RESOURCES

LAO

60 YEARS OF SERVICE

2002-03 Analysis

MAJOR ISSUES

Resources

☑ General Fund Savings Can Be Achieved Through Fees

- Several opportunities exist to create additional General Fund savings by shifting funding for resources programs from the General Fund to fees. Fees are an appropriate funding source in these cases, either because the state is providing a service that directly benefits an identifiable person or business (such as fire protection services), or administering a pollution control program that should be funded on a "polluter pays" basis. Specifically, these opportunities include:

  — Timber harvest plan review—$21.5 million savings (see page B-50).

  — Fire protection—$141 million savings if, for example, fees replaced 50 percent of proposed General Fund expenditures. We offer a number of options for structuring fees (see page B-60).

  — Air quality "stationary source" regulation—$18.7 million savings (see page B-80).

  — Water quality regulation—$22.5 million savings (see page B-94).

☑ CALFED and Tahoe EIP: Legislative Oversight Needed

- The budget proposes (1) $519 million in state funds for various CALFED programs to address Bay-Delta water problems and (2) $26.6 million for the Tahoe Environmental Improvement Program (EIP).

- The multiyear state costs for these two programs are in excess of several billion dollars.

- Legislative review of both of these programs could be enhanced by holding joint policy and budget committee hearings. We find that the CALFED budget proposal is based on risky assumptions about federal and bond funding (see pages B-17 and B-43).

☑ **Significant Reduction in Fish and Game's CEQA Reviews Proposed**

- The budget proposes a $2.1 million reduction for the Department of Fish and Game's review activities under the California Environmental Quality Act (CEQA).
- This reduction would result in very few CEQA documents being reviewed by the department. We offer alternative funding sources should the Legislature wish to increase funding for this purpose (see page B-64).

☑ **Recent State Park Acquisitions Result in Unfunded Obligations**

- Since 2000-01, the Department of Parks and Recreation has significantly increased its land acquisitions, many of which will result in future development and operating costs that have not been provided for or identified. We make a number of recommendations to ensure that future costs resulting from land acquisitions are better accounted for in the budget process (see page B-67).

☑ **Potential Overlap in Brownfields Programs Can Be Mitigated**

- Two state agencies—the Department of Toxic Substances Control and the California Pollution Control Financing Authority—have overlapping statutory authority to provide financial assistance for brownfields redevelopment. We make recommendations to reduce the potential for programmatic overlap, and offer a source of funding should the Legislature wish to increase funding for cleanup loans and grants in the budget year (see page B-104).

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OVERVIEW

Resources

The budget proposes significantly lower state expenditures for resources and environmental protection programs in 2002-03 compared to the estimated current-year level. This is mainly due to (1) a substantial decrease in bond-funded expenditures for parks and water projects; (2) the elimination of one-time General Fund expenditures that occur in the current year, including costs to settle hazardous waste-related litigation against the state; and (3) a decrease in General Fund expenditures for emergency fire suppression, flood control, park projects, and habitat acquisition and development.

EXPENDITURE PROPOSALS AND TRENDS

Expenditures for resources and environmental protection programs from the General Fund, various special funds, and bond funds are proposed to total $3.7 billion in 2002-03, which is 3.7 percent of all state-funded expenditures proposed for 2002-03. This level is a decrease of about $2.7 billion, or 43 percent, below estimated expenditures for the current year.

Decrease Largely Reflects Reduction in Bond Expenditures. The proposed reduction in state-funded expenditures of about $2.7 billion for resources and environmental protection programs largely reflects a $1.8 billion decrease in bond fund expenditures for park and water projects. While there have been a number of bond measures in prior years that provide funds for resources-related purposes, these funds have been substantially drawn down. Specifically, of the $7.6 billion of resources-related general obligation bonds approved by the voters since 1980, about $6.4 billion will have been spent or committed to specific projects as of the end of 2001-02.

The reduction in state expenditures also reflects the elimination of one-time General Fund expenditures that occur in the current year, including a $115 million payment to settle hazardous waste-related litigation against the state. In addition, the reduction is due to a decrease in General Fund expenditures for various other purposes, including emergency fire suppression, flood control, state and local park acquisition and improvements, and habitat acquisition. In total, the budget proposes General Fund expenditures for resources and environmental protection programs in 2002-03 that are $785 million lower than the current-year level.

Funding Sources. The largest proportion of state funding for resources and environmental protection programs—about $1.7 billion (or 47 percent)—will come from various special funds. These funds include the Environmental License Plate Fund, Fish and Game Preservation Fund, funds generated by beverage container recycling deposits and fees, and an "insurance fund" for the cleanup of leaking underground storage tanks. Of the remaining expenditures, $1.2 billion will come from the General Fund (32 percent of total expenditures) and about $769 million from various bond funds (21 percent of total expenditures).

Expenditure Trends. Figure 1 shows that state expenditures for resources and environmental protection programs increased by about $1.5 billion since 1995-96, representing an average annual increase of about 8 percent. The increase includes about $300 million in General Fund expenditures and the remainder in special fund and bond expenditures. When adjusted for inflation, total state expenditures for resources and environmental protection programs increased at an average annual rate of about 5 percent. General Fund expenditures increased at an average annual rate of about 4 percent over this period. When adjusted for inflation, General Fund expenditures increased at an average annual rate of about 2 percent. This increase in General Fund support largely reflects the improved state fiscal condition beginning in 1998-99. General Fund expenditures for resources and environmental protection programs peaked in 2000-01 and have since declined due to the state's weakened fiscal condition. The budget proposes General Fund expenditures at a level about the same as in 1998-99.

SPENDING BY MAJOR PROGRAM

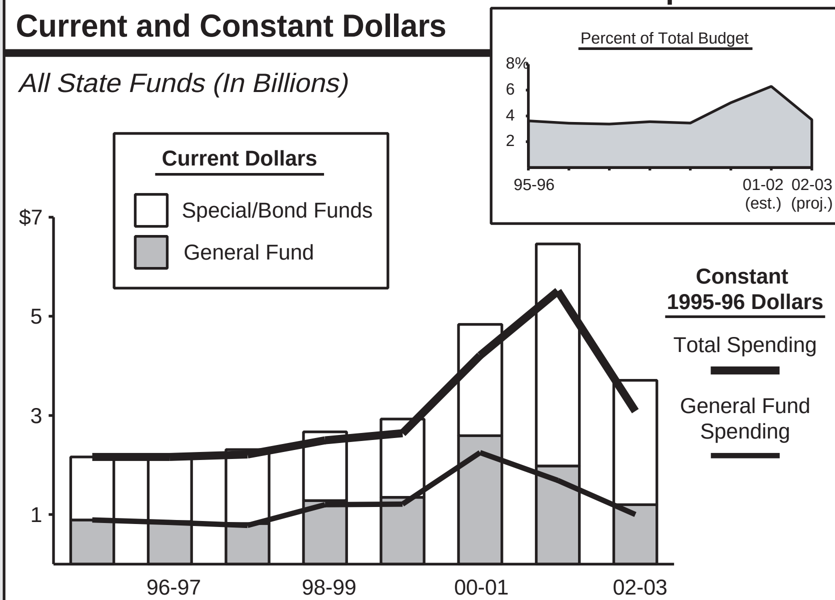
Figure 2 (see page 10) shows spending for major *resources* programs—that is, those programs within the jurisdiction of the Secretary for Resources and the Resources Agency.

Figure 3 (see page 12) shows similar information for major *environmental protection* programs—those programs within the jurisdiction of the Secretary for Environmental Protection and the California Environmental Protection Agency.

Figure 1

Resources and Environmental Protection Expenditures Current and Constant Dollars

All State Funds (In Billions)



Spending for Resources Programs. Figure 2 (see next page) shows the General Fund will provide a majority of the California Department of Forestry and Fire Protection's (CDFFP) total expenditures, accounting for 57 percent ($312.3 million) of the department's 2002-03 expenditures. The General Fund will account for less in the support of other resources departments. For instance, for the Secretary for Resources and the Department of Conservation (DOC), the General Fund will constitute only about 2 percent ($3.6 million) and 4 percent ($21.8 million) of their budget-year expenditures, respectively. In the case of the Departments of Fish and Game (DFG) and Parks and Recreation (DPR), the General Fund will pay for about 22 percent ($56.8 million) and 30 percent ($112.4 million) of the respective departments' total expenditures. The Department of Water Resources (DWR's) expenditure total is skewed by the $5.2 billion budgeted under DWR for energy purchases on behalf of investor-owned utilities (IOUs). If these energy-related expenditures are excluded from DWR's total, the General Fund pays for 9 percent ($114.7 million) of DWR's expenditures.

Figure 2 (see next page) also shows that compared to current-year expenditures, the budget proposes a reduction throughout the resources departments. Specifically, the budget proposes a substantial reduction in DPR expenditures of about $1.1 billion, or 74 percent less than the current-year estimated expenditure level. The reduction includes (1) about $79 million

Figure 2

Resources Budget Summary Selected Funding Sources

(Dollars in Millions)

Department	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Change From 2001-02 Amount	Change From 2001-02 Percent
Resources Secretary					
General Fund	$7.8	$15.4	$3.6	-$11.8	-76.6%
Other funds	30.2	211.8	165.0	-46.8	-22.1
Totals	**$38.0**	**$227.2**	**$168.6**	**-$58.6**	**-25.8%**
Conservation					
General Fund	$28.5	$22.0	$21.8	-$0.2	-0.9%
Recycling funds	481.7	494.8	481.3	-13.5	-2.7
Other funds	21.3	31.3	26.4	-4.9	-15.7
Totals	**$531.5**	**$548.1**	**$529.5**	**-$18.6**	**-3.4%**
Forestry and Fire Protection					
General Fund	$431.4	$494.0	$312.3	-$181.7	-36.8%
Forest Resources Fund	14.8	12.6	14.8	2.2	17.5
Other funds	162.5	195.5	223.9	28.4	14.5
Totals	**$608.7**	**$702.1**	**$551.0**	**-$151.1**	**-21.5%**
Fish and Game					
General Fund	$82.7	$70.6	$56.8	-$13.8	-19.5%
Fish and Game Fund	79.8	91.8	89.1	-2.7	-2.9
Environmental License	19.1	16.6	16.7	0.1	0.6
Other funds	98.6	98.1	94.4	-3.7	-3.8
Totals	**$280.2**	**$277.1**	**$257.0**	**-$20.1**	**-7.3%**
Parks and Recreation					
General Fund	$235.4	$255.6	$112.4	-$143.2	-56.0%
Parks and Recreation Fund	57.1	57.3	72.0	14.7	25.7
Off-Highway Vehicle Fund	33.0	67.2	44.2	-23.0	-34.2
Other funds	200.3	1,084.3	145.9	-938.4	-86.5
Totals	**$525.8**	**$1,464.4**	**$374.5**	**-$1,089.9**	**-74.4%**
Water Resources					
General Fund	$413.3	$209.1	$114.7	-$94.4	-45.1%
State Water Project funds	1,168.8	753.7	759.8	6.1	0.8
Electric Power Fund	7,293.0	7,657.2	5,155.3	-2,501.9	-32.7
Other funds	288.1	462.3	421.8	-40.5	-8.8
Totals	**$9,163.2**	**$9,082.3**	**$6,451.6**	**-$2,630.7**	**-29.0%**

less in department support and operations, largely due to the elimination of one-time General Fund expenditures that occur in the current year for state parks deferred maintenance, and (2) a drop of $907 million in expenditures for state and local park acquisition and improvements funded by Proposition 12 bond money. The budget also does not propose any General Fund expenditures for local parks or for state park acquisition and improvements. The estimated current-year expenditures from the General Fund for these purposes are $32.6 million and $20.1 million, respectively.

