$10 million from the General Fund in 1996-97 to retrofit four more S-2 airtankers. The department indicates that the retrofit plan is part of a multi-year plan to modernize the department's air operations program (AOP).

Multi-Year Plan Not Yet Finalized. Beyond the request to retrofit S-2 airtankers, however, the details of the department's long-range plan to modernize its AOP were not clear at the time this analysis was prepared. This is because the department has not adopted a final plan for modernizing the program. Thus, for example, it is not yet clear whether the department intends to retrofit all 16 S-2s, and under what schedule. However, department staff indicate that the plan will adopt most of the recommen-

dations made in a consultant report prepared in 1993. We have several concerns about using the consultant report as the basis for the modernization plan. We believe that the department's final plan should address these concerns.

Consultant Study Did Not Examine Less Expensive Options. The consultant study performed a life-cycle cost analysis of only two options for modernizing CDFFP's fleet of airtankers, one of which is to retrofit the S-2s with turbo-prop engines. Converting the S-2s to S-2Ts is a relatively expensive option. We are concerned, however, that the consultant study did not examine other less expensive options. For example, the consultant study cited other planes, specifically the E-2, the S-3, and the T-43, as potentially offering significant cost advantages as replacement planes, but did not analyze the costs of shifting to these planes. The report also did not examine the option of gradually shifting to contracting with privately owned aircraft as the current fleet of S-2s is retired.

Study Does Not Examine Increased Role of Helicopters in Air Operations. Additionally, the consultant report focused primarily on the department's airtankers. It did not examine the role of helicopters in the department's AOP. However, helicopters may play a greater role in CDFFP's air operations program in the future because of their versatility and capability to operate in high density population areas and drop retardant with a greater degree of accuracy than airtankers. In its 1992 plan for the AOP, for example, CDFFP noted that helicopters had become a vital part of the department's fire-fighting strategy, and indicated that over time there would be more helicopters and fewer airtankers in the CDFFP fire-fighting arsenal.

Modernization Plan Should Account for Important Variables. We believe that the department's modernization plan should also address several other variables which will have an impact on the department's air operations program and emergency fire suppression mission.

- ***Foothill Air Bases May Close.*** The consultant's recommendation for retrofitting S-2s is based on the assumption that CDFFP must continue to operate from the smaller air bases in the Sierra Nevada foothills. However, the report also noted that in the future, CDFFP may have to relocate some of its air bases, due to population encroachment and increased commercial and private air traffic at those bases.
- ***Future Role of U.S. Forest Service Uncertain.*** According to the report, CDFFP's air operations program has evolved in a manner that complements the U.S. Forest Service's air program. However, the role of the federal government in wildland fire suppression in California is currently changing, and it is uncertain at this time how this role will evolve. Specifically, the U.S. Forest Service has already begun to cut staff trained in wildland fire-fighting, and

may cut the level of aerial fire-fighting support it provides to the state.

Current S-2s Will Not Require Replacement Until 1997. According to the department, it can continue flying all 16 of the S-2s until the 1997 fire season before it will have to begin retiring the planes at the rate of four per year. We believe that this provides an opportunity for the department to refine its options for modernizing its air operations program.

The department indicates that the modernization plan will be finalized sometime in March. Pending completion of the plan, we withhold recommendation on \$10 million from the General Fund to retrofit four S-2 airtankers. We further recommend that the department report at budget hearings on the projected total cost of, and schedule for, modernizing 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 \$8.5 million for support of the commission in 1995-96, including amounts from the General Fund (\$4.8 million), the Oil Spill Prevention and Administration Fund (\$2.4 million), and reimbursements (\$1.3 million). This is a decrease of \$9.1 million, or 51 percent, from estimated current-year expenditures. This level of funding reflects the administration's proposal to eliminate the SLC, as discussed below.

Budget Proposes to Eliminate the State Lands Commission

At the time this analysis was prepared, it was not possible to determine if the Governor's reorganization proposal for various resources and environmental protection departments has merit because the details of the plan have not been provided to the Legislature. If it appears that the Governor's reorganization plan will not be submitted to the Legislature in time for full consideration before the Budget Act is adopted, we recommend that full-year funding for the SLC be reestablished in the existing budget items for the commission. The Budget Act should be amended if legislation to eliminate or restructure the SLC is subsequently enacted.

As we discuss in the Crosscutting Issues section of this chapter, the budget proposes to eliminate the SLC and transfer (1) its Mineral Resources Management and Land Management programs to a new Department of Energy and Conservation (DEC) and (2) its Marine Facilities Management program to the Office of Oil Spill Prevention and Response in the Department of Fish and Game (DFG). Reflecting this proposal, the budget proposes to fund the SLC only for the first half of 1995-96.

Given that it is not certain when the Governor's reorganization plan will ultimately be presented to the Legislature, we recommend that the Secretary for Resources and the Secretary for Environmental Protection report at budget hearings on the plan and its status. If it appears at that

point that the plan will not be submitted to the Legislature in time for full consideration before the Budget Act is adopted, then we recommend that full-year funding for the SLC be reestablished in the existing budget items for the commission. If legislation is subsequently enacted to consolidate or restructure the SLC, the Budget Act should be amended accordingly at that time.

Long-Term Plan for Title Resolution for Military Base Closure Not Clear

We recommend that the State Lands Commission together with the Office of Planning and Research report at budget hearings on their long-term plan for conducting title resolutions on military bases in California slated for closure.

Background. The budget proposes \$300,000 in the budget year from the General Fund for the SLC to resolve issues of sovereign land titles on five federal military bases in California—Mare Island (Vallejo), Alameda Naval Air Station (Alameda), San Francisco Naval Shipyard, Hunter's Point (San Francisco), Treasure Island (San Francisco), and San Diego Naval Training Center (San Diego)—which are proposed for closure. These bases were selected for title resolution work, out of the approximately 26 total bases slated for closure, by the Office of Planning and Research (OPR), which has been designated by the Governor as the lead state agency with respect to military base closure and reuse.

To perform this work, the commission proposes to redirect existing SLC staff who are currently performing reimbursable work, such as processing permits for use of state lands. The commission is requesting a one-year General Fund augmentation to offset the anticipated loss in reimbursements that will result from shifting staff from their current assignments.

Work Appears to Be Consistent with Legislative Intent. According to the SLC, many of the military bases closing in California include lands once held by the state. In order that planning for reuse of these bases may proceed, questions of ownership of the land on these bases must first be resolved. This work appears to be consistent with legislative intent. In the California Defense Conversion Act of 1993 (Ch 445/93—SB 458, Hart), for example, the Legislature declared the importance of a coordinated state program of defense conversion, and a coordinated effort to ensure that the state benefited from federal programs and assisted local governments to plan conversion. In order to achieve these goals, issues regarding title to these lands must be resolved.

Long-Term Plan Not Clear. While the work appears to be consistent with legislative direction, OPR's long-term plan for completing work on title resolution at other military bases is not clear at this time. The budget proposal will enable the SLC to perform title resolution work in 1995-96 at five specified bases out of the total 26 slated for closure. According to commission staff, criteria used by OPR in selecting these particular bases included the date of closure of the base and the impact of base closure on the local community.

However, it is not clear at this time what criteria OPR will use to select other bases, whether the SLC will be involved in additional title resolution work after 1995-96, or what the projected total cost to the state will be of conducting such work. For example, the U.S. Department of Defense will issue a draft list in March 1995 of military bases to be closed in the next round of closures. It is not known at this time if any bases on that list will require similar title resolution work.

Recommendation. Resolving issues of ownership on lands affected by military base closures will be critical to allowing the timely reuse of those lands. So that the Legislature may be apprised of the progress of these efforts to resolve title questions, we recommend that the State Lands Commission together with the Office of Planning and Research, report at budget hearings on their projections of the total cost of resolving title issues on all military bases proposed for closure and their schedule for completing this work.

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 \$165.7 million from all sources for support of the DFG in 1995-96. This is an increase of \$1.2 million, or 0.7 percent, from estimated current-year expenditures.

Budget Request Will Be Amended

We withhold recommendation on \$75.5 million from the Fish and Game Preservation Fund (Item 3600-001-200) because the department indicates that it will propose a significant amendment to the budget.

The Fish and Game Preservation Fund (FGPF) accounts for a significant portion—about 46 percent—of the DFG's proposed support level for 1995-96. This fund receives revenues primarily from the sale of hunting and sportfishing licenses, commercial fishing permit fees, landing taxes, and environmental review fees paid by development project applicants. The budget requests \$75.5 million from the FGPF for support of the department in 1995-96.

Budget Request Will Be Significantly Amended. The department and the Department of Finance (DOF) indicate that they will propose to significantly amend the department's budget, for both 1994-95 and 1995-96, in the spring of 1995. Specifically, DOF advises that it will submit to the Legislature during the May Revision process a request to amend both the current-year budget—through a request to transfer funds between categories, programs or projects (a Section 6.50 request)—and the proposed 1995-96 budget, through a Finance Letter.

The DFG and DOF indicate that the expenditure reductions and redirections proposed in these current-year and budget-year amendments will total about \$10 million. It is our understanding, however, that there will be no net increase in the department's 1995-96 budget

request. There are two reasons why DFG and DOF will propose to amend the budget.

- **Budget-Year Costs Unknown.** First, the exact amount of some budget-year costs was unknown when the budget was proposed in January 1995. For example, the department currently projects total costs (in the budget and current years combined) of up to \$800,000 for settlement of recent litigation brought under the Fair Labor Standards Act (FLSA). However, the department indicates that this amount could increase substantially—by up to about \$8 million—depending on the number of employees who file for back pay under FLSA.
- **Department Preparing Strategic Plan.** The department is currently developing a strategic plan which will be released in February 1995. The department indicates that this plan may have a significant impact on the allocation of departmental resources and priorities.