For DWR, the budget proposes 29 percent less in expenditures for 2002-03, compared to the estimated current-year level. The reduction includes a decrease of about (1) $2.5 billion for energy purchases on behalf of IOUs and (2) $62 million for various projects and programs funded with Proposition 13 bond funds. The reduction in DWR's General Fund expenditures largely reflects decreased expenditures for flood control. Specifically, the budget eliminates the one-time expenditure of $44 million that occurs in the current year to pay the state share of costs of local flood projects. The budget also requests $41 million less from the General Fund for state flood control projects.

For the Secretary for Resources, the budget proposes total expenditures of $168.6 million—about 26 percent less than current-year expenditures. This reduction largely reflects a decrease in expenditures from Proposition 12 bond money for river parkway and other park projects.

For CDFFP, the budget proposes 22 percent less in expenditures for 2002-03, compared to the estimated current-year level. Most of the reduction is proposed to come from the General Fund. Specifically, the budget eliminates funding from the General Fund for emergency fire suppression, although estimated 2001-02 expenditures from the General Fund for this purpose are $100 million.

Although not shown in the figure, the budget proposes a significant reduction in expenditures ($314.9 million, or about 85 percent) for the Wildlife Conservation Board. While much of this reduction reflects the elimination of $225.6 million of Proposition 12 funding for habitat acquisition and development, the budget also proposes a significant reduction from the General Fund. Specifically, the budget proposes $21.3 million from the General Fund for habitat acquisition and development—a reduction of $56 million from estimated expenditures in the current year.

In contrast, the budget proposes relatively minor reductions in departmental expenditures for both DFG and DOC in 2002-03.

Spending for Environmental Protection Programs. As Figure 3 (see next page) shows, the budget proposes decreases throughout environmental protection programs. In particular, expenditures of the Department of Toxic Substances Control (DTSC) are proposed to decrease by

Figure 3

Environmental Protection Budget Summary Selected Funding Sources

(Dollars in Millions)

Department/Board	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Change From 2001-02 Amount	Change From 2001-02 Percent
Air Resources					
General Fund	$195.1	$68.9	$31.0	-$37.9	-55.0%
Motor Vehicle Account	73.4	94.9	64.0	-30.9	-32.6
Other funds	31.2	55.8	38.6	-17.2	-30.8
Totals	**$299.7**	**$219.6**	**$133.6**	**-$86.0**	**-39.2%**
Waste Management					
Integrated Waste Account	$40.9	$42.1	$43.1	$1.0	2.4%
Used Oil Recycling Fund	35.4	28.1	27.5	-0.6	-2.1
Other funds	28.7	54.2	46.6	-7.6	-14.0
Totals	**$105.0**	**$124.4**	**$117.2**	**-$7.2**	**-5.8%**
Pesticide Regulation					
General Fund	$16.9	$17.4	$17.0	-$0.4	-2.3%
Pesticide Regulation Fund	39.6	42.3	39.6	-2.7	-6.4
Other funds	3.5	3.3	3.1	-0.2	-6.1
Totals	**$60.0**	**$63.0**	**$59.7**	**-$3.3**	**-5.2%**
Water Resources Control					
General Fund	$100.1	$109.7	$87.3	-$22.4	-20.4%
Underground Tank Cleanup	229.9	226.8	249.4	22.6	10.2
Waste Discharge Fund	15.2	17.5	32.2	14.7	84.0
Other funds	205.5	704.2	294.7	-409.5	-58.2
Totals	**$550.7**	**$1,058.2**	**$663.6**	**-$394.6**	**-37.3%**
Toxic Substances Control					
General Fund	$127.7	$189.1	$31.4	-$157.7	-83.4%
Hazardous Waste Control	35.2	35.8	41.9	6.1	17.0
Toxic Substances Control	24.7	32.2	40.3	8.1	25.2
Other funds	-44.3	51.5	42.7	-8.8	-17.1
Totals	**$143.3**	**$308.6**	**$156.3**	**-$152.3**	**-49.4%**
Environmental Health Hazard Assessment					
General Fund	$11.8	$15.2	$13.6	-$1.6	-10.5%
Other funds	2.8	3.1	3.2	0.1	3.2
Totals	**$14.6**	**$18.3**	**$16.8**	**-$1.5**	**-8.2%**

$152.3 million, or 49 percent, from the current-year level. This decrease, however, largely reflects the elimination of two major one-time expenditures from the General Fund that occur in the current year, namely (1) $115 million to settle hazardous waste-related litigation against the state and (2) $21 million to repay a loan made from the Superfund Bond Trust Fund.

The budget also proposes to decrease expenditures for the Air Resources Board (ARB) significantly by $86 million, or about 39 percent, compared to the current-year expenditure level. The decrease is largely due to the elimination of one-time expenditures that occur in the current year totaling $67.6 million—including (1) $33.6 million (mainly General Fund) for the Energy Crisis/Environmental Justice Air Emissions Program and (2) $20 million (Motor Vehicle Account) for zero-emission vehicle incentives. (Since the budget was introduced in January, the Legislature approved an increase of $14.1 million for the Energy Crisis/Environmental Justice program in the current year.)

For the State Water Resources Control Board (SWRCB), the budget proposes a decrease of $394.6 million, or 37 percent, from estimated current-year expenditures. Most of this reduction reflects a decrease of $403.2 million of bond-funded expenditures, mainly for local water quality and water recycling projects. On the other hand, the board's expenditures from the fee-based Waste Discharge Permit Fund are proposed to increase by 84 percent ($14.7 million) over the current-year level. This reflects the budget's proposal to shift funding for a significant portion of the board's permitting, inspection, and enforcement activities from the General Fund to fees.

Finally, the budget proposes relatively minor expenditure reductions for the California Integrated Waste Management Board, the Department of Pesticide Regulation, and the Office of Environmental Health Hazard Assessment.

MAJOR BUDGET CHANGES

Figures 4 and 5 present the major budget changes in resources and environmental protection programs, respectively.

As Figure 4 (see next page) shows, the budget proposes a number of changes in funding for activities in various resources departments related to the CALFED Bay-Delta program. Specifically, of the total $519 million of state funds proposed for CALFED, $101.5 million is to come from Proposition 40—the resources bond on the March 2002 ballot. Proposition 40 bond funds are proposed for a number of CALFED programs, including

Figure 4

Resources Programs
Proposed Major Changes for 2002-03

Resources Secretary	**Requested:**	**$168.6 million**	
	Decrease:	**$58.6 million**	**(-25.8%)**

+ $10 million from Proposition 40 for CALFED river parkway projects

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– $15.2 million (Proposition 204) for CALFED ecosystem restoration

– $38 million in Proposition 12 funded park projects

Forestry and Fire Protection	**Requested:**	**$551 million**	
	Decrease:	**$151.1 million**	**(-21.5%)**

– $55 million base funding for emergency fire suppression

Fish and Game	**Requested:**	**$257 million**	
	Decrease:	**$20.1 million**	**(-7.3%)**

– $2.1 million for project review under the California Environmental Quality Act

Parks and Recreation	**Requested:**	**$374.5 million**	
	Decrease:	**$1,089.9 million**	**(-74.4%)**

– $907.4 million in Proposition 12 funded park projects

Water Resources	**Requested:**	**$6,451.6 million**	
	Decrease:	**$2,630.7 million**	**(-29%)**

+ $51.5 million from Proposition 40 for various CALFED activities

+ $14.2 million (Proposition 13) for CALFED conveyance program

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– $2.5 billion for energy purchases on behalf of investor-owned utilities

– $19.7 million in General Fund CALFED activities

(1) $10 million for the Secretary for Resources for river parkway projects and (2) $51.5 million for DWR for the CALFED watershed, water quality, and ecosystem restoration programs. The budget also proposes (1) a decrease of $15.2 million in Proposition 204 bond funds for the Secretary for Resources for CALFED ecosystem restoration, (2) an increase of $14.2 million (Proposition 13 bond funds) for DWR for CALFED conveyance, and (3) a decrease of $19.7 million from the General Fund for DWR for various CALFED programs and projects.

For CDFFP, the budget proposes to eliminate the $55 million of baseline funding from the General Fund for emergency fire suppression.

For DPR, the budget proposes significantly less expenditures in 2002-03 for state and local park acquisition and development. This reduction largely reflects the near depletion of Proposition 12 bond funds for this purpose.

For DWR, the budget proposes significantly reduced expenditures from the Electric Power Fund (funded by ratepayers) for energy purchases made by DWR on behalf of IOUs. This reduction assumes that the department will cease to purchase power on the spot market at the end of 2002. The budget also proposes no funding from the General Fund for the state share of costs of local flood control projects. This is a substantial change from the one-time expenditures of $44 million for this purpose that occurred in the current year.

Regarding environmental protection programs, Figure 5 (see next page) shows that the budget proposes both augmentations and reductions, although total spending will decrease in all departments. Specifically, the budget proposes reductions totaling about $15 million for various ARB programs, including a $5 million reduction in assistance to local air districts.

For SWRCB, the budget proposes a one-time increase of $22.4 million in payments to underground storage tank owners and operators for the cleanup of leaking tanks. The budget also proposes an increase of $4.3 million to improve information management, including the tracking of water quality violations and enforcement actions. The budget also reflects a reduction of $403.2 million in bond funds for local water quality and water recycling projects.

In addition, the budget proposes a number of increases for DTSC funded by special funds, including $2.2 million for various hazardous waste management programs and $9.3 million (mainly one-time) for facility operations, equipment, and vehicles.

Figure 5

Environmental Protection Programs Proposed Major Changes for 2002-03

Air Resources Board	**Requested: $133.6 million** **Decrease: $86 million (-39.2%)**

− $67.6 million for various one-time expenditures in the current year

− $5.5 million for various mobile source programs

− $5 million for subventions to local air districts

− $4.4 million for various stationary source programs

Water Resources Control Board	**Requested: $663.6 million** **Decrease: $394.6 million (-37.3%)**

+ $22.4 million to tank owners for tank clean-up

+ $15 million from increased fees to replace General Fund support in core regulatory program

+ $4.3 million for information management

− $403.2 million in bond-funded local water projects

Toxic Substances Control	**Requested: $156.3 million** **Decrease: $152.3 million (-49.4%)**

+ $9.3 million for facility operations, equipment, and vehicles

+ $2.2 million for various hazardous waste management programs

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− $135.8 million for two major one-time expenditures in current year

CROSSCUTTING ISSUES

Resources

CALFED BAY-DELTA PROGRAM

The CALFED Bay-Delta Program, a consortium of 11 state and 13 federal agencies, was created to address a number of interrelated water problems in the state's Bay-Delta region. Program implementation began in September 2000. Over a seven-year period, the program is estimated to cost $8.5 billion.

The 2002-03 budget proposes $519 million in state funds for CALFED. We raise a number of policy, fiscal, and programmatic issues for the Legislature to consider.

CALFED Created to Address Bay-Delta Water Problems

The CALFED Bay-Delta Program. Pursuant to a federal-state accord signed in 1994, the CALFED Bay-Delta Program (CALFED) was administratively created as a consortium of state and federal agencies that have regulatory authority over water and resource management responsibilities in the Bay-Delta region. CALFED now encompasses 11 state and 13 federal agencies. The objectives of the program are to:

- Provide good water quality for all uses.
- Improve fish and wildlife habitat.
- Reduce the gap between water supplies and projected demand.
- Reduce the risks of deteriorating levees.

After five years of planning, CALFED began to implement programs and construct projects in 2000. The program's implementation—which is anticipated to last 30 years—is guided by the "Record of Decision" (ROD). The ROD represents the approval by the lead CALFED agencies of the final environmental review documents for the CALFED "plan." Among other things, the ROD lays out the roles and responsibilities of each participating agency, sets goals for the program and types of projects to be pursued, and includes an estimate of the program's costs for its first seven years. In the ROD, these costs are projected to total $8.5 billion for the program's first seven years (2000-01 through 2006-07). According to CALFED, this cost estimate which was developed in 2000 has not been updated.

The ROD also includes a schedule that allocates responsibility for paying the $8.5 billion of projected costs among federal ($2.4 billion), state ($2.5 billion), and local/private ($2.6 billion) sources. (About $930 million of program costs have yet to be allocated among funding sources.) The proposed cost-sharing is rather arbitrary, and in most cases reflects simply a 50-50 split between state and federal sources or a 33-33-33 split among federal, state, and local/private sources.

For more in-depth information on CALFED's history, please refer to our write-up beginning on page B-17 in the *Analysis of the 2001-02 Budget Bill*.

The Budget Proposal

The budget proposes $519 million in state funds for CALFED-related programs in 2002-03, of which $59 million is from the General Fund and the balance is mainly from bond funds. The largest expenditures are for ecosystem restoration and water storage.

Figure 1 shows the breakdown of CALFED expenditures in the current year and as proposed for 2002-03, among the program's 11 elements.

Current-Year Expenditures. As shown in the figure, the budget estimates CALFED-related expenditures from state funds of about $557 million in 2001-02. Of this amount, about $57 million is from the General Fund, with the balance mainly from Proposition 13 ($227 million) and Proposition 204 ($179 million) bond funds.

For the current year, the largest state expenditures are in the ecosystem restoration ($165 million), water use efficiency ($120 million), and water storage ($116 million) programs. A majority of the ecosystem restoration expenditures is funded by Proposition 204 funds that became available with the signing of the ROD. A majority of the water use efficiency and water storage expenditures is for water recycling and local groundwater projects funded by various bond funds.

Budget Proposes $519 Million of State Funds for 2002-03. As shown in Figure 1, the budget proposes $519 million of state funds for various departments to carry out CALFED in 2002-03, a decrease of about $38 million (7 percent) from the current year. Of this amount, $59 million is proposed from the General Fund, with the balance mainly from three bond

Figure 1

CALFED Expenditures[a]

(In Millions)

Expenditures by Program Elements	2001-02	Proposed 2002-03
Ecosystem restoration	$165.1	$207.5
Environmental Water Account	35.5	29.2
Water use efficiency	120.4	29.2
Water transfers	0.8	0.8
Watershed management	17.7	35.3
Drinking water quality	15.7	36.2
Levees	13.8	8.7
Water storage	116.1	103.4
Water conveyance	51.4	47.9
Science	13.5	14.2
CALFED program management	7.1	6.9
Total CALFED expenditures	**$557.1**	**$519.3**
Expenditures by Department		
Water Resources	$263.2	$285.9
Secretary for Resources	169.7	163.3
Wildlife Conservation Board	2.0	30.0
State Water Resources Control Board	113.0	23.5
State Coastal Conservancy	—	10.0
Fish and Game	7.3	6.0
Forestry and Fire Protection	1.5	0.4
Conservation	0.1	0.1
San Francisco Bay Conservation And Development Commission	0.2	0.1
State Lands Commission	0.1	—
Total CALFED expenditures	**$557.1**	**$519.3**
Expenditures by Fund Source		
Proposition 13	$226.8	$161.2
Proposition 204	179.5	154.7
Proposition 40[b]	—	101.1
General Fund	57.4	58.9
Other state funds	93.4	43.4
Total CALFED expenditures	**$557.1**	**$519.3**

a State funds only.

b To be voted on at the March 2002 election.

funds—Proposition 13 ($161 million), Proposition 204 ($155 million), and the yet-to-be-approved Proposition 40 ($101 million) on the March 2002 ballot.

As Figure 1 indicates, CALFED expenditures are spread among ten state agencies. The largest expenditures are found in the Department of Water Resources (DWR) ($286 million) and the Secretary for Resources ($163 million). (The funding to the secretary—mainly for ecosystem restoration—will be disbursed to a number of state departments to administer for specific projects.) As in the current year, the largest state expenditures are proposed for ecosystem restoration ($208 million) and substantial expenditures are proposed for water storage feasibility studies and local groundwater projects ($103 million). However, the budget proposes substantially lower expenditures for water use efficiency projects (such as water recycling) in 2002-03. This reflects a significant reduction in available bond funds for these projects.

In the sections that follow, we raise a number of issues for the Legislature to consider in its review of the Governor's budget proposal for CALFED. As discussed below, we think that the Legislature's policy direction to, and oversight of, CALFED is enhanced by having the relevant policy and budget committees, in each house, jointly consider CALFED budget proposals at oversight hearings.

Recommend Holding Joint Hearings

In order for the Legislature to effectively evaluate CALFED-related budget proposals—which are spread through several state departments—and provide appropriate policy direction to CALFED, we recommend that the water and natural resources policy committees and budget subcommittee, in each house, jointly consider CALFED budget proposals as was done for the current-year's budget.

CALFED's Budget Encompasses Policy Choices. As was discussed in our *Analysis of the 2001-02 Budget Bill* (see page B-23), there are trade-offs inherent in CALFED's plan (the ROD) and in its budget proposals that require policy choices to be made. This is because all elements of CALFED are interrelated and interdependent. For example, construction of a water storage or flood control facility could negatively affect fish habitat. Increasing the reliability of water supplies could reduce the incentive to conserve water.

We think that it is important for the Legislature to be apprised of the policy choices and funding priorities that are inherent in the Governor's budget proposal for CALFED. The Legislature will need this information to evaluate whether these choices and priorities are consistent with those of the Legislature, determine whether policy direction should be given to CALFED, and determine the state's funding contribution.

Recommend Joint Policy/Budget Hearings. We think that the Legislature's current-year evaluation of the many individual CALFED-related budget proposals was significantly enhanced by holding joint policy and budget subcommittee hearings on CALFED. This gave the Legislature a "big picture" view of CALFED that could be missing if the budget proposals had been evaluated on a department-by-department basis (nine departments have CALFED budget proposals this budget year). We therefore recommend that the Legislature hold joint hearings of the water and natural resources policy committees and budget subcommittees, in each house, on CALFED. In the sections that follow, we raise a number of issues for the Legislature to consider at these hearings.

CALFED Budget Proposal Based on Risky Assumptions

The budget proposal assumes the receipt of federal reimbursements for CALFED in both the current and budget years, even though federal reimbursements have not been forthcoming to date. In addition, the budget assumes voter approval of the Proposition 40 resources bond on the March 2002 ballot. We recommend that CALFED advise the Legislature on the programmatic implications and the administration's plans if federal reimbursements and Proposition 40 bond funds fail to materialize. We also recommend approval of proposed budget language that would provide legislative oversight of CALFED expenditures.

The Federal Government Has Lagged Behind State in Funding CALFED. As discussed above, CALFED has allocated program costs of $2.5 billion and $2.4 billion to the state and federal governments, respectively, over a seven-year period. In providing its funding support, the federal government could either spend directly on projects or provide funding to the state as federal reimbursements.

While recognizing that CALFED has never anticipated that the state and federal contributions would be roughly equal on a *year-to-year* basis, our review nonetheless finds that the state has been contributing far more to CALFED than the federal government. As Figure 2 (see next page) shows, from 2000-01 (the first year of program implementation) through the budget year, the state support for CALFED will total almost $1.5 billion. This contrasts with federal support of $170 million through the current year. For the most part, the federal contribution has been in the form of direct federal spending for CALFED, as opposed to federal reimbursements that are passed through the state budget. Although the federal total does not include funding that may become available in the 2003 federal fiscal year (covering the period October 2002 through September 2003), experience would indicate that this contribution is highly uncertain.

Figure 2

CALFED
State Versus Federal Funding

(In Millions)

Fiscal Year	State Contribution	Federal Contribution
2000-01	$382.0	$59.7
2001-02	557.1	110.3[a]
2002-03	519.3[b]	—[c]
Totals	**$1,458.4**	**$170.0**

a To date in the current year, all federal expenditures reflect direct spending as opposed to federal reimbursements passed through the state budget.
b As proposed by Governor's budget.
c Unknown at this time.

Budget Assumes Receipt of Federal Reimbursements. The budget assumes the receipt of $55 million of federal reimbursements by the state for CALFED in 2001-02 and proposes a like amount of federal reimbursements for the budget year. (These federal reimbursements are in addition to any direct federal spending for CALFED that does not pass through the state budget.) However, at the time this analysis was prepared, no federal funding had been made available as *reimbursements* to the state for the current year. Therefore, the likelihood of the state receiving this type of federal funding in the budget year is highly uncertain.

The impact of a lack (or reduced level) of federal funds would vary by program element. For elements that assume a large amount of federal reimbursements in the current and/or budget years, a lack of federal funds would have a major impact on the ability to complete planned activities. For both the current and budget years, federal reimbursements are budgeted mainly in two program elements—science and program oversight/coordination. For example, of the $34.3 million proposed for the CALFED science program in 2002-03, $20.2 million (59 percent) is budgeted to come from federal reimbursements.