Recommendation. The DOF and DFG will submit amendments to the department's 1994-95 and 1995-96 budgets, at the May Revision, which will depend in large part on the contents of the department's strategic plan and its revised estimates of potential budget-year costs. Pending receipt of this revised budget information, we withhold recommendation on \$75.5 million in the FGPF (Item 3600-001-200). We further recommend that the department report at budget hearings on the status of its strategic plan, and its current projections of its 1995-96 expenditures.

Request for Permanent NCCP Program Not Justified

We recommend that the request to make permanent the positions in the department's Natural Community Conservation Planning (NCCP) pilot program be denied, because (1) the program still is not sufficiently funded by reimbursements as required by current law and (2) the department has consistently failed to provide information requested by the Legislature that would enable an evaluation of the success of the pilot program to date and the merits of making it permanent.

Chapter 765, Statutes of 1991 (AB 2172, Kelley)—known as the Natural Community Conservation Planning (NCCP) Act—authorized the department to assist public and private agencies in preparing and implementing natural community conservation plans. These plans are intended to facilitate economic development, while also protecting wildlife and plant species and their habitat.

One underlying premise of the program is that landowners benefit from the program (and are therefore willing to participate in it) since it

provides greater certainty about where and how their development projects may occur. This is because, although the measure does not exempt development projects from the requirements of the California Environmental Quality Act (CEQA), it is designed, in the long run, to shorten the CEQA process for individual projects. Chapter 765 requires that the department be reimbursed for the costs it incurs in participating in the development and implementation of natural community conservation plans.

Legislative Concerns Over Objectives and Funding of Pilot Program. The administration initiated the NCCP program in Southern California in 1991 as a pilot program, and indicated that the program would be expanded statewide if it proved successful. In the 1992 Budget Act, however, the Legislature, concerned about the scope of the pilot project, the lack of goals and objectives, and the lack of a reimbursement plan, reduced funding for the program from the requested level of \$1.8 million to \$362,000. The Legislature also required that the department report quarterly on the NCCP program's activities in order to measure its progress and evaluate staffing and funding for the program. Information to be provided include a schedule for collection of reimbursements, a schedule for the development of program guidelines and standards, specific program objectives for the following quarter, and progress in meeting these objectives.

Budget Proposal. For 1995-96, the budget requests that the 16 positions in the pilot program be converted from limited-term to permanent status. These positions would continue to perform the following functions: (1) resources inventory and preliminary planning, (2) mitigation negotiations and agreements, (3) interim monitoring and review, (4) scientific monitoring and threat assessment, and (5) statewide coordination and oversight. According to the department, making the positions permanent will maintain the department's credibility as a committed partner in the program. We have two concerns with this proposal.

Proposal Still Fails to Include Sufficient Cost Reimbursements. As indicated above, Chapter 765 requires that the DFG be fully compensated for its actual costs for participating in the preparation and implementation of natural community conservation plans. As we observed in our *Analysis of the 1993-94 Budget Bill* (p. B-50), it makes sense for project applicants to pay for the costs of developing plans, because in the long run, they benefit since those plans will shorten the environmental impact review (CEQA) process for individual projects, and facilitate development that is compatible with habitat protection. Indeed, program staff cite increased development in areas enrolled in the NCCP program as one indication that the program is achieving its objectives.

However, as Figure 10 indicates, reimbursements will account for only about 13 percent of the program's funding in 1995-96. This level is even lower than in 1993-94, when reimbursements covered about 18 percent of program costs.

Figure 10		
Department of Fish and Game Natural Community Conservation Planning 1995-96 Funding		
(Dollars in Thousands)		
Fund Source	Amount	Percentage of Total
General Fund	\$74.9	7.4%
Public Resources Account	192.0	19.0
Federal Trust Fund	177.5	17.5
Reimbursements	129.9	12.8
Fish and Game Preservation Fund	439.1	43.3
Totals	\$1,013.4	100.0%

Department Has Consistently Failed to Provide Requested Information. We also observed in our *Analysis of the 1993-94 Budget Bill* (p. B-50) that the DFG had not provided the Legislature with any of the quarterly reports on the NCCP program's goals, objectives, and progress requested in the *Supplemental Report of the 1992 Budget Act*, and that without this information, the Legislature did not have a basis for approving any increases in funding for the program.

Since 1993-94, the information provided on the program's status has continued to fall short of the Legislature's requirements. The department's single report on the program's progress in 1993 provided only a brief summary of the program's goals for 1994, no schedule for the development of reimbursement agreements, and no evaluation of the program's progress in meeting the objectives and timelines set forth in the previous report. Thus, the Legislature is being asked to make permanent a pilot program, without the information to assess the program's effectiveness.

Recommendation. Because DFG has not provided the Legislature with the required information to assess the effectiveness of the NCCP pilot program, and because the program is still insufficiently funded from reimbursements, we recommend that the request to make the limited-term positions permanent be denied. Rather, these positions should be continued on a limited-term basis until the Legislature can evaluate the success of the pilot program.

Marine Facilities Program Proposed For Transfer to Oil Spill Program

We recommend that both DFG and the State Lands Commission (SLC) report at budget hearings on (1) the merits of transferring the Marine Facilities program from the SLC to the DFG and (2) the extent to which this transfer achieves the Legislature's priority of preventing oil spills.

The proposed 1995-96 budget for DFG's Office of Oil Spill Prevention and Response (OSPR) totals \$19.1 million, including \$16.3 million from the Oil Spill Prevention and Administration Fund (OSPAP), \$2.1 million from the Oil Spill Response Fund (OSPF), and \$721,000 in reimbursements.

Budget Proposes to Transfer Marine Facilities Program to OSPR. As we discuss in the Crosscutting Issues section of this chapter, the budget proposes to transfer the Marine Facilities Management program in the SLC to OSPR. (This transfer is part of a broader reorganization of several Resources and Environmental Protection departments.) At the time this analysis was prepared, it was not possible to determine if this proposal has merit because the details of the plan have not been provided to the Legislature. For example, it was not clear how the transfer of staff between departments would be accomplished, or how the transferred program would be integrated into OSPR's current organizational structure.

The administration indicates that the proposed transfer of the Marine Facilities Management program will consolidate like functions, improve service, and reduce costs. We think that opportunities to consolidate state programs in order to improve efficiency and program effectiveness ought to be explored. In our Crosscutting Issues write-up, we discuss criteria that the Legislature may want to use in evaluating the proposed transfer, including efficiency, coordination, accountability, and comprehensiveness.

Legislature Distinguished Prevention From Response. Another criterion for evaluating such consolidations is whether the transfer meets legislative priorities. This criterion is especially relevant to the proposed transfer of the Marine Facilities program. This is because in enacting the Lempert-Keene-Seastrand Oil Spill Prevention and Response Act in 1990, the Legislature made an explicit distinction between the responsibility of *preventing* oil spills and the responsibility of *responding* to such spills, and placed emphasis on prevention in order to minimize the risk and consequences of oil spills.

- **Office of Oil Spill Prevention and Response.** The act charged OSPR with primary responsibility for implementing activities related to oil spill response, including developing and reviewing spill contingency plans, training personnel in response and cleanup operations, and conducting drills to test spill response. In both the current and the budget years, OSPR will also devote substantial resources to implement Ch 1202/93 (SB 775, Watson), which directs OSPR to establish regional rescue and rehabilitation facilities for oiled wildlife.

The OSPR's responsibilities related to prevention under the act include developing harbor safety committees, and adopting regulations to prevent spills from vessels. Although the act did not specifically assign responsibility for preventing spills resulting from bunkering (the fueling of vessels) and lightering (the transfer of oil between vessels), OSPR has also taken the lead on developing regulations in these areas.

- **State Lands Commission.** Under the act, the SLC is charged with responsibilities relating primarily to prevention of oil spills at marine facilities and marine terminals. (Marine facilities are those facilities other than vessels, which are located in marine waters and which store, process, transport, or transfer oil. Marine terminals are facilities specifically used for transferring oil to or from tankers or barges.) For example, the SLC adopts rules and regulations for the operation of marine facilities on lands leased by the commission, and for all marine terminals. The SLC also inspects marine facilities and terminals for compliance with these regulations, and reviews marine facility operations manuals.

Recommendation. We think that integrating the oil spill prevention activities of the SLC and OSPR could potentially improve implementation of the state's oil spill prevention and response programs. Because the Legislature has emphasized oil spill prevention as a priority, we recommend that DFG and the SLC report at budget hearings on the merits of transferring the Marine Facilities program from the SLC to the DFG, and the extent to which this transfer achieves that objective. This information will help the Legislature evaluate whether the proposed transfer is consistent with legislative priorities.

DEPARTMENT OF PARKS AND RECREATION (3790)

The Department of Parks and Recreation (DPR) acquires, develops, preserves, interprets, and manages the natural, cultural and recreational resources in the state park system and in the State Vehicular Recreation Area and Trail System. In addition, the department administers state and federal grants to cities, counties, and special districts that help provide parks and open-space areas throughout the state.

The state park system consists of 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 811 miles of lake, reservoir, and river frontage. During 1995-96, about 65 million visitor-days are anticipated at state parks and beaches operated by the department, up from an anticipated 64 million in 1994-95.

The budget proposes expenditures for the department totaling \$194.2 million for support and local assistance in 1995-96. This is a decrease of \$36.3 million, or 16 percent, from estimated current-year expenditures. Of the total expenditures, the budget requests \$179.6 million for support of the department, which is a net decrease of \$1.6 million, or 0.9 percent, from the estimated current-year level. In addition, the budget proposes \$14.6 million (from special, federal, and bond funds) for local assistance grants. This is a decrease of \$34.7 million, or 70 percent, below estimated current-year spending for local assistance. This decrease is due to the depletion of bond funds for these purposes.