Budget Assumes Voter Approval of Proposition 40. The budget proposal for CALFED also assumes that voters will approve Proposition 40—the $2.6 billion resources bond on the March 2002 ballot. Specifically, the budget proposes about $101 million from Proposition 40 bond funds in 2002-03 for various CALFED programs. Figure 3 shows the allocation of the Proposition 40 funds among CALFED programs.

Figure 3

Proposed 2002-03 CALFED Expenditures From Proposition 40[a]

(In Millions)

CALFED Program Element	Expenditures	Percentage of Element Funded by Proposition 40
Watershed management	**$20.6**	**58%**
DWR	(20.6)	
Drinking water quality	**$20.5**	**57%**
DWR	(20.5)	
Ecosystem Restoration	**$60.0**	**29%**
Wildlife Conservation Board	(30.0)	
DWR	(10.0)	
Secretary for Resources	(10.0)	
State Coastal Conservancy	(10.0)	
Total expenditures	**$101.1**	

a To be voted on at the March 2002 election.

As indicated in Figure 3, the budget proposes to fund a substantial portion of three CALFED programs from Proposition 40 bond funds. In particular, the budget proposes to fund 58 percent and 57 percent of the watershed and drinking water quality programs, respectively, from these bond funds.

Legislature Should Evaluate State's Options if Federal and Bond Funds Do Not Materialize. It is important that the Legislature be informed of the programmatic implications if federal reimbursements and Proposition 40 bond funds do not materialize as assumed by the budget. The Legislature should also be informed of CALFED's expenditure priorities if a lack (or reduced level) of these funds necessitates a redistribution of state funds among the program elements as proposed in the Governor's budget. To the extent that those priorities do not match with the Legislature's priorities, the Legislature should provide clear direction to guide the redistribution of funds.

Although the status of Proposition 40 will be known by the time of budget hearings, the status of federal support for CALFED in the budget year (both direct spending and reimbursements to the state) will not. The CALFED has stated that to the extent funding is not received as planned, there may be a need to reevaluate the state's budget proposal and adjust the allocation of expenditures among the program's 11 elements. This is because CALFED's budget is built on the principle that activities in each of the program's 11 elements should progress year-by-year in a "balanced" fashion.

Recommend Approval of Budget Language. In order to facilitate legislative oversight of changes that CALFED might make to its budget (namely, transferring expenditures among the 11 program elements) *after* approval of the budget act, the Legislature adopted budget language in the current-year budget act requiring that it be notified of and given justification for such changes. The Governor's budget proposes to continue to include this language in the *2002-03 Budget Act* (Control Section 5.40). We recommend approval of this budget language.

Environmental Water Account: Heightened Need for Legislative Direction and Oversight

We recommend that the Legislature address a number of policy, program management, and funding issues raised by CALFED's Environmental Water Account (EWA) program before funding is provided for the budget year. We therefore recommend that funding be deleted from the budget bill and instead be put in legislation authorizing EWA. (Reduce Item 0540-001-0546 by $28,233,000; Item 3600-001-0001 by $160,000; and Item 3860-001-0001 by $786,000.)

The budget proposes $29.2 million (mainly Proposition 204 funds) for the EWA program in 2002-03. Of this amount, about $29 million is for DWR (about $28.2 million of which is transferred from the Secretary for Resources) and $160,000 is for the Department of Fish and Game. For the current year, the budget estimates expenditures of $35.5 million for EWA.

The EWA Is a New Concept. The EWA is a new concept, the implementation of which began in 2001. Basically, EWA involves the state buying water to hold in reserve to release when needed for fish protection. The program's objectives are twofold: (1) to minimize reductions in water deliveries from the state and federal water projects (or to compensate water users for such reductions) due to endangered species requirements and (2) to enhance endangered species protection and recovery. The CALFED estimates costs of $200 million for EWA over its initial four years of implementation.

The EWA Raises Policy Issues. In our January 2001 report, *Environmental Water Account: Need for Legislative Definition and Oversight*, we raised a number of policy and implementation issues for the Legislature to consider regarding EWA before the program proceeds. Most fundamentally, before proceeding further, we think that Legislature should "sign off" on the concept of EWA (after considering the program's costs, benefits, and impacts) and determine the appropriate state role in EWA, particularly in terms of funding. We think that water users should pay for at least some of the program's costs because they clearly benefit from EWA to the extent that it makes water supplies more reliable. Additionally, we think that the Legislature should consider operational issues for EWA, including governance, scientific review, and acquisition and use of water.

Need for Clear Accounting of EWA Activities and Impacts. At an oversight hearing on EWA last year, a number of stakeholders expressed the importance of having a clear accounting of the activities and impacts of an operational EWA. Since EWA is a new, untested concept, we think that it is important for the Legislature to have good information to assess whether the program is working as intended and meeting its goals. Specifically, at a minimum, there should be a clear accounting of:

- The amount, source, and cost of water acquired for EWA.
- The movement and use of the acquired water.
- The impact of EWA on (1) endangered species protection and recovery and (2) preventing additional endangered species-related restrictions that would have otherwise resulted in reduced water deliveries from state and federal water projects.

Recommend Enactment of Legislation. If the Legislature approves the concept of EWA, we think that legislation should be enacted to create the program and to specify how the program will be governed, funded, operated, and held accountable to the Legislature. The current version of SB 727 (Costa), introduced in 2001, would create and define EWA and require an accounting to the Legislature of its activities. Pending resolution in legislation of the issues discussed above, we recommend that $29.2 million for EWA be deleted from the budget bill.

General Fund Savings Potential in CALFED's Water Use Efficiency Program

The budget proposes $29.2 million of state funds, including $8.4 million from the General Fund, for CALFED's water use efficiency program. We think that the General Fund support could be reduced by $3.9 million, which would leave $25.3 million for the water use efficiency program to make progress in promoting water use efficiency through projects and technical assistance. (Reduce Item 3860-001-0001 by $3.9 Million.)

CALFED's Water Use Efficiency Program. The goal of CALFED's water use efficiency program is to accelerate the implementation of cost-effective actions to conserve and recycle water throughout the state. Funding in the program is used for water conservation loans and grants, water recycling grants, research, and to provide technical assistance and certify urban "best management practices."

CALFED Budget Proposal. The budget proposes a total of $29.2 million of state funds, of which $8.4 million is from the General Fund, for CALFED's water use efficiency program. The General Fund amount contains $3.9 million for a new "water and energy use efficiency" program in DWR that began in 2001-02. A majority of the $3.9 million is for contracts to provide technical assistance and increase public awareness on measures that improve water and energy efficiency.

Budget Proposes Substantial Expenditures to Promote Water Use Efficiency. In addition to CALFED's water use efficiency program, the Governor's budget proposes substantial expenditures exceeding $160 million to promote water use efficiency in other programs' budgets. For example, the budget proposes $143 million of bond funds for DWR's water conservation loan program. In addition, the budget includes about $18 million for the State Water Resources Control Board to award loans and grants for water recycling projects. Much of these two sets of expenditures would be for projects in the same geographic area covered by the CALFED program. In addition, as a consequence of promoting water use efficiency, many of these expenditures would also promote energy use efficiency.

Recommend Reduced Level of General Fund Support. In light of the budget's total proposed investment to promote water and energy use efficiency, we think that the $3.9 million for a new water and energy use efficiency program that began in 2001-02 could be eliminated in the budget year without undue harm to the CALFED's program's goals. We therefore recommend deletion of $3.9 million from the General Fund under DWR's budget.

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 natural resources. Of the $2.7 billion in state-funded expenditures for resources programs proposed for 2002-03, about $1.1 billion (40 percent) would be from special funds, and $628 million (23 percent) from bond funds. The remainder—$993 million—would be from the General Fund.

In this section, we provide a status report on selected special funds and bond funds supporting these programs. In general, the use of these special and bond funds is specified in statute. Some funds can be used for a wide variety of programs and activities, while the use of other funds is more limited. For purposes of this review, we divided the funds into three categories: (1) resources special funds, (2) park-related bond funds, and (3) bond funds for water programs. We conclude with a recommendation to provide the Legislature with better information on expenditures and fund balances of existing and future bond funds.

Resources Special Funds

The budget proposes to spend most of the special funds projected to be available in 2002-03 for resources protection. If the Governor's spending proposals are approved, it will leave about $21 million for legislative priorities. However, the use of most of these remaining funds is statutorily restricted to specific purposes.

Figure 1 (see next page) summarizes the total resources available in 2002-03 for selected special funds, the Governor's proposed expenditures from these funds, and the balances available after the Governor's proposed expenditures. Approval of the Governor's spending proposals would leave $20.8 million available for legislative priorities. This amount would be even less if the Legislature wishes to maintain some level of reserves in the accounts to meet contingencies such as revenue shortfalls or unanticipated expenditures. Furthermore, most of the remaining funds can only be used for specific purposes, as required by statute. For instance, about $5.1 million of the projected balance in the Fish and Game Preservation Fund (FGPF) is dedicated statutorily and can only be used for activities related to certain species. As a result, the Legislature's flexibility in expending these funds for resources projects is limited.

Figure 1

Resources Programs Selected Special Funds

(In Millions)

Special Funds	2001-02 Expenditures	2002-03 Resources	Expenditures	Balance
Environmental License Plate Fund	$26.4	$33.7	$24.1	$9.6
Public Resources Account	17.8	21.8	18.5	3.3
Habitat Conservation Fund	39.7	9.2[a]	8.8	0.4
Fish and Game Preservation Fund				
Dedicated	15.7	20.7	15.6	5.1
Nondedicated	76.1	74.5	73.5	1.0
Forest Resources Improvement Fund	12.6	14.8	14.8	—
State Parks and Recreation Fund	57.3	73.0	73.0	—
Salmon and Steelhead Trout Restoration Account	8.0	—	—	—
Marine Life and Reserve Management Account	2.2	—	—	—
State Parks System Deferred Maintenance Account	—	—	—	—
Natural Resources Infrastructure Fund	17.0	1.4	—	1.4
Totals	**$272.8**	**$249.1**	**$228.3**	**$20.8**

[a] Net of transfer of $21.3 million from the General Fund.

Below we discuss in greater detail the funds shown in Figure 1.

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 ELPF can be used for the following purposes:

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

The budget proposes expenditures totaling $24.1 million from ELPF, a decrease of about $2.2 million (9 percent) below estimated current-year spending. The decrease is the result of lower capital outlay expenditures by the California Tahoe Conservancy and lower ELPF support for the California Department of Forestry and Fire Protection (CDFFP). Almost all of the proposed ELPF expenditures in 2002-03 would be for departmental support purposes, the largest being $16.7 million for support of Department of Fish and Game (DFG). Only $967,000 would be for local assistance. The proposed ELPF expenditures will leave a balance of $9.6 million at the end of 2002-03.

Public Resources Account, Cigarette and Tobacco Products Surtax Fund (PRA). The PRA receives 5 percent of the Cigarette and Tobacco Products Surtax Fund (C&T Fund) revenues. Generally, 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.

The budget projects $21.8 million in PRA resources in 2002-03 and proposes total expenditures from PRA of $18.5 million—$0.8 million higher than the estimated current-year expenditure level. Almost all proposed expenditures would be for departmental support purposes. About 73 percent ($13.7 million) of the proposed expenditures would be used to support the Department of Parks and Recreation (DPR), 10 percent ($2 million) would support the operations of the State Water Resources Control Board, and 8 percent ($1.6 million) would support DFG.

The budget proposes a reserve of $3.3 million in PRA at the end of 2002-03.

Habitat Conservation Fund (HCF). The HCF was created by Proposition 117, the California Wildlife Protection Act of 1990. The proposition requires that the fund receive annual revenues of $30 million primarily for wildlife habitat acquisitions and improvements. To provide this funding level, Proposition 117 requires transfers of (1) 10 percent of funds from the Unallocated Account, C&T Fund, and (2) additional funds from the General Fund in order to provide a total of $30 million. Proposition 117 allows the Legislature to substitute other appropriate funds for the General Fund.

For 2002-03, the budget proposes to transfer $8.6 million from the Unallocated Account, C&T Fund, and $21.3 million from the General Fund to HCF. These transfers, together with carryover balances, would fund proposed expenditures of $30.1 million, leaving a balance of $0.4 million at the end of the budget year.

Fish and Game Preservation Fund. The FGPF derives most of its revenues from fishing and hunting licenses, tags, and permits. Money in FGPF is used to support DFG activities to protect and preserve fish and wildlife, including the acquisition and construction of projects for these purposes. Certain revenues in the fund are restricted (or dedicated) to be used for specific purposes or species. For instance, revenues from hunting or fishing stamps for particular species can be used only for activities related to the protection of those species. The costs of commercial fishing programs are to be paid solely out of revenues from commercial fishing taxes and license fees.

For 2002-03, the budget proposes total FGPF expenditures of $89 million, almost entirely for the support of DFG. This amount is $2.7 million (2 percent) less than estimated current-year expenditures. Of the budget-year amount, $73.5 million is proposed to be spent from nondedicated funds and the remaining $15.6 million from dedicated revenues.

With the proposed expenditures, the budget projects a reserve of $6.1 million in FGPF for 2002-03, of which $1 million is expected to be in nondedicated funds.

Forest Resources Improvement Fund. Revenues generated from timber harvesting in state forests are deposited into the Forest Resources Improvement Fund (FRIF). Most of this revenue is generated from Jackson State Demonstration Forest. Funds for FRIF can be used for the following purposes:

- Forest improvement programs.
- Urban forestry programs.
- Wood energy programs.
- Reimbursing the General Fund for the operation of state demonstration forests.
- Regulation of forest practices.
- Support of state nurseries.
- Forest pest research and management.

Figure 2 shows the proposed 2002-03 expenditures for FRIF in the budget.

Figure 2

Forest Resources Improvement Fund 2002-03 Expenditures

(In Millions)

Program	Amount
State forest management and stewardship	$5.3
California Forest Improvement program	2.5
State nurseries	1.8
Forest pest management	1.5
Forest and Rangeland Assessment program	1.3
North Coast Watershed Assessment	0.9
State forest research	0.7
Urban forestry	0.5
Watershed restoration	0.3
Total	**$14.8**

The current revenue projection for FRIF is uncertain due to pending litigation which has forced the halt of timber harvesting on Jackson State Demonstration Forest, the primary revenue source for FRIF. The department anticipates it will begin harvesting in July 2002. In order for the department to resume harvesting, however, a number of conditions must be met. These include: (1) lifting the present injunction prohibiting harvesting in the Jackson State Demonstration Forest, (2) completing a management plan for Jackson State Forest by CDFFP, (3) completing the environmental review process for the plan, and (4) approval of the plan by Board of Forestry.

State Parks and Recreation Fund (SPRF). The SPRF is the main special fund source that supports DPR. The fund generates most of its revenues from state beach and park service fees. For 2002-03, the budget projects SPRF resources of $73 million, including $29 million from state beach and park service fees collected in 2002-03. The amount of resources available reflects a proposed transfer of $19.8 million from SPRF to the General Fund.

The budget proposes to use $73 million for DPR support, thereby leaving no balance at year-end.

Budget Proposes Major Changes To Tidelands Revenue Distribution

The budget proposes eliminating the current statutory requirements for distributing tidelands oil revenues to various special funds to fund resource activities. In addition, the recent downturn in oil prices suggests the tidelands revenues in 2002-03 will likely be lower than projected in the Governor's budget. We recommend that the State Lands Commission provide an updated estimate on tidelands revenues at budget hearings.

Tidelands Oil Revenues Fund Various Special Funds. The state receives a portion of the revenue derived from oil, gas, and other minerals extracted from the state's tidelands. The amount of state revenue from tideland oil leases is based primarily on the net profit received by oil producers leasing state tidelands. Figure 3 shows the Governor's proposed distribution of tidelands revenues—relative to current law requirements.

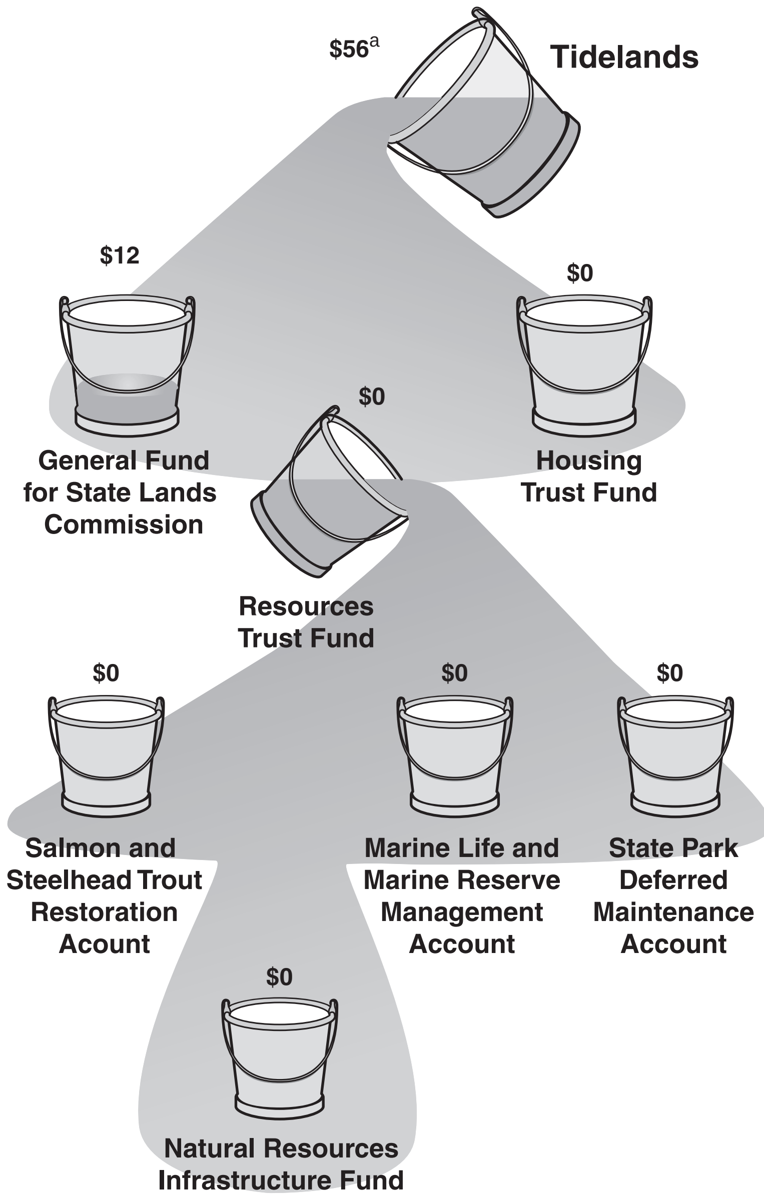
Current law requires that after specified amounts are deposited in the Housing Trust Fund and in the General Fund mainly to support the State Lands Commission (SLC), the remaining tidelands revenues are deposited into the Resources Trust Fund (RTF) created by Chapter 293, Statutes of 1997 (SB 271, Thompson). The RTF in turn funds the following accounts that support various resource programs.

- The first $8 million is to be deposited in the Salmon and Steelhead Trout Restoration Account (created by Chapter 293) for expenditures by DFG for the recovery of salmon and steelhead trout.
- The next $2.2 million is to go to the Marine Life and Marine Reserve Management Account (created by Chapter 326, Statutes of 1998 [AB 2784, Strom-Martin]) for expenditure by DFG for marine life management.

Figure 3

Governor's Distribution of Tidelands Money

(In Millions)



[a]Additionally, the Governor's budget purposes to transfer $44 million of this amount to the General Fund for other unspecified purposes.

- The next $10 million is to be deposited in the State Parks Deferred Maintenance Account (also created by Chapter 326) for expenditure by DPR for deferred maintenance expenses.
- Finally, any remaining RTF money is then to be deposited in the Natural Resources Infrastructure Fund (NRIF). Chapter 293 identified four priorities for the use of NRIF: (1) environmental review and monitoring by DFG, (2) Natural Community Conservation Plan acquisitions, (3) HCF funding requirements, and (4) nonpoint source pollution control programs. Funds not appropriated to these priorities will be available to be spent generally on natural and recreational resources.

Tidelands Oil Revenue Is Difficult To Project. The amount of state revenue from tidelands oil leases is based primarily on the net profit received by oil producers leasing state tidelands. It is difficult to project the revenue from tidelands oil leases, because historically this revenue has been subject to large fluctuations for a number of reasons. A major contributor to this volatility is the instability of oil prices as well as fluctuating costs of production that figure into net profits of oil producers.

Budget Proposes Major Changes To Tidelands Oil Distribution. The budget projects that tidelands revenues to the state will be about $56 million in 2002-03. The budget proposes to transfer $12 million of these funds to the General Fund mainly for support of SLC. However, the budget proposes no funding from tidelands revenues for the Housing Trust Fund or for RTF and all of its subaccounts. Instead, as shown in Figure 4, the budget proposes using a combination of General Fund and bond funds to fund activities currently funded by the RTF, with the exception of NRIF, which is proposed to receive no funding.

In lieu of allocating tidelands revenues to the various accounts under RTF, the budget proposes to transfer the remaining funds to the General Fund ($44 million). The Department of Finance reports it will request urgency legislation to eliminate the current statutory requirements to fund the various RTF accounts.