As discussed in the Crosscutting Issues section of this chapter and below, the department is one of five departments selected by the administration for a pilot project in performance budgeting.

State Parks Support Relies on Beverage Container Funds

We recommend that the department report at budget hearings on the status of the analysis it is currently conducting on its support funding, and the level of services it can provide with that level of support. The department should also report on its expenditure priorities for 1995-96 in the event that revenues to the State Parks and Recreation Fund (SPRF) fall short of projections.

The DPR relies mainly on the State Parks and Recreation Fund (SPRF) and the General Fund for its support. The SPRF revenues are derived primarily from state beach and park service fees and concession revenues. Of the department's total proposed support expenditures (\$179.6 million) for 1995-96, \$48 million is from the General Fund, \$61.9 million is from revenues to the SPRF, and \$69.7 million is from other fund sources.

The budget proposes to transfer \$19.4 million from the California Beverage Container Recycling Fund (CBCRF) to the SPRF for support of the department in 1995-96. This is similar to other transfers from various special funds in recent years to the SPRF in order to provide sufficient funds to support the department's activities. These transfers are needed because of the reduction in General Fund support and the inadequacy of park fees and concession revenues (the main sources of revenues to the SPRF) to support the department.

Department's General Fund Support Has Fallen. Between 1990-91 and 1995-96, General Fund support for the department fell from \$70.9 million to \$48 million, a decrease of about \$22.9 million (or 32 percent). This decrease in General Fund support has left the department increasingly reliant on the SPRF and other funds for its support. As a consequence, in the past few years, the department has increased beach and park service fees in the hopes of increasing revenues to the SPRF. Despite that, our review shows that revenues from these fees have remained relatively flat over recent years. Figure 11 shows that annual beach and park service fee revenues peaked in 1991-92 at about \$50 million, and declined slightly in 1992-93 and 1993-94.

Our analysis indicates that in 1995-96, as in previous years, SPRF revenues will not be sufficient to fill the gap left by reduced General Fund support. In 1995-96, total SPRF revenues are projected to provide about \$61.9 million, or 34 percent, of the department's support. Our analysis indicates that actual revenues may fall short of even this level, however, because the methodology the department uses to project SPRF revenues has tended to overestimate revenues in recent years. Since 1991-92, for example, actual revenues have fallen short of the department's projections annually, by an average of \$9 million, or 15 percent.

Department Has Relied Heavily on Special Fund Transfers. Figure 12 shows the department's support expenditures since 1993-94 and how they are funded. As the figure indicates, the gap between SPRF revenues and the department's expenditures has been made up largely by transfers from various special funds, such as the Motor Vehicle Fuel Account (gasoline tax that would have been deposited into the Harbors and Watercraft Revolving Fund), the Off-Highway Vehicle Fund

Figure 11

**Department of Parks and Recreation Support Funding
1990-91 Through 1993-94**

(In Millions)

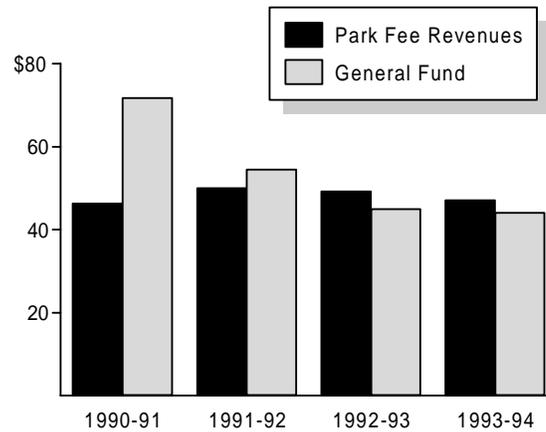


Figure 12

**Department of Parks and Recreation
Support Expenditures by Fund Source
1993-94 Through 1995-96**

(In Millions)

Fund	Actual 1993-94	Estimated 1994-95	Proposed 1995-96
General Fund	\$44.1	\$47.7	\$48.0
State Parks and Recreation Fund ^a	55.7	60.6	61.9
Motor Vehicle Fuel Account	13.5	14.2	11.6
Off-Highway Vehicle Fund	19.7	15.1	13.0
Harbors and Watercraft Revolving Fund	0.4	10.9	0.4
California Beverage Container Recycling Fund	—	—	19.4
Other	31.0	32.7	25.3
Totals	\$164.4	\$181.2	\$179.6

^a Does not include transfers into the fund from OHVF and CBCRF or from gasoline tax revenues which otherwise would have been transferred to the HWRF.

(OHVF), and the Harbors and Watercraft Revolving Fund (HWRF). In 1993-94, for example, \$19.7 million in OHVF money was used for department support, including \$8.9 million which was transferred to the SPRF.

Drawing on Special Funds Becoming More Difficult. In 1995-96, there will be less flexibility in using some of the special funds which have been used previously for the department's support. For example, the amount of OHVF funds available to support the department are declining in the budget year. This is because recent legislation—Ch 1004/94 (AB 3717, Costa)—made the OHVF a trust fund, which will tend to restrict the use of these funds to purposes specified in statute. Additionally, the budget proposes to use most of the funds in the HWRF for loans and grants related to boating facilities and enforcement under the Department of Boating and Waterways (DBW). Using funds from the HWRF for support of the DPR would require the Legislature to reduce expenditures proposed for the DBW.

Use of Beverage Container Funds Not Consistent With Statute. In order to maintain current levels of service in 1995-96 without increasing General Fund support for DPR, the budget proposes to use \$19.4 million from the CBCRF for support of the department. Our review indicates that this proposal is not consistent with the intent of the statute which created the CBCRF. Under that statute, CBCRF funds are to be used only for the beverage container recycling program.

Options for Increased Revenue Include Partnerships. As the economy revives, revenues from state beach and park service fees are likely to rise. The department is also pursuing opportunities to increase its revenues through other means, such as through public/private partnerships. For example, as one of the performance measures in its 1994-95 performance budgeting contract with the Legislature, the department committed to identifying five new concession or operating agreements each of which have the potential for at least \$500,000 in gross receipts. Relative to the level of funding required to maintain the department's support budget, however, such new sources of funding will not be adequate to address the funding problem and reduce to any significant degree the need for DPR to rely on other funding sources.

Longer Term Options for Cutting Expenditures May Be Limited. In past years, the department has managed to sustain budget cuts without having to significantly reduce service levels (for example, closing parks) by deferring expenditures, such as operations and maintenance. The ability of the department to continue such deferrals is limited, and does not provide a long-term solution to the department's funding problems. Other potential cost-cutting measures include transferring some parks to local agencies or reducing park service levels, such as shortening hours of operation.

Recommendation. The department faces the long-term challenge of establishing stable sources of support funding, and a level of operations commensurate with that level of funding. The Governor's Budget indicates that the department is currently conducting a thorough review of its financial support structure, and the level and type of park system that this structure can maintain in the long-term. We recommend that the department report at budget hearings on the results of this review and the department's expenditure priorities for 1995-96 in the event that SPRF revenues are lower than projected.

Performance Budgeting Moves Ahead

The department is one of five departments selected by the administration for a pilot project in performance budgeting. We recommend that the department report at budget hearings on its proposed budget contract with the Legislature for 1995-96, and the current status of its performance budgeting efforts.

In 1992-93, the department was selected by the administration as one of four departments to undertake a pilot project to test performance budgeting. (Currently, there are five departments in the pilot, since two departments have been added since 1992-93, and one of the original pilot departments is no longer a participant.) In 1994-95, the department entered into a Memorandum of Understanding (MOU) with the Legislature, contained in the *Supplemental Report of the 1994 Budget Act*, in which the department committed to begin to implement performance budgeting in 1994-95 and to meet specified performance measures.

In our write-up on performance budgeting in the Crosscutting Issues section of this chapter, we review the status of the pilot project to date. We also discuss various issues that need to be resolved in order to make the pilot a successful one, including the need to develop meaningful performance measures.

In order that the Legislature can review the department's experience, we recommend that the department report at budget hearings on its proposed budget contract with the Legislature for 1995-96, and the current status of its performance budgeting efforts.

SANTA MONICA MOUNTAINS CONSERVANCY (3810)

The Santa Monica Mountains Conservancy (SMMC) purchases lands and provides grants to state and local agencies and nonprofit organizations to conserve open space and improve recreational opportunities in the Santa Monica Mountains Zone and the "Rim of the Valley Corridor" adjacent to the San Fernando Valley. It promotes these objectives by (1) acquiring and consolidating subdivided land, (2) acquiring land for eventual sale or transfer to other public agencies, (3) creating buffer zones surrounding federal and state park sites, (4) restoring natural resource areas, and (5) implementing programs to improve access from surrounding inner city areas.

The budget for 1995-96 requests a total of \$578,000 for support of the conservancy, a decrease of \$51,000 from the current-year level. This amount includes \$100,000 from the General Fund, \$438,000 from the Santa Monica Mountains Conservancy Fund (SMMCF), and \$40,000 from reimbursements. Funds in the SMMCF primarily come from reimbursements from the Mountains Recreation and Conservation Authority (MRCA) and sales of conservancy property. The MRCA is a joint powers authority made up of the conservancy and two local recreation and park districts in the Santa Monica Mountains area. Conservancy staff indicate that by receiving General Fund support, the SMMC is entitled to receive free legal representation from the Attorney General, up to a specified allotment of hours, for which the conservancy would otherwise have to pay.

The budget proposes no capital outlay expenditures by the conservancy in 1995-96, down from estimated capital outlay expenditures in 1994-95 of \$11 million. Under Proposition 117, the California Wildlife Protection Act of 1990, the conservancy received \$10 million annually for capital outlay for five years beginning in 1990-91. The current year is the final year of this \$10 million annual allocation.