Tidelands Revenues Will Likely Be Less Than Projected. Our review of prior-year projections for tidelands revenues found that these revenues are inherently uncertain. As a consequence, the projections in some years have been overly optimistic. This is likely to be the case for 2002-03. Specifically, the budget's projections for tidelands revenues in 2002-03 were made this past September, according to SLC. The budget assumed that the oil price prevailing in September—about $20 per barrel—would hold for the budget year. However, oil prices sharply decreased since September (oil prices averaged $13 per barrel in December). In light of the subsequent reduction in tidelands oil revenue in the current year, the budget's current-year revenue estimates and budget-year revenue projections are both likely to require downward adjustments.

Figure 4

Governor's Proposal to Fund Activities Currently Funded from Tidelands Revenues

(In Millions)

Resources Trust Fund[a]	2001-02 Expenditures	2002-03 Proposed Fund Source	2002-03 Expenditures
Salmon and Steelhead Restoration Account	$8.0	Proposition 40[b]	$8.0
Marine Life and Marine Reserve Management Account	2.2	General Fund	2.2
State Parks Deferred Maintenance Account	10.0	Proposition 40[b]	10.0
Natural Resource Infrastructure Fund[c]	17.0	—	—

a Accounts within this fund funded from tidelands revenues in the current year.
b Assumes passage of this measure at the March 2002 election.
c Expenditures from this fund in 2001-02 are one time.

At the time this analysis was written, SLC reported it was in the process of revising the tidelands revenue projections for both the current and budget years. We recommend that SLC provide an updated estimate of tidelands revenues for the current and budget years at budget hearings. To the extent that revised revenue estimates for the current year are below those found in the budget, current-year expenditures from tidelands revenues (including state park deferred maintenance and local park assistance) may have to be further reduced. To the extent that the revised revenue estimates are lower for the budget year, the proposed transfer of $44 million of tidelands revenues to the General Fund may also have to be reduced.

Parks Bond

The budget proposes expenditures in 2002-03 of about $123 million from the 2000 Parks Bond for park acquisitions, development, improvement, and restoration. The proposed expenditures would leave a balance of about $221 million. After netting out administrative costs and set-asides for future obligations ($151 million), this leaves about $70 million for new projects beyond the budget year.

In March 2000, the voters approved Proposition 12 (the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act), which authorized $2.1 billion in bond funds for specified and unspecified parks projects and habitat acquisition. Proposition 12 allocates $540 million to DPR for various state park development and improvement projects, plus another $825 million to provide grants to local and nonprofit agencies. The remaining $736 million is to be allocated to a dozen other state departments for land acquisition and parks-related projects.

The 2000-01 and 2001-02 budgets appropriated a total of $1.8 billion of the bond funds across all the recipient departments. As shown in Figure 5, the budget proposes a total of $122.9 million to be expended by these departments in 2002-03. This will leave a balance of $220.7 million. The actual balance available for park projects, however, will be less. This is because some funding has been set aside to provide for the completion of existing projects, and to fund program support costs and the administration of the bond. Netting out these administrative costs and set-asides for future years, the funds remaining for new projects and grants beyond 2002-03 would be about $70.1 million. Most of this is for specified purposes or programs.

Resources Bond on March Ballot

If adopted by voters, Proposition 40 on the March 2002 ballot would provide $2.6 billion in new bond funds for various resources purposes including parks. The budget proposes expenditures of about $119 million from this bond measure, mainly for the CALFED Bay-Delta program.

Proposition 40 (the California Clean Water, Safe Neighborhood Parks, Clean Air, and Coastal Protection Act of 2002) on the March 2002 ballot, if adopted, would provide $2.6 billion to conserve natural resources (land, air, and water), acquire and improve state and local parks, and preserve historical and cultural resources. As shown in Figure 6 (see page 38), about $1.3 billion would be used for land, air, and water conservation; $1 billion for parks and recreation; and $267.5 million for historical and cultural resource preservation.

Budget Proposes $119 Million in Proposition 40 Expenditures. As shown in Figure 7 (see page 38), the budget proposes about $119 million in expenditures from Proposition 40 in 2002-03 across various resource departments. Most of the funding ($101.1 million) is to support the CALFED Bay-Delta program.

Figure 5

Proposition 12 Expenditures and Balances by Department

(In Millions)

Department	2002-03 Resources	Expenditures	Set-Asides[a]	Balance
Parks and Recreation				
Local grants	$50.1	$22.3	$27.7	—
State parks	174.9	56.8	92.5	$25.8
Wildlife Conservation Board	11.9	0.4	7.8	3.7
Coastal Conservancy	24.2	9.3	10.3	4.6
Tahoe Conservancy	36.9	19.8	2.7	14.3
Resources Agency	4.3	0.2	2.3	1.8
SMMC[b]	1.8	0.7	1.0	—
Conservation	14.0	5.5	1.2	7.3
Conservation Corps	8.5	3.5	1.6	3.4
SJRC[c]	0.4	—	0.4	—
Fish and Game	9.3	2.8	0.4	6.1
Forestry and Fire Protection	5.7	1.4	1.2	3.1
Integrated Waste Management Board	1.4	0.1	1.2	—
CVMC[d]	0.1	—	0.1	—
Totals	**$343.5**	**$122.9**	**$150.5**	**$70.1**

a For administration and future-year obligations.
b Santa Monica Mountains Conservancy.
c San Joaquin River Conservancy.
d Coachella Valley Mountains Conservancy.

Water Bonds Update

The budget proposes expenditures of about $480 million from a number of water bonds for various water quality, water supply, flood control, and ecosystem restoration projects. Bond funds are no longer available in the budget year for the state's unmet share of costs for federally authorized local flood control projects. The budget proposes no funding from other sources for this purpose, resulting in an estimated $132 million owing to local agencies at the end of the budget year.

Figure 6

Proposition 40[a]

(In Millions)

Uses of Bond Funds	Amount
Land, Air, and Water Conservation	**$1,275.0**
• Acquisition, development, and restoration projects.	$745.0
• Water quality protection and restoration activities.	300.0
• Agricultural and grazing lands preservation.	75.0
• Urban river parkways and streams.	75.0
• Grants for reducing air emissions from diesel-fueled equipment operating within state and local parks.	50.0
• Resource protection and restoration through the California Conservation Corps.	20.0
• Urban forestry programs.	10.0
Parks and Recreation	**$1,057.5**
• Urban parks and recreational facilities acquisition and development.	$460.0
• Regional and local park acquisitions and development (funds distributed based on population).	372.5
• State park improvements and acquisitions.	225.0
Historical and Cultural Resources Preservation	**$267.5**
• Acquisition, development, and preservation of culturally and/or historically significant properties, structures, and artifacts.	$267.5
Total	**$2,600.0**

a To be voted on at the March 2002 election.

Figure 7

Proposition 40[a] Proposed 2002-03 Expenditures

(In Millions)

Department	Purpose	Amount
Various Resources departments	CALFED Bay-Delta program: watershed management, water quality, and ecosystem restoration	$101.1
Fish and Game	Salmon and steelhead restoration	8.0
Parks and Recreation	State parks deferred maintenance	10.0
Total		**$119.1**

a To be voted on at the March 2002 election.

As Figure 8 shows, the budget proposes expenditures totaling $480 million in 2002-03 from various water bonds for (1) safe drinking water; (2) water supply, including water conservation, water recycling, and groundwater recharge; (3) wastewater treatment and other water quality projects; (4) Bay-Delta improvements, including fish and wildlife

Figure 8

Water Bond Fund Conditions[a]

2002-03
(In Millions)

	Resources	Expenditures	Balances
Safe drinking water			
1986 California Safe Drinking Water Fund	$18.6	$4.8	$13.8
1988 California Safe Drinking Water Fund	30.3	7.3	23.0
Subtotals	($48.9)	($12.1)	($36.8)
Water supply/water recycling			
1986 Water Conservation and Water Quality Fund	$10.9	$10.1	$0.8
1988 Clean Water and Water Reclamation Fund	4.6	1.2	3.4
1988 Water Conservation Fund	9.0	—	9.0
Proposition 204[b]	17.9	11.7	6.2
Proposition 13[c]	231.4	135.5	95.9
Subtotals	($273.8)	($158.5)	($115.3)
Wastewater treatment/water quality			
1984 State Clean Water Fund	$19.4	$7.2	$12.2
Proposition 204[b]	49.8	21.0	28.8
Proposition 13[c]	201.9	81.1	120.8
Subtotals	($271.1)	($109.3)	($161.8)
Bay-Delta improvements			
Proposition 204[b]	$174.3	$153.3	$21.0
Proposition 13[c]	213.6	29.3	184.3
Subtotals	($387.9)	($182.6)	($205.3)
Flood control and prevention			
Proposition 13[b]	$122.0	$17.5	$104.5
Totals	**$1,103.7**	**$480.0**	**$623.7**

a Based on Governor's budget.
b Safe, Clean, Reliable Water Supply Fund, 1996.
c Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Fund, 2000.

restoration; and (5) flood control and prevention. Of the proposed expenditures, about 39 percent are from Proposition 204 bond funds and 55 percent from Proposition 13 bond funds. Proposition 204—the Safe, Clean, Reliable Water Supply Act of 1996—provided $995 million for various water-related purposes, including habitat restoration in the Bay-Delta, wastewater treatment, water recycling and conservation, and local flood control and prevention. Proposition 13—the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (2000)—provided $1.97 billion for safe drinking water, flood control, Bay-Delta restoration, watershed protection, and various water quality and supply projects.

Safe Drinking Water. The budget projects total expenditures of $12.1 million in 2002-03, leaving a balance of $36.8 million at the end of 2002-03. There are pending grant applications that would spend much of this balance in future years.

Water Supply and Water Recycling. The budget projects total expenditures of $158.5 million for water supply and recycling projects. This leaves a balance of $115.3 million, mainly for new projects.

Wastewater Treatment, Watershed Protection, and Other Water Quality Projects. The budget proposes $109.3 million in expenditures to fund wastewater treatment, agricultural drainage treatment, seawater intrusion control, watershed protection, and other water quality projects in 2002-03. This leaves a balance of $161.8 million.

Bay-Delta Improvements. Propositions 13 and 204 provide a total of about $1 billion for projects specifically related to the Bay-Delta. These funds are mainly for ecosystem restoration, fish screens to reduce fish losses from water diversions, delta levee rehabilitation, and water supply/quality projects in areas receiving water deliveries diverted from the Bay-Delta. About $388 million of these funds will remain available for expenditure at the beginning of the budget year. The budget proposes expenditures of $182.6 million in 2002-03, leaving a balance of $205.3 million.

Flood Control and Prevention. In addition to providing funds to pay the state share of costs for federally authorized flood control projects as discussed below, Proposition 13 bond funds provide a total of $217 million for other flood control projects. The budget proposes expenditures of $17.5 million for these projects in 2002-03, leaving a balance of $104.5 million for future years.

While Propositions 204 and 13 also provide $105 million in bond funds to pay the state's share of costs of federally authorized, locally sponsored projects, these funds have been depleted. The costs of these projects are currently shared by the federal government (50 percent to 75 percent), state government (12.5 percent to 35 percent), and local government

(7.5 percent to 25 percent). These shares of costs vary depending on when the project was started and the level of statewide benefit. Due to the state's budget condition during the 1990s, however, the state has been unable to pay its full share of costs for these flood control projects.

According to the Department of Water Resources, the unpaid amount of the state's share of costs will be about $41.5 million at the end of 2001-02, and new claims totaling $90 million will be submitted from local agencies during the course of the budget year requesting the state share of costs. The budget proposes no funding to pay the arrears and estimated new claims. As a result, it is estimated that the arrearages owed local agencies will increase to about $132 million at the end of 2002-03.

Improving Bond Fund Accountability

Because the Governor's budget display does not provide fund condition information for a number of resources bonds, it has been difficult for the Legislature to monitor bond fund expenditures and fund balances. We therefore recommend the enactment of legislation that requires that these fund conditions be displayed annually in the Governor's budget document.

Governor's Budget Document Does Not Display Bond Fund Conditions. Currently, the Governor's budget document does not include fund condition statements for a number of resources bonds—Propositions 12, 13, and 204. The accounting required for these bond measures is rather complex. For example, Propositions 13 and 204 created many subaccounts for the various programs funded by these measures, with Proposition 13 establishing 26 subaccounts.

The lack of these fund condition statements has complicated the Legislature's ability to ascertain the budget's expenditure proposal for the various programs funded by the measures as well as monitor fund balances for use in current and future budget appropriations. In addition, there have been a number of instances in recent years where, after the Governor's budget was submitted to the Legislature, it was discovered that a bond subaccount did not have sufficient remaining funds to support the proposed level of expenditures. If bond fund conditions had been submitted as part of the Governor's budget, such errors would have been caught by the administration before the Governor's budget was finalized.

Recommend Fund Balances Be Displayed in Governor's Budget. In order to exercise oversight of bond programs, the Legislature needs clear and accurate information about expenditures and periodic updates on the fund balances remaining for the various programs and projects funded by bond measures. Therefore, we recommend the enactment of legislation that requires the account balances for each of the subaccounts of the

Propositions 12, 13, and 204 bond measures and any future resources bond measures be displayed annually in the Governor's budget document. This will promote accountability and will facilitate the monitoring of fund balances for use in current and future budget appropriations.

TAHOE ENVIRONMENTAL IMPROVEMENT PROGRAM

The Tahoe Environmental Improvement Program (EIP), a collaboration of over 50 state, federal, academic, local, and private interests, is a capital improvement program designed to achieve environmental standards in the Lake Tahoe basin. Program implementation began in 1997. Over a 20-year period, the program is estimated to cost approximately $1.5 billion.

The 2002-03 budget proposes $26.6 million in state funds in six departments for the Tahoe EIP. There are a number of policy, fiscal, and programmatic issues for the Legislature to consider in evaluating the proposed budget for the Tahoe EIP.

Tahoe EIP Created to Meet Environmental Standards in the Lake Tahoe Basin

Program Created to Address Environmental Degradation. The Lake Tahoe region has experienced environmental degradation for the past 100 years, most notably in the lake's water clarity and the health of the basin's forest lands. The lake's water clarity—which reflects water quality—has become the primary measure of the basin's environmental health. As shown in Figure 1 (see next page), the lake's water clarity has steadily declined over the past several decades.

To counter this degradation, the Tahoe Environmental Improvement Program (EIP) was established in 1997. The Tahoe EIP is a 20-year capital improvement program involving multiple state, federal, local, academic, and private entities. In 1997, the state signed memoranda of agreement with the federal government, Nevada, the Washoe Tribe, and the Tahoe Regional Planning Agency (TRPA) committing to implement and fund the Tahoe EIP. Over 50 entities are involved in implementing the program. Figure 2 (see page 45) lists the main *California* participants.

Figure 1

Loss of Lake Tahoe Water Clarity

The objective of the Tahoe EIP is to meet nine categories of environmental standards for the Tahoe region that were established by a regional working group in the 1980s. These standards include numeric and measurable targets for categories such as water quality, soil conservation, wildlife, recreation, and air quality. Pursuant to a California-Nevada bistate compact, TRPA (a bistate agency) performs evaluations every five years to determine whether the region is "on track" to meet the environmental standards.

Twenty-Year Costs Total at Least $1.5 Billion. As shown in Figure 3 (see page 46), TRPA projects costs of almost $1.5 billion for the Tahoe EIP over a 20-year period. The TRPA expects estimated costs to increase beyond this amount as more precise estimates for operations and maintenance costs for completed projects are developed. Figure 3 shows that capital outlay costs make up the bulk (90 percent) of expenditures over this period. During the first ten years, capital outlay costs total $908 million. Of this amount, the allocation of costs are as follows: federal government ($297 million), California ($275 million), private sector ($153 million), local government ($101 million), and Nevada ($82 million).

Budget Proposal. As shown in Figure 4 (see page 46), the Governor's budget proposes $26.6 million of state funds for various state departments to implement the Tahoe EIP in 2002-03. This is a decrease of about $1.9 million (7 percent) from the current year. Of the total proposed budget, $2 million is from the General Fund, $19.7 million is from bond funds, and $4.9 million is from special/other funds.

Figure 2

Tahoe EIP—Main California Participating Agencies

State Agencies

- Air Resources Board
- Caltrans
- Department of Parks and Recreation
- State Lands Commission
- Tahoe Conservancy
- Lahontan Regional Water Quality Control Board

Local Governments

- City of South Lake Tahoe (and Redevelopment Agency)
- El Dorado County
- Placer County (and Redevelopment Agency)
- Washoe Tribe

Regional Agencies

- South Shore Transportation Management Association
- Tahoe Regional Planning Agency
- Tahoe Transportation District
- Truckee North Tahoe Transportation Management Association

Other Agencies, Academic Institutions, And Private Entities

- University of California—Davis
- North Tahoe Public Utility District
- South Tahoe Public Utility District
- Tahoe City Public Utility District
- Tahoe Resource Conservation District
- Commercial Property Owners
- Homeowner Associations
- North Lake Tahoe Resort Association

Figure 3

Estimated EIP Costs

(In Millions)

	1997 Through 2006	2007 Through 2016	Total
Capital projects	$908	$417	$1,325
Science and research	57	1	58
Technical assistance	11	—	11
Operations and maintenance	23	61	84
Totals	**$999**	**$479**	**$1,478**

Figure 4

Tahoe Environmental Improvement Program 2002-03 Proposed Budget

(In Millions)

	Amount
Capital Outlay, Local Assistance, Grants	**$26.1**
Air Resources Board	**$0.6**
General Fund	(0.3)
Special funds	(0.3)
Caltrans	**$3.5**
Special funds	(3.5)
Department of Parks and Recreation	**$1.1**
General Fund	(1.1)
California Tahoe Conservancy	**$20.7**
Propositions 12 and 117 bonds	(19.7)
Special funds	(1.0)
State Water Resources Control Board	**$0.2**
General Fund	(0.2)
Planning and Strategic Development	**$0.5**
Tahoe Regional Planning Agency	**$0.5**
General Fund	(0.4)
Other	(0.1)
Total proposed expenditures	**$26.6**

Enhancing Legislative Oversight of Tahoe EIP

In order for the Legislature to effectively evaluate budget proposals related to the Tahoe Environmental Improvement Program (EIP)—which are spread throughout several state departments—and provide appropriate policy direction to the Tahoe EIP, we recommend that the natural resources and environmental quality policy committees and budget subcommittee in each house jointly consider Tahoe EIP budget proposals. We also recommend the adoption of supplemental report language to require an informational display of Tahoe EIP expenditures in future-year Governor's budgets.

Why Legislative Oversight of Tahoe EIP Is Important. Because of the state's potentially large financial commitment to the EIP effort in coming years, it is important for the Legislature to be provided up-to-date and accurate information about the effectiveness of the program in meeting environmental standards set for the Lake Tahoe region. A recent status report conducted by TRPA showed that the program was failing to meet most of its short-term environmental goals. This is of concern because, to the extent the region continues to fail to reach these goals, potential consequences include:

- Potentially irreparable loss of Lake Tahoe's water quality and clarity.
- Increased threat to the lake's aquatic and terrestrial ecosystems.
- Increased threats to wildlife in the basin, particularly to endangered species such as the bald eagle or the Lahontan cutthroat trout.
- Increased potential for catastrophic fire in the basin's forest lands.
- Deleterious impacts on the regional economy that is largely dependent on the basin's high environmental quality.
- Increased regulation of residential, commercial, and recreational development and activities in the region.

Legislature's Oversight Has Been Difficult. We find, however, that it has been difficult for the Legislature to oversee the Tahoe EIP. In part, this is because Tahoe EIP expenditures are not separately identified or displayed in the Governor's budget. Rather, Tahoe EIP expenditures are spread among several state agencies and are not always identified as such. Thus, it is difficult for the Legislature to identify program expenditures, staffing, and activities to hold the various participating agencies accountable.

It is also important for the Legislature to be informed of the policy choices, trade-offs, and funding priorities that are inherent in the budget proposals of the program. However, to the extent that Tahoe EIP funding proposals are reviewed by the Legislature on a department-by-department basis, it will be difficult for the Legislature to evaluate whether the policy and funding priorities inherent in the budget proposals are consistent with the Legislature's own priorities.

Finally, it has been difficult for the Legislature to evaluate the *performance* of the Tahoe EIP because numeric measures for evaluating the effect of individual EIP projects on environmental quality have generally been lacking. In other words, the Legislature has not been apprised of what improvements in environmental quality have resulted, or will result, from the state's investment in the particular capital improvements proposed by successive budgets. We understand, however, that TRPA is in the process of developing better "outcome-oriented" performance measures for the program's projects.

Recommendations to Enhance Legislative Oversight. To facilitate the Legislature's review of the Governor's budget proposal for the Tahoe EIP this budget session and in future years, we make the following recommendations.

First, we recommend that each house's environmental quality and natural resources policy committees and budget subcommittee hold joint hearings on Tahoe EIP budget proposals. This will help identify any need for legislation to provide policy direction to the program and will provide a policy basis for the budget subcommittees as they decide which proposals to fund. These oversight hearings should be held on an as-needed basis.

As regards the 2002-03 budget proposal, TRPA (as a coordinating agency for the program) should be directed to provide at the joint hearings certain information to present the "big picture" of the Tahoe EIP so as to facilitate the Legislature's decision-making process. The TRPA should be directed to:

- Provide a summary of the major activities planned for the program in the budget year, including project specifics and time lines.
- Explicitly set out the policy choices made and the funding priorities inherent in the budget proposal.
- Provide a status report on Tahoe EIP's programs to date and inform the Legislature on the results and implementation of TRPA's recent evaluation of environmental standard attainment in the Tahoe region.
- Provide a status report on the development of outcome-oriented performance measures to enable legislative review of Tahoe EIP's *effectiveness* in meeting environmental goals.