Proposed General Fund Support Is Inconsistent With Legislative Direction

We recommend that the request for \$100,000 from the General Fund to support the conservancy be deleted because the request is inconsistent with legislative intent that beginning July 1, 1995, no General Fund money be appropriated for support of the conservancy. We further recommend that the conservancy report at budget hearings on its efforts over the last two years to reduce its reliance on General Fund support. (Eliminate Item 3810-001-001 for \$100,000.)

Proposal to Use General Fund Is Inconsistent With Legislative Direction. Chapter 1304, Statutes of 1992 (AB 3248, T. Friedman) eliminated the July 1, 1995 "sunset" requirement in law for the SMMC, thereby permanently establishing the conservancy. However, Chapter 1304 also declared legislative intent that, beginning July 1, 1995, no money should be appropriated from the General Fund for the support of the conservancy. Instead, other funding sources should be utilized, including the SMMCF, other special funds, donations, and local funding sources. Additionally, Chapter 1304 specified that in order to ensure an orderly transfer of funding sources, the conservancy should reduce operations to compensate for the loss of General Fund support or seek additional non-General Fund sources of revenue.

Proposed Level of Support Funding Not Justified by Capital Outlay Workload. The budget proposes *no* capital outlay expenditures by the conservancy in 1995-96. This, as indicated above, is because beginning in 1995-96, the conservancy will no longer receive funds allocated by Proposition 117. In past years, developing and implementing capital outlay projects, such as acquiring and restoring open space, accounted for most of the conservancy's workload. Relatively little of the conservancy's support costs have been for ongoing property maintenance. However, the level of support funding proposed for 1995-96 has not been adjusted to reflect this decline in capital outlay workload. Instead, proposed support funding is only \$51,000, or 8 percent, below estimated current-year expenditures. Given the significant decline in the conservancy's 1995-96 capital outlay expenditures relative to prior years, it is not clear that the proposed level of support funding is justified.

Recommendation. Given legislative direction and the decrease in workload projected for 1995-96, we do not believe that the request for \$100,000 from the General Fund for conservancy support is justified. Accordingly, we recommend the elimination of \$100,000 in General Fund support for the conservancy. We further recommend that the conservancy report at budget hearings on its efforts over the last two years to reduce its reliance on General Fund support.

SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION (3820)

The San Francisco Bay Conservation and Development Commission (BCDC) implements and updates the San Francisco Bay Plan and the Suisun Marsh Protection Plan. Under these plans, the BCDC regulates: (1) all filling and dredging activities in the San Francisco, San Pablo, and Suisun Bays including specified sloughs, creeks, and tributaries; (2) changes in the use of salt ponds and other “managed wetlands” adjacent to the bay; and (3) significant changes in land use within the 100-foot strip inland from the bay.

The budget requests a total of \$1.2 million for support of the BCDC in 1995-96. This is a decrease of \$1.3 million, or 52 percent, below current-year estimated expenditures. This level of funding reflects the administration's proposal to eliminate the BCDC beginning January 1, 1996, as discussed below.

Administration Rethinking Proposal to Eliminate BCDC

We recommend that the Secretary for Resources report at budget hearings on the current status of the proposal to eliminate the BCDC starting January 1, 1996. If it appears at that point that the administration will either withdraw the proposal to eliminate the BCDC or will require more time to study the proposal, then we recommend that full-year funding for the BCDC be reestablished. If legislation to eliminate or restructure the BCDC is subsequently enacted, the Budget Act should be amended accordingly.

Budget Request. The budget proposes to eliminate the BCDC, starting January 1996, and transfer its functions to the California Coastal Commission and the San Francisco Regional Water Quality Control Board. The administration's goal, according to the budget, is to consolidate similar functions, reduce costs, and improve services to clients and customers. Reflecting this proposal, the budget proposes to fund the BCDC only for the first half of 1995-96.

Administration Rethinking Budget Proposal. The budget indicates that the BCDC will be eliminated through either a Governor's Reorganization Plan or other legislation. (Please see our Crosscutting Issues section in this chapter on the proposal to reorganize several Resources and Environmen-

tal Protection departments.) At the time this analysis was prepared, the administration had not submitted its reorganization plan to the Legislature.

However, the administration now indicates that it is rethinking the proposal to eliminate the commission. Specifically, the Resources Agency indicates that it will conduct a study of the proposal to eliminate the BCDC, including an examination of any overlap between the BCDC and the Coastal Commission. The agency anticipates that this study will be completed by the end of April 1995. Depending on the results of this study, the administration may either pursue, modify, or withdraw the proposal to eliminate the BCDC.

Recommendation. Given that it is not certain when the administration's study of the BCDC will be complete, we recommend that the Secretary for Resources report at budget hearings on the status of the study and the proposal to eliminate the BCDC. If it appears at that point that the administration will either withdraw the proposal to eliminate the BCDC or will require more time to study the proposal, then we recommend that full-year funding for the BCDC be reestablished. If legislation to eliminate or restructure the BCDC is subsequently enacted, the Budget Act should be amended accordingly.

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 \$971.7 million in 1995-96, a decrease of \$133.4 million, or 12 percent, from estimated current-year expenditures. Total expenditures include \$861.7 million in expenditures financed with SWP funds and \$35.7 million in bond funds for safe drinking water loans and grants. Appropriations in the Budget Bill provide the remaining \$74.3 million, of which \$23.9 million is from the General Fund. The General Fund amount is \$4.7 million, or 24 percent, more than estimated current-year General Fund expenditures.

Use of Harbors and Watercraft Funds for Delta Flood Protection Inconsistent With Statute

The budget proposes \$2.8 million from the Harbors and Watercraft Revolving Fund (HWRF) for local subventions for Delta flood protection and control. We recommend that the department report at budget hearings on why this is an appropriate use of HWRF funds, and why the department is not funding Delta flood protection fully out of the California Water Fund (CWF), as it has in previous years.

Harbors and Watercraft Funds Will Be Used for Delta Flood Protection. Current law—Ch 28/88 (SB 34, Boatwright)—declares the Legislature's intent to transfer \$12 million annually from the CWF to the Delta Flood Protection Fund (DFPF) for Delta flood protection uses. For 1995-96, the budget proposes \$7.3 million from the CWF for local subventions for Delta flood protection and control. (This amount will first be transferred into the DFPF.)

The proposed expenditures represents a decrease of \$3.3 million (or 31 percent) from the current-year level of \$10.6 million. To partially off-set that reduction, the budget also proposes \$2.8 million from the HWRF for local subventions for Delta flood protection. Thus, the total funding for Delta flood protection local assistance will be \$10.1 million, or about

\$519,000 (4.9 percent) less than total funding in 1994-95.

Use of Harbors and Watercraft Funds Inconsistent With Statute. The department indicates that HWRF funds will be used to repair and rebuild levies in the Delta, which will protect navigable waterways, watercraft harbored in the Delta, and public facilities such as marinas and harbors. Thus, according to the department, the proposal to use HWRF for Delta flood protection is justified.

However, our analysis indicates that under current law, the department may not be eligible to use HWRF funds. This is because current law specifies that HWRF funds are available upon appropriation to the Department of Boating and Waterways—for boating facilities development, boating safety, and boating regulation programs—and to the Department of Parks and Recreation, for the operation and maintenance of units of the state park system that have boating-related activities. The DWR is not one of the departments specified by statute as eligible to use HWRF money. Accordingly, we recommend that DWR report at budget hearings on its proposed use of HWRF funds for local flood control subventions, and the appropriateness of that fund source given statutory direction on the use of these funds.

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. Major recycling programs include used oil and tire recycling and the development of markets for recycled goods. The CIWMB approves local solid waste management plans which must show how 25 percent of solid waste will be diverted from landfills by 1995—a goal that the board projects will be met. By 2000, the local plans must meet a 50 percent waste diversion goal. The CIWMB also protects public health and safety through regulation of existing and new solid waste land disposal sites.

The budget requests total expenditures of \$245.7 million from various funds for support of the CIWMB in 1995-96. This amount is \$170.1 million, or 225 percent, more than estimated current-year expenditures. The increase results primarily from (1) the transfer of the Beverage Container Recycling and Litter Reduction program (\$172.2 million) from the Department of Conservation to the CIWMB on January 1, 1996, as part of the Governor's proposal to reorganize various resources programs, and (2) an increase of \$1.9 million from the Recycling Market Development Revolving Loan Account to expand the Recycling Market Development Zone Loan program to develop markets for businesses using recycled materials.

Budget Proposes to Transfer Additional Recycling Program to Restructured Waste Board

At the time this analysis was prepared, it was not possible to determine if the Governor's reorganization proposal for five resources and environmental protection departments—including the CIWMB—has merit because the details of the plan have not been provided to the Legislature. If it appears that the Governor's reorganization plan will not be submitted to the Legislature in time for full consideration before the Budget Act is adopted, we recommend that full-year funding for the

CIWMB, with its current structure and recycling program, be reestablished in the existing budget items for the CIWMB and that the Budget Act be amended if legislation to restructure the CIWMB is subsequently enacted.

As we discuss in the Crosscutting Issues section of this chapter, the budget proposes to, as of January 1, 1996, (1) reorganize the CIWMB's board from a six-member, full-time board into a five-member, mainly part-time board (the consequences of which are discussed immediately below), and (2) transfer the Beverage Container Recycling program from the Department of Conservation to the CIWMB. The budget of the CIWMB reflects (1) savings from the reduced board size and (2) the transfer of costs and funding to the CIWMB for the Beverage Container Recycling program for the second half of 1995-96.

Given that it is not certain when the reorganization plan will ultimately be presented to the Legislature, we recommend that the Secretary for Environmental Protection report at budget hearings on the plan and its status. If it appears at that point that the plan will not be submitted to the Legislature in time for consideration before the Budget Act is adopted, then we recommend that full-year funding for the CIWMB, with its current structure and recycling program, be reestablished. If legislation is subsequently enacted to restructure the board and the recycling program, the Budget Act should be amended accordingly at that time.

Part-Time Board With Smaller Staff Proposed

The Governor's proposal to reorganize the CIWMB's board from its current structure with six full-time members into a five-member, mainly part-time, board will have a number of consequences, including significant savings.

Currently, the CIWMB's board consists of six full-time members, with 18 personal staff (advisors, committee analysts, and secretaries). In 1994-95, board member salaries, support staff costs, and related operating expenses totaled \$2.1 million. The 18 personal staff are in addition to the staff who carry out the day-to-day analysis, review, and enforcement activities of the CIWMB.

The Governor's reorganization plan proposes, as of January 1, 1996, to change the board into a five-member board (of which four members are part-time). It also reduces the personal staff of the board from 18 to 4 personnel.

Consequences of a Smaller Board. Based on our review, we conclude that this proposal will have the following effects:

- **Budgetary Savings.** Eliminating one board member and reducing the number of personal staff will result in full-year savings of about \$1.5 million from the current structure.
- **Reduction of Voting Stalemates.** Reducing the board's membership from six to five members will reduce the possibility of voting stalemates, which have occurred with an even number of members.
- **More Timely Decision-Making.** Reducing the number of individual board members' advisors will eliminate overlap and duplication with the staff of the CIWMB, thereby potentially reducing the amount of time required for board decisions.

Some have argued that the CIWMB may be less effective and efficient as a part-time board. We believe in this particular instance, a part-time board can operate just as effectively as a full-time board, as in the case of the Air Resources Board. Staff of the CIWMB would continue to assist board members in reviewing and approving local solid waste plans; reviewing permit approvals by local agencies; holding hearings for permit appeals and permit violations; and acting as an enforcement agency in a few local jurisdictions.

Report to Legislature Projects Revenue Declines

Revenues to the Integrated Waste Management Account (IWMA) are projected to continue to decline over the next several years and are not likely to be sufficient to maintain current program levels by 1996-97. We recommend that the CIWMB report, at budget hearings, on the various revenue generating and expenditure reduction options to avert an IWMA funding shortfall.

The *Supplemental Report of the 1994 Budget Act* directed the CIWMB to report on five-year revenue projections for the Integrated Waste Management Account (IWMA). At the time this analysis was prepared, a final report has not been submitted. Only a draft report was available for review.

The IWMA is the primary source of funding for the CIWMB's permitting and enforcement functions and its waste reduction and resource recovery program. The account derives its revenues primarily from integrated waste management fees (a surcharge on "tipping fees") levied on operators of solid waste landfills.

A History of Declining, Unstable Revenues. The IWMA has a history of being a declining, unstable revenue source. In part, this situation reflects the direct relationship between the amount of tipping fees collected and the state of the economy. Accordingly, as the economy declined, so

did the revenue from the state surcharge on tipping fees. In addition, as the CIWMB successfully fulfills its mandate to divert waste from landfills, revenues associated with tipping fees will continue to decline over time.

Revenue Declines Over Next Six Years Projected to Be Significant. The budget projects IWMA fee revenues of \$47.7 million in 1995-96, an increase of \$1.6 million (3.5 percent) over estimated current-year revenues. However, as shown in Figure 13, IWMA fee revenues are projected by the CIWMB to decline significantly from 1996-97 through 2000-01. The figure shows the CIWMB's projections for IWMA revenues for 1996-97 through 2000-01, using (1) the current fee level of \$1.34 per ton of waste disposed at a landfill and (2) the maximum fee allowable under current law of \$1.40 per ton. The figure shows "high," "medium," and "low" revenue scenarios. The revenue scenarios are based on assumptions about the timing of economic recovery, the degree to which the waste diversion goals are met, and the level of out-of-state export of waste (such waste is not subject to the tipping fee surcharge).

Figure 13

**Integrated Waste Management Account
Projected Fee Revenues
1996-97 Through 2000-01**

(In Millions)

Revenue Scenario	1996-97	1997-98	1998-99	1999-2000	2000-01
Current Tipping Fee at \$1.34 per ton:					
High	\$42.6	\$40.9	\$39.0	\$36.9	\$34.7
Medium	39.7	37.2	34.9	32.4	29.6
Low	36.1	33.9	30.8	27.8	24.6
Maximum Tipping Fee at \$1.40 per ton:					
High	\$44.5	\$42.7	\$40.8	\$38.6	\$36.2
Medium	41.5	38.9	36.5	33.8	30.9
Low	37.7	35.4	32.2	29.1	25.7

At the current fee level, total revenues could decline by \$5.1 million (high scenario) to \$11.6 million (low scenario) between 1995-96 and 1996-97. Figure 13 also shows that between 1995-96 and 2000-01, revenues are projected to decline by \$11.5 million (24 percent) under the high revenue scenario with a \$1.40 per ton tipping fee surcharge and by \$23.1 million (48 percent) under the low revenue scenario with the current \$1.34 per ton surcharge. The percentage reductions in the real purchasing power of the account would be even greater, when adjusted for inflation.

Options Need to Be Considered. The budget proposes \$49.6 million of expenditures and transfers from the IWMA in 1995-96 for support of the CIWMB (\$39.4 million) and other state and local agencies (\$10.2 million) for activities related to the CIWMB's work. Our review shows that even under the most optimistic scenario, with the tipping fee surcharge set at \$1.40 per ton, revenues projected for 1996-97 (\$44.5 million) will not be sufficient to support a program level that is the same as in the current year or proposed for the budget year. To the extent revenues are lower, a potentially significant funding shortfall could occur.

In the draft report, the CIWMB evaluated a number of fee options which would supplement the tipping fee revenues, including (1) an increase in the tipping fee surcharge; (2) a fee—such as an “advanced disposal fee”—tied to the amount of packages or products produced or sold; (3) a fee tied to revenues, sales or profits of waste-generating producers and retailers; and (4) a fee system related to solid waste facility permitting. The CIWMB found an increase in the tipping fee surcharge and a new permit fee system to be the easiest to implement and the least disruptive. The other funding options—such as the advanced disposal fee—could potentially raise substantial revenues, but would be more complex to administer, in part because the base of fee payers would be much larger.

In order that the Legislature may consider the alternatives examined in the report, we recommend that the CIWMB discuss, at budget hearings, the various revenue generating options and expenditure reduction options for averting a funding shortfall.

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 \$283 million from various funds for support of the SWRCB in 1995-96. This is a reduction of \$4.8 million, or 1.7 percent, from estimated current-year expenditures. The decrease results primarily from (1) a reduction of \$12.3 million in local assistance for water reclamation activities and for the construction of publicly owned wastewater treatment and storm drainage facilities, mainly due to a depletion of bond funds, and (2) an increase of \$10 million to expand the Underground Storage Tank Cleanup Fund program.

Board Addresses Regulatory Program Backlogs

The board's plan to reduce backlogs in the renewal and update of permits issued to dischargers of waste appears reasonable. The board also is developing a plan to reduce backlogs in the processing of water rights and licenses. We recommend that the board report, at budget hearings, on the status of this plan.

Due to concern over the extent of backlogs in both the board's water quality and water rights program, the Legislature, in the *Supplemental*

Report of the 1994 Budget Act, required the board to report on a three-year plan to reduce backlogs in these programs by at least 80 percent.

Core Water Quality Regulatory Program. The budget proposes \$27.6 million (or 9.8 percent of the SWRCB's total expenditures) for support of the board's core water quality regulatory program. This amount is the same as estimated current-year expenditures. The board's core water quality 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 about 1,650 dischargers of waste into the state's streams, rivers, lakes, and coastal waters. Federal law requires these permits to be renewed every five years.
- **Chapter 15 Program—Waste Discharge Requirements.** Under this program, the board regulates about 915 dischargers of waste to waste management units such as landfills. The regional boards issue Waste Discharge Requirements (referred to as Chapter 15 WDRs) which are updated periodically based on the relative threat to water quality of the permittees' activities.
- **Non-Chapter 15 Program—Waste Discharge Requirements.** Pursuant to the Porter-Cologne Water Quality Control Act, the board regulates about 4,100 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 are updated periodically.

Backlogs in Renewal and Update of Water Quality Permits. As we discussed in the *Analysis of the 1994-95 Budget Bill* (page B-61), significant backlogs have developed over the last several years in permit renewal and update. These backlogs reflect the fact that the board has had to process an increasing number of permit applications and incorporate various federal and state law changes into the permits, while funding and staffing has remained relatively stable.

Figure 14 shows the extent of the backlog in the core water quality program in 1993-94, and as anticipated for the current and budget years. As this figure shows, the board anticipates that backlogs will be reduced in the current year. The board anticipates this current-year reduction as a result of both the implementation of the administrative initiatives in its four-year plan to reduce backlogs (discussed below) and its recent decision to change the time schedule for updating waste discharge requirements. Formerly, the board had updated WDRs every three, five, or ten

years, based on the relative threat to water quality of a particular discharge of waste. For 1994-95 and future years, the board has revised this update schedule—an administrative goal that is not required by statute—to every 5, 10, or 15 years. The significant decrease in backlogs in the update of WDRs between 1993-94 and 1994-95 reflects this scheduling change which thereby redefines a “backlog.” The board has stated that a WDR will be reviewed and updated if the threat to water quality so dictates, regardless of the schedule for updates.

Figure 14

**State Water Resources Control Board
Water Quality Core Regulatory Program Backlog
1993-94 Through 1995-96**

Program	Backlog at End of Year		
	1993-94	Estimated 1994-95	Projected 1995-96
NPDES ^a	352	167	47
Chapter 15 ^b	691	187 ^d	107
Non-Chapter 15 ^c	1,503	418 ^d	250
Totals	2,546	772	404

^a National Pollutant Discharge Elimination System.

^b Chapter 15, Title 23, California Code of Regulations.

^c Pursuant to Porter-Cologne Water Quality Control Act.

^d “Backlog” redefined given administratively changed timeframe for updating WDRs.

Plan for Reducing Water Quality Core Program Backlogs. The board has a four-year plan (1994-95 through 1997-98) to eliminate backlogs in the renewal of NPDES permits and to reduce backlogs in the update of WDRs (Chapter 15 and Non-Chapter 15) by at least 80 percent, by the end of 1997-98. The plan proposes to reduce the backlogs through workload adjustments and various administrative initiatives to simplify and expedite the permitting process. While the plan does not rely on increased funding, it does assume that staffing will be maintained at current levels. The major components of the plan are as follows:

- Increasing the use of “general” permits. (These are permits that can be adopted for use by several dischargers, where there is similarity in the nature of the discharge or compliance requirements.)
- Ongoing training for permit writers.

- Developing standard application forms and model permit language.
- Using retired annuitants under the supervision of the board to specifically address backlogs in the renewal of NPDES permits in the two regional boards with the largest backlogs.
- Rescinding permits which are unneeded to protect water quality.

Our review shows that the board's plan for reducing backlogs in its core water quality regulatory program is reasonable. In particular, we think that wider use of general permits has merit, particularly in cases where routine discharges involve only minimal environmental threat. The use of general permits will reduce the regional boards' workload by decreasing the need to process several separate permit applications and the subsequent renewals or updates.

Water Rights Program. The budget proposes \$8.1 million, including \$7.3 million from the General Fund, for support of the board's water rights program. This amount is the same as estimated current-year expenditures. The board's water rights program processes applications, and conducts hearings and environmental reviews, for parties requesting a permit to divert and use the state's surface waters. Once a permit ("water right") is issued and the applicant completes the project and begins using the water, the board issues a license as a confirmation of the water right. Due to limited funding, the board generally does not perform compliance inspections—an activity not required by law. Currently, there are over 12,600 water rights permits and licenses in the state.

Backlogs Throughout Water Rights Program. As discussed in the *Analysis of the 1994-95 Budget Bill* (page B-65), significant backlogs have developed over the last several years in all areas of the board's water rights program. Backlogs have resulted from the increasingly complex environmental reviews of water diversions and increasing complaints, while funding has remained relatively stable. Figure 15 shows the extent of the backlog in the water rights program in 1993-94, and as anticipated for the current and budget years.

The Board's Plan for Reducing Water Rights Backlogs. In its report, the board noted several recent developments that will help to reduce backlogs. These developments include the on-going enhancement of the Division of Water Rights' information management system, and the implementation of legislation which enables small diverters of water to use an expedited application process for water rights.

Figure 15

**State Water Resources Control Board
Water Rights Program Backlog
1993-94 Through 1995-96**

	Backlog at End of Year		
	1993-94	Estimated 1994-95	Projected 1995-96
Applications for water rights	280	260	250
Hearings on unresolved petitions	60	10	10
Environmental impact report review	620	42	17
License issuance	935	792	682
Requests for project changes	410	175	215

While Figure 15 does reflect a drop in the backlog in most areas of the program, there will still be a sizeable backlog by the end of 1995-96. In fact, the backlog in the requests for the project changes area will actually increase. At the time this analysis was prepared, the board was in the process of developing a final workplan for reduction of backlogs in the water rights program. This workplan will be complete by May 1995. We recommend that the board report, at budget hearings, on the status of its workplan, and discuss what additional measures it can take to further reduce the backlog and, in particular, the backlog in requests for project changes.

Long-Term Solution Needed for Support of Water Quality Management Program

The budget request for \$5 million from the Waste Discharge Permit Fund (WDPF) to support the Water Quality Management (WQM) program is reasonable. We recommend the adoption of supplemental report language requiring the board to report by November 1, 1995 on options for alternative funding sources and program reductions that might be made in order to support the WQM program in 1996-97 and future years.

The board's Water Quality Management (WQM) program assesses the state's water quality in order to update the water quality standards and plans which form the basis of the board's permitting program. The primary funding source for the program has been various bond funds. In the current year, expenditures for the program are estimated at \$3.2 million,

about 60 percent less than the prior two years. These bond funds will be depleted by the end of the current year.

The budget for 1995-96 requests \$5 million from the WDPF to replace the bond funds which have supported the WQM program. Our review finds that this request is reasonable, and that the proposed use of WDPF funds is within statutory authority. Furthermore, the request would reduce the likelihood of the board's overall mission being compromised. For example, it will reduce the likelihood of permit backlogs which would result if permit writers, not able to rely on statewide standards, have to determine discharge limits on a case-by-case basis.

Our review, however, also shows that the budget year request will be funded from the existing reserve of the WDPF. This, together with other proposed expenditures, will essentially exhaust resources in the fund, leaving a balance of less than \$1 million in the fund by the end of 1995-96. Based on the past revenue stream to the WDPF, there will not be sufficient resources in 1996-97 to maintain the WQM program and all other functions at the 1995-96 level.

The board is currently developing long-term funding options as part of its strategic planning efforts. We think that as part of this effort, the board ought to consider the merit of revising the current waste discharge permit fee structure. For instance, the current fee—capped by statute—does not recover a majority of the board's administrative costs of permitting dischargers. In addition, the board should consider reductions that might be made in various program areas supported by the WDPF in order to support the WQM program. The board's review of these options will provide better information for the Legislature to determine how best to fund the board's activities in 1996-97 and future years. Accordingly, we recommend that the Legislature adopt the following supplemental report language:

The State Water Resources Control Board shall submit, by November 1, 1995, a report to the Legislature recommending specific options to address the funding requirements for the board's Water Quality Management (WQM) program in 1996-97 and future years. In its report, the board shall consider, among other options, (1) the merit of revising the waste discharge permit fee structure, including changes to the current cap on the waste discharge fee set in statute, and changes to make the fee more reflective of the board's administrative costs associated with individual dischargers, and (2) reductions that might be made in various program areas that are supported by the Water Discharge Permit Fund in order to provide funding for the WQM program.

Underground Storage Tank Cleanup Program Has Significant Backlogs

The board's program which reimburses owners of leaking underground storage tanks for cleanup costs has significant backlogs in the administration of claims, particularly in the issuance of letters of commitment. We recommend that the board report, at budget hearings, on how the budget's proposal to increase staffing for this program by 19.5 personnel-years in 1995-96 addresses this backlog problem.

The Underground Storage Tank Cleanup Fund (USTCF) is administered by the board to reimburse owners of leaking underground storage tanks for cleanup costs. The USTCF is funded by a per gallon storage fee levied on tank owners. The board estimates that there are about 20,000 leaking tanks (20 percent of all tanks) in the state requiring cleanup. By the end of the current year, the board anticipates having received about 10,200 claims, and it anticipates receiving about 1,300 new claims annually in future years. The program's sunset date is 2005, unless extended by statute.

Currently, to process a claim for reimbursement from the USTCF, the board does the following:

- Review the claim to determine whether to accept and place claim on "priority list" or to reject.
- Issue a letter of commitment to fund a claim on the priority list (at this point, funds are encumbered for future payment).
- Receive and process payment requests as a cleanup project progresses.
- Make payments or return payment requests.

Figure 16 (see next page) shows the board's workload and ending "backlog" in its claims process for 1993-94 through 1995-96. As the figure shows, significant backlogs exist in all areas of the claims process. The largest backlog exists in the issuance of letters of commitment for claims that have been reviewed and put on the "priority list." By the end of 1994-95, the board anticipates having issued letters of commitment to only 2,648 out of the 7,661 claims that will have been put on the priority list.

The budget proposes expenditures of \$143.6 million from the USTCF for the underground tank cleanup fund program in 1995-96. This is an increase of \$10 million (and 19.5 personnel-years) over estimated current-year expenditures. Of this \$10 million, \$8.8 million is for claim reimbursements, with the balance for the administration of the fund.

Figure 16			
State Water Resources Control Board Underground Storage Tank Cleanup Fund Backlogs in Claims Processing 1993-94 Through 1995-96			
Claims Process	1993-94	Estimated 1994-95	Projected 1995-96
Claim Review:			
New claims received	1,077	1,498	1,300
Claims reviewed	1,431	1,458	1,375
Ending backlog	799	839	764
Letters of Commitment:			
Letters issued	1,185	1,017	1,300
Ending backlog	4,643	5,013	5,013
Payments:			
New payment requests	1,548	2,405	2,550
Payments made/requests returned	1,438	2,201	2,400
Ending backlog	218	422	572

The board anticipates that the number of claims will increase as a result of Ch 1191/94 (SB 1764, Thompson). This increase is due to a number of factors, including lowering or eliminating the deductible for certain claimants, thereby enabling claims of lower amounts (previously not claimed) to be made.

We believe that the amount requested for the USTCF program is reasonable. However, to the extent Chapter 1191 increases workload by increasing the number of claims, there will be an impact on current backlogs. In its budget proposal, the board has not specifically addressed how the backlogs in the various stages of the claims process—the issuance of letters of commitment in particular—might be reduced given the higher level of staffing that is requested. Therefore, we recommend that the board report, at budget hearings, on how it proposes to use the requested staff to address the backlogs in the claims process.

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 on persons and entities that generate, store, treat, or dispose of hazardous wastes.

The budget proposes total expenditures of \$119.1 million from various funds for support of the DTSC in 1995-96. This is a decrease of \$4.6 million, or 3.7 percent, from estimated current-year expenditures. The net decrease results primarily from (1) a reduction of \$7.3 million (and 128 positions, 39 positions which are currently vacant) in support of various programs due to a stated decline in revenues in the Hazardous Waste Control Account (HWCA), (2) the elimination of HWCA support (\$3.9 million) for the Department of Health Services and the Office of Emergency Services (the budget proposes to partially offset this loss by providing \$3 million from the General Fund directly to these two departments), (3) an increase of \$7.1 million HWCA funds to support the cleanup of clandestine drug labs and to implement a new pilot program for the expedited cleanup of hazardous waste sites, and (4) an increase of \$2.3 million to coordinate the cleanup of closing military bases.

As we discuss in the Crosscutting Issues section of this chapter, the DTSC is one of five departments selected by the administration for a pilot project in performance budgeting.

Revenue Estimates Reasonable, Budget Adjusts for Past Forecasting Errors

The department's 1995-96 revenue projections for the Hazardous Waste Control Account (HWCA) appear to be more realistic than in prior years. The budget proposes HWCA program reductions to correct for overly optimistic revenue projections in prior years. Given the modest reserve projected for the account, any overestimation of revenues could result in a HWCA funding shortfall in 1995-96.

Hazardous Waste Control Account Has Been an Uncertain Revenue Source. The HWCA is primarily supported by fees, assessed against (1) hazardous waste storage, treatment, and disposal operations; (2) facilities that generate hazardous waste; and (3) individuals and entities 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.

Revenue projections for the HWCA have been uncertain in prior years because of the difficulty in predicting the impact on fees as a result of (1) legislative changes, (2) the state of the economy, and (3) programs promoting pollution prevention (which operate to reduce the amount of hazardous waste generated, treated, stored, and disposed, thereby reducing the activities subject to fees). Because of this, the department has often had to revise its revenue estimates downward and reduce program expenditures.

1994-95 Budget Included Major Program Reductions. The 1994-95 Governor's Budget, as introduced, included departmentwide reductions in various programs totaling \$15.8 million in order to keep the HWCA in balance. Subsequent to that, the department revised its HWCA revenue projections downward in May 1994 and proposed to further reduce expenditures by \$4 million in 1994-95. As a result, the 1994-95 budget reflects total expenditure reductions of \$19.8 million.

1995-96 Program Reductions Not Result of Revenue Declines. For 1995-96, the budget proposes further reductions in various programs. Our review shows that the reductions are proposed for two reasons: (1) to correct for a program level that has been expanded in recent years based on overly optimistic revenue projections and (2) to free up funds for new programs. This conclusion is contrary to the budget's portrayal that programs are proposed to be reduced as a result of an actual decline in revenues. In fact, our analysis shows that while there was a significant decline of about \$7.6 million in *actual* overall HWCA revenues between 1992-93 and 1993-94, revenues in 1994-95 and 1995-96 are anticipated to vary little from the 1993-94 levels.

Are 1995-96 Revenue Projections Any Better? In 1994, the department completed a review of its revenue forecasting procedures. As a result, it made a number of changes in its methodology and data collection in order to improve the accuracy of its revenue projections. Our review indicates that the department is more conservative in projecting fee revenues that are inherently uncertain or for which little data is available, and the 1995-96 revenue projections reflect this. The department notes that the following sources of HWCA revenues are particularly subject to uncertainty in 1995-96:

- **Fines and Penalties.** Chapter 1160, Statutes of 1994 (SB 1747, Calderon) and Ch 1217/94 (SB 1899, Peace) change the circumstances under which fines and penalties are levied.
- **Hazardous Waste Disposal Fees.** Chapter 1145, Statutes of 1993 (SB 922, Calderon) reduces the disposal fee in certain circumstances.
- **Tiered Permitting Fees and the New Unified Program Surcharge.** Chapter 418, Statutes of 1993 (SB 1082, Calderon) shifts some program responsibilities (and associated fees) from the department to local agencies in 1995-96 and future years.

HWCA Funding Shortfall Possible. In prior years, the reserve in the HWCA had helped to bridge the gap between expenditures and revenues, enabling the department to sustain program levels that exceeded revenues. This option will not be available in the budget year, as the budget projects a relatively modest HWCA reserve (\$1.6 million) equal to about 2.5 percent of budgeted expenditures. If the department's revenue projections for 1995-96 prove again to be too optimistic, a funding shortfall in the account may result.

Budget Reflects Shifts in Program Priorities

In order to fund two new statutory programs, the budget proposes to reduce departmental expenditures in other areas. We recommend that the department report at budget hearings on (1) the relative effectiveness of the programs affected by the proposal and (2) how "orphan share" sites will be chosen for the site cleanup pilot program.

Program Reductions. The budget proposes to reduce HWCA expenditures by a total of \$11.4 million in 1995-96. There are two main components of this proposed reduction. First, the budget proposes to reduce DTSC support by \$7.3 million and 128 positions (39 positions which are currently vacant) as follows:

- Site Mitigation Program: \$2.6 million, including \$750,000 in management costs for site cleanups.
 - Hazardous Waste Management Program: \$3.2 million, including \$1.2 million for permit inspections and \$1.1 million for criminal investigations and other enforcement activities.
 - External Affairs Program: \$400,000, including \$300,000 for pollution prevention oversight efforts.
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- Program Direction and Support: \$1.1 million, including \$500,000 reflecting savings associated with consolidation of two of the department's regional operations.

Second, the budget proposes to eliminate HWCA support of the Department of Health Services (\$2.3 million) and the Office of Emergency Services (\$1.6 million) for their work related to disease control and radiation health, and accidental hazardous material releases. Instead, the budget requests General Fund appropriations of \$1.6 million and \$1.4 million, respectively, to support these departments' activities.

New Programs. These reductions are made, in part, to fund the following new programs at a total cost of \$7.1 million.

- *The Expedited Site Remediation Pilot Program.* Chapter 435, Statutes of 1994 (SB 923, Calderon) establishes a pilot program to expedite the voluntary cleanup of up to 30 hazardous waste sites. The pilot program provides for arbitrators to decide a number of issues, including the extent of cleanup required and the degree of liability for the cleanup by the various responsible parties, to be allocated on a proportional basis.

Costs for the pilot program are to be recovered from the responsible parties liable for the cleanup, but Chapter 435 also allows (but does not require) up to ten sites in the program to include an "orphan share." "Orphan share" sites are those with responsible parties who are unable or unwilling to help pay for the cleanup or who cannot be identified or found. To the extent that orphan share sites are chosen, the department will pay for the orphan share's cleanup costs, but only to the extent funds are made available to the Expedited Site Remediation Trust Fund, created by Chapter 435.

The budget proposes that \$4.1 million be redirected from fines and penalties in the HWCA to the trust fund in 1995-96 to pay for cleanup costs of orphan share sites chosen for the pilot program. These expenditures are in addition to the proposed expenditures of \$925,000 for the pilot program which will be reimbursed by responsible parties.

- *Cleanup of Illegal Drug Labs.* Chapter 55, Statutes of 1994 (SB 47x, Calderon) transfers the responsibility for cleaning up illegal drug labs to the department. Previously, this responsibility was shared among the department, the Department of Justice (Bureau of Narcotics Enforcement), and local law enforcement agencies, with the department having a relatively minor role.
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Chapter 55 provides that the new cleanup responsibilities assigned to the department apply only to the extent sufficient funding is made available for this purpose. The legislation creates the Illegal Drug Lab Cleanup Account (General Fund) as of January 1, 1996, but does not provide an appropriation to the account.

The budget proposes \$3 million from the HWCA for illegal drug lab cleanups in 1995-96. Based on our review of the current workload of the Department of Justice and local law enforcement agencies for cleanup activities, we believe that the proposed amount is reasonable.

Department Should Report on Program Priorities. We believe that funding these two new programs has merit and is consistent with legislative intent. For instance, funding for the department to assume financial responsibility for "orphan shares" in the expedited site cleanup pilot program is necessary to effectively test the program's new approaches to site cleanups.

However, because of the condition of the HWCA, funding these new program areas necessitates reductions in other programs. We think that the Legislature should assess the redirection of resources proposed by the department in terms of the relative effectiveness of the programs affected and the extent to which these programs meet legislative priorities and goals. Therefore, we recommend that the department report, at budget hearings, on the relative effectiveness of the programs affected by its redirection proposal in meeting legislative goals and priorities, and the department's funding priorities for these programs.

In addition, because no details were available regarding the expedited site cleanup pilot program's expenditures for "orphan shares," we recommend that the department report, at budget hearings, on the circumstances under which it will accept sites for the pilot program thereby requiring it to assume financial responsibility for "orphan shares."

Legislatively Required Report on Revenue Projections And Expenditure Priorities Not Submitted

The department has not submitted information required by the Legislature regarding three-year revenue projections and expenditure priorities. We recommend that this information be presented to the Legislature at budget hearings.

During hearings on the 1994-95 budget, the Legislature expressed its concern that funding shortfalls in the HWCA were likely in future years if current expenditures were maintained. As a result, the Legislature

adopted language in the *Supplemental Report of the 1994 Budget Act* requiring the department to submit to the Legislature, by January 1, 1995, a report on projections of revenue generated to the HWCA (and related accounts) for 1995-96 through 1997-98 using a number of revenue scenarios. In addition, the department was required to set priorities for these three fiscal years, considering the overall impact on environmental protection.

At the time this analysis was prepared, the department had not submitted the required report to the Legislature. Consequently, this affects the ability of the Legislature to fully evaluate the department's plan to reduce and redirect HWCA program expenditures in the budget year. Therefore, we recommend that the department present this information to the Legislature at budget hearings.

LIST OF FINDINGS AND RECOMMENDATIONS

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Crosscutting Issues

Departmental Reorganization

1. **Administration Will Present Plan to Reorganize Several Resources Departments.** Recommend that the Secretary for Resources and the Secretary for Environmental Protection report at budget hearings on the Governor's Reorganization Plan and its status. We present criteria which the Legislature might use in reviewing the Governor's proposal. B-13

Performance Budgeting

2. **Performance Budgeting Progress Mixed.** Recommend that the three Resources or Environmental Protection departments involved in performance budgeting report at budget hearings on their proposed 1995-96 budget contracts and performance measures, and their progress-to-date in implementing performance budgeting. B-18
3. **Substantial Flexibility Might Yield Substantial Results.** Recommend that Legislature consider negotiating a contract with the California Conservation Corps which provides substantially more administrative flexibility than it might provide to other performance budgeting departments. Further recommend that the Legislature design appropriate rewards, sanctions, and reporting requirements to complement such increased flexibility. B-22

Fund Conditions for Resources Programs

4. **Little Money Available in Special Funds and Bond Funds.** If the Legislature approves the Governor's spending proposals, there will be little money available in (a) various special funds for legislative priorities and (b) park-related B-26
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bond funds to start new park projects.

5. **Bond Funds for Water Supply and Wastewater Treatment Programs.** There will be sufficient amounts to continue funding local water supply and treatment programs in 1995-96 at the levels proposed in the budget. However, there will be little money available for new water projects not yet in the "pipeline." B-30

Secretary for Environmental Protection

6. **Loaned Employees Nearly Double Secretary's Staff.** Report to Legislature shows that at least 36 employees will be loaned to work for the Secretary from various Cal-EPA boards and departments in 1994-95. B-34
7. **Legislative Oversight Required For Environmental Technology Initiatives.** Recommend that the Secretary report, at budget hearings, on the California Environmental Technology Partnership's strategic plan and related issues in order that the Legislature can be informed on various initiatives. B-35

California Conservation Corps

8. **Development of New Energy Center Hinges on Proposed Legislation.** Withhold recommendation on request for \$2.8 million from the Petroleum Violation Escrow Account (PVEA) and reimbursements for the development of a new Energy Center in Southern California, pending outcome of legislation to provide current-year funding for center. Further recommend that the CCC report at budget hearings on the status of this legislation, and its plans to fund and develop the center in the event that the legislation does not pass. B-38

Department of Conservation

9. **Budget Proposes to Eliminate the Department of Conservation.** Recommend that full-year funding for the DOC be reestablished in the existing budget items for the depart- B-41
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ment, if it appears that the Governor's reorganization plan will not be submitted to the Legislature in time for full consideration before the Budget Act is adopted. The Budget Act should be amended if legislation to eliminate or restructure the DOC is subsequently enacted.

10. **Proposed Expansion of Mineral Classification Program Exceeds Statutory Responsibilities. Reduce Item 3480-001-035 by \$679,000 and increase reimbursements by \$100,000.** Recommend reduction of \$679,000 from the Surface Mining and Reclamation Account because (a) the department's intent to classify the entire state goes beyond its statutory responsibilities and (b) any workload in response to petitions should be funded from reimbursements. B-42
11. **Review of the Department's Landslide Hazard Map Program.** Recommend that the department report at budget hearings on its implementation of a consultant's review and recommendations to improve the department's Landslide Hazard Identification Program. B-44

Department of Forestry and Fire Protection

12. **Legislature Not Yet Informed of Results of Reorganization.** Recommend that the department report at budget hearings on the status of its reorganization. B-45
13. **Budget for Emergency Fire Suppression More Realistic Than in Past.** The request for \$40 million specifically for emergency fire suppression represents a more realistic amount to cover the likely costs of emergency fire-fighting in 1995-96. B-47
14. **Land Use Proposal Lacks Clear Policy Objective. Reduce Item 3540-001-140 by \$401,000.** Recommend reduction because the efficacy of the proposed land use coordinator positions will be limited without a clear policy on the appropriate role and objectives of the department in federal and local land use decisions. B-48
15. **Airtanker Retrofit Should Fit in Multi-Year Plan.** Withhold recommendation on \$10 million from the General B-49

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Fund in Item 3540-001-001. Further recommend that department report at budget hearings on the projected total cost of, and schedule for, modernizing its air operations program.

State Lands Commission

16. **Budget Proposes to Eliminate the State Lands Commission.** Recommend that full-year funding for the State Lands Commission be reestablished in the existing budget items for the commission, if it appears that the Governor's reorganization plan will not be submitted to the Legislature in time for full consideration before the Budget Act is adopted. The Budget Act should be amended if legislation to eliminate or restructure the SLC is subsequently enacted. B-52
17. **Long-Term Plan for Title Resolution for Military Base Closure Not Clear.** Recommend that the State Lands Commission, together with the Office of Planning and Research, report at budget hearings on their long-term plan for conducting title resolutions on military bases in California slated for closure. B-53

Department of Fish and Game

18. **Budget Request Will Be Amended.** Withhold recommendation on \$75.5 million in the Fish and Game Preservation Fund (Item 3600-001-200), because the department indicates that it is still reviewing its 1994-95 and proposed 1995-96 expenditures, and will propose budget amendments in the May budget revision. B-55
19. **Request for Permanent NCCP Program Not Justified.** Recommend that the request to make permanent the positions in the department's Natural Community Conservation Planning (NCCP) pilot program be denied, because (a) the program still is not sufficiently funded by reimbursements, and (b) the department has consistently failed to provide information required by the Legislature to assess the program's effectiveness. B-56
20. **Marine Facilities Program Proposed for Transfer to Oil** B-59
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Spill Program. Recommend that the Department of Fish and Game and the State Lands Commission (SLC) report at budget hearings on the merits of transferring the Marine Facilities program from the SLC to the department and the extent to which this transfer achieves the Legislature's priority of preventing oil spills.

Department of Parks and Recreation

21. **State Parks Support Relies on Beverage Container Funds.** B-61
Recommend that the department report at budget hearings on the analysis it is currently conducting on its support funding, the level of services it can provide with that level of funding, and its expenditure priorities for 1995-96.
22. **Performance Budgeting Moves Ahead.** B-65
Recommend that the department report at budget hearings on its proposed budget contract with the Legislature for 1995-96, and the current status of its performance budgeting efforts.

Santa Monica Mountains Conservancy

23. **Proposed General Fund Support Is Inconsistent With Legislative Direction. Eliminate Item 3810-001-001 and \$100,000.** B-67
Recommend reduction because request is not consistent with legislative direction that no General Fund be used to support the conservancy. Further recommend that the conservancy report at budget hearings on its efforts over the last two years to reduce its reliance on General Fund support.

San Francisco Bay Conservation And Development Commission

24. **Administration Rethinking Proposal to Eliminate BCDC.** B-68
Recommend that the Secretary for Resources report at bud-
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get hearings on the status of the proposal to eliminate the BCDC. Further recommend that full-year funding for the BCDC be reestablished, if it appears that legislation to eliminate or restructure the BCDC will not be enacted.

Department of Water Resources

25. **Use of Harbors and Watercraft Funds for Delta Flood Protection Inconsistent With Statute.** Recommend that DWR report at budget hearings on the appropriateness of using Harbors and Watercraft Funds, given statutory limitations on the use of these funds. B-70

California Integrated Waste Management Board

26. **Budget Proposes to Transfer Additional Recycling Program to Restructured Waste Board.** Recommend full-year funding be reestablished for the CIWMB, if it appears that the Governor's reorganization plan will not be submitted to the Legislature in time for full consideration before the Budget Act is adopted. If legislation is subsequently enacted to restructure the CIWMB, the Budget Act should be amended to reflect such changes. B-72
27. **Part-Time Board With Smaller Staff Proposed.** The proposal to reorganize the CIWMB's current full-time, six-member board into a five-member, mainly part-time, board will have various consequences, including significant savings. B-73
28. **Report to Legislature Projects Revenue Declines.** Recommend that the CIWMB report, at budget hearings, on revenue generating and expenditure reduction options to avert a funding shortfall in the Integrated Waste Management Account in 1996-97 and future years. B-74

State Water Resources Control Board

29. **Board Addresses Regulatory Program Backlogs.** The SWRCB has presented a reasonable plan to the Legislature for substantially reducing backlogs in its water quality permitting program by 1997-98. Recommend that board B-77
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report, at budget hearings, on status of its plan for reducing backlogs in the water rights program.	
30. Long-Term Solution Needed for Support of Water Quality Management Program. Request for \$5 million from Waste Discharge Permit Fund to support Water Quality Management (WQM) program, replacing depleted bond funds, is reasonable. Recommend supplemental report language requiring report on options for alternative funding sources and program reductions to support WQM program in 1996-97 and future years.	B-81
31. Underground Tanks Cleanup Fund Program Has Significant Backlogs. Recommend that board report, at budget hearings, on how requested program augmentation for staffing will address backlogs in claims processing.	B-83

Department of Toxic Substances Control

32. Revenue Estimates Reasonable, Budget Adjusts for Past Forecasting Errors. Budget reflects more conservative projections for revenues in the Hazardous Waste Control Account (HWCA) in 1995-96, and proposes program reductions to adjust for past overly optimistic revenue projections.	B-85
33. Budget Reflects Shifts in Program Priorities. In order to fund two new programs—an expedited site cleanup pilot and illegal drug lab cleanups—the budget proposes reductions in other HWCA programs. Recommend the department report, at budget hearings, on (a) the relative effectiveness of programs affected by the proposal and (b) how “orphan share” sites will be chosen for the pilot program.	B-87
34. Department Fails to Comply With Legislative Directive. Recommend the department provide, at budget hearings, information required by Legislature on three-year revenue projections and expenditure priorities for the HWCA.	B-89