Additionally, in order for the Legislature to better evaluate the budget's proposal for the Tahoe EIP in future years, we recommend that the Legislature adopt the following supplemental report language:

> In order for the Legislature to better evaluate budget proposals for the Tahoe Environmental Improvement Program (EIP), it is the intent of the Legislature that the Governor's budget display include an informational item that contains all Tahoe EIP expenditures of all state agencies implementing the program. This display should be included in the budget for the 2003-04 and future budget years.

TIMBER HARVEST PLAN REVIEW

Timber Harvest Fees Should Be Enacted

We recommend the enactment of legislation imposing fees on timber operators to fully cover the costs incurred by state agencies in their review and enforcement of timber harvesting plans. This would result in a savings of $21.5 million to the General Fund and $385,000 to special funds. (Reduce Item 3480-001-0001 by $1.3 million, Item 3540-001-0001 by $12.7 million, Item 3540-001-0235 by $385,000, Item 3600-001-0001 by $4.8 million, and Item 3940-001-0001 by $2.7 million.)

The state regulates the harvesting of timber on nonfederal lands in California under the Forest Practice Act. Specifically, timber harvesting is prohibited unless harvest operations comply with a timber harvest plan (THP) prepared by a registered professional forester and approved by the Director of the California Department of Forestry and Fire Protection (CDFFP). The THP covers such matters as harvest volume, cutting method, erosion control, and wildlife habitat protection.

Timber harvest plans are reviewed by multiple state agencies in addition to CDFFP including the Departments of Conservation, Fish and Game, and the State Water Resources Control Board (SWRCB). For example, SWRCB is responsible for reviewing the impact of a THP on water quality. The review process can include initial desk reviews, preharvest inspections, inspections during harvesting, and inspections after harvesting is completed.

Budget-Year Proposal. As shown in Figure 1, the budget proposes expenditures totaling about $22 million for various state agencies to review and enforce THPs. Most of this funding is from the General Fund.

Fees Should Fully Cover Program Costs. We think that fees levied on timber operators should cover the total state agency costs to review and enforce THPs. This is because there is a direct link between the THP review and enforcement and those who directly benefit from it through their harvesting of timber. In other words, without the state review and approval of the THP, businesses would not be able to harvest timber. Doing so would be consistent with the Legislature's actions in requiring the costs of other regulatory programs, such as the Department of Toxic Substance Control's hazardous waste management program, to be fully or partially reimbursed through industry fees and assessments.

Figure 1

Timber Harvest Plan Review/Enforcement

2002-03
(In Millions)

Department	General Fund	Other	Total
Forestry and Fire Protection	$12.7	$0.6[a]	$13.3
Fish and Game	4.8	—	4.8
State Water Resources Control Board	2.7	—	2.7
Conservation	1.3	—	1.3
Totals	**$21.5**	**$0.6**	**$22.1**

[a] Public Resources Account, Timber Tax Fund, and reimbursements.

Various Fee Mechanisms Could Be Established. There are a number of potential ways that fees could be structured to recover state agency costs to review and enforce THPs. For example, fees could be based on the acreage and type of timber covered by a THP. Based on the five-year average of annual acres approved in THPs, an average fee of around $110 per acre would raise sufficient revenue to fully cover state agency expenditures proposed for 2002-03. A fee of this size would be relatively small compared to the revenue generated from harvesting timber, which can be up to tens of thousands of dollars per acre. As an alternative, a surcharge could be levied on the existing timber tax (based on timber yield) to fully cover state agency expenditures.

Shifting funding in the forest practices regulatory program to fees levied on timber operators would result in a General Fund savings of about $21.5 million and savings to the Public Resources Account of $385,000 in the budget year. The savings in the Public Resources Account could be used for other legislative priorities. (We recommend sustaining the budget proposal for $174,000 of timber tax funds and reimbursements to support THP review and enforcement.)

Recommend Legislation to Enact Fees. The CDFFP and other agencies reviewing and enforcing THPs currently do not have the authority to charge fees for their costs associated with these activities. Consequently, we recommend that the Legislature enact legislation that would provide CDFFP with the authority to impose fees of an amount sufficient to fully cover the costs of the department and other state agencies to review and enforce THPs. Similar legislation, AB 748 (Keeley), was introduced in 1999.

DEPARTMENTAL ISSUES

Resources

SECRETARY FOR RESOURCES
(0540)

The Secretary for Resources oversees the Resources Agency. The Resources Agency through its various departments, boards, commissions, and conservancies is responsible for conservation, restoration, and management of California's natural and cultural resources. The following departments and organizations are under the Resources Agency:

- Conservation
- Fish and Game
- Forestry and Fire Protection
- Parks and Recreation
- Boating and Waterways
- Water Resources
- State Lands Commission
- Colorado River Board
- California Conservation Corps
- Energy Resources Conservation and Development Commission
- San Francisco Bay Conservation and Development Commission
- Wildlife Conservation Board
- State Coastal Conservancy
- San Joaquin River Conservancy
- California Tahoe Conservancy
- California Coastal Commission
- State Reclamation Board
- Baldwin Hills Conservancy
- Special Resources Programs
- Coachella Valley Mountains Conservancy
- San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy
- Santa Monica Mountains Conservancy
- Delta Protection Commission

The budget requests $168.6 million for the Secretary in 2002-03, a decrease of about $58.6 million (or 25 percent) below estimated current-year expenditures. The decrease reflects primarily a decrease of $56.6 million for projects funded from Propositions 12, 13, and 204 bond funds, and the elimination of one-time General Fund expenditures of $8.4 million that occur in the current year for local assistance. The budget also proposes $10 million from Proposition 40 (the resources bond on the March 2002 ballot) for river parkway projects under the CALFED Bay-Delta program.

Recommend Federal Funding for California Legacy Project

The budget requests $1,945,000 from the General Fund to continue the California Legacy Project. We recommend the Secretary seek available federal funds to partially cover the program's costs. Therefore, we recommend reducing the General Fund appropriation for the California Legacy Project by $1,459,000. (Reduce Item 0540-001-0001 by $1,459,000, increase reimbursements for that item by a like amount, and increase Item 3600-001-0890 by $1,459,000.)

Legislature Recognized Need for Statewide Habitat Plan. Recognizing the need for an assessment of the state's natural resources and a plan to guide acquisition and habitat restoration efforts, the Legislature in the *1999-00 Budget Act* provided $250,000 for the Secretary to develop a habitat blueprint. The Legislature specified two goals for the habitat blueprint:

- To assess the current condition of the state's natural resources and habitat.
- To establish a long-term set of funding and policy priorities for future investment in resources protection and habitat acquisition and preservation.

The Secretary named the project the California Continuing Resources Investment Strategy Project. In both 2000-01 and 2001-02, $2 million from the General Fund was appropriated for the project. In 2001, the Secretary renamed the project the California Legacy Project.

The budget requests $1.9 million (General Fund) for the California Legacy Project in 2002-03. The majority of the funding ($1.8 million) is for contracts and operating expenses. There are two positions authorized for the project.

Federal Funding Available for Habitat Planning. Our review finds that a recent federal appropriation provides $80 million nationwide for state wildlife grants to be administered by the United States Fish and Wildlife Service (USFWS). States may use funding for planning or restoration activities. Each state will be apportioned funding based on population and land area. Although the specific formula has not been developed, our discussions with USFWS indicate that California is expected to receive approximately $4 million. The state can use these funds for habitat restoration planning (such as the Legacy Project) as well as restorations activities. The state would be required to provide a 25 percent match for any federal funding received.

The federal appropriation requires that a state's fish and wildlife agency (the Department of Fish and Game [DFG] in California's case) must first apply for the funding. At the time this *Analysis* was prepared, the department indicates that it had not yet applied for the funding.

Recommend California Legacy Project Access Available Federal Funding. Our review finds that the California Legacy Project appears to be an eligible use of the state wildlife grant funding administered by USFWS. We therefore recommend that the California Legacy Project access this federal funding by way of an application from DFG. In anticipation of federal funding being available for the California Legacy Project, we recommend the General Fund appropriation for the California Legacy Project be reduced by $1,459,000, leaving a balance of $486,000. The balance is sufficient for the state to meet the required match. Because funding from the USFWS must be awarded to the state's wildlife agency (DFG), we recommend increasing federal trust fund authority for DFG by $1,459,000 and increasing reimbursement authority for the Secretary by a like amount to receive the funds for the California Legacy Project.

The use of federal funds for the California Legacy Project will result in a one-time General Fund savings. To the extent the state is eligible to receive funding from future-year federal grants to pay for costs to complete the Legacy Project, we recommend that these federal funds, rather than the General Fund, be used for support of the project.

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 state or local agencies. In addition, 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 $551 million for the department in 2002-03, including support and capital outlay expenditures. Of this total, 89 percent is for fire protection, 7 percent is for resource management, and the remainder is for State Fire Marshall activities and administration.

The total proposed budget is a decrease of about $151.7 million (or 21 percent) below estimated current-year expenditures. Most of this decrease reflects eliminating the General Fund support for emergency fire suppression (which totaled $100 million in the current year, including deficiencies) and other one-time expenditures that occurred in the current year.

The General Fund will provide the bulk of CDFFP's funding—$312.3 million (about 56 percent). The remaining funding will come from federal funds and reimbursements ($162.6 million); the Forest Resources Improvement Fund ($14.8 million); and various other state funds. Major budget proposals include: (1) the elimination of the baseline General Fund budget of $55 million for emergency fire suppression, (2) a funding shift of $20 million from the General Fund to reimbursements from local entities for firefighting costs, (3) a reduction of $547,000 for various resource management programs, and (4) a reduction of $96,000 for various administrative functions within the fire protection program.

FUNDING FOR FIRE PROTECTION

The California Department of Forestry and Fire Protection is responsible for fire protection in state responsibility areas. In the following section, we discuss a number of issues related to the funding of these activities. We raise concerns with the Governor's proposal to (1) eliminate the General Fund support for emergency fire suppression, (2) reduce General Fund expenditures for "day-to-day" firefighting activities by increasing reimbursements, and (3) eliminate an existing legislative notification requirement. We also offer options for the Legislature to consider for funding fire protection services.

Background

Areas Of State Responsibility. The CDFFP is responsible for fire protection on approximately one-third (31 million acres) of California's lands. The lands for which CDFFP is responsible are mostly privately owned forestlands, watersheds, and rangelands referred to as "state responsibility areas" or SRAs. The SRA lands must be designated by the Board of Forestry and must be covered wholly or in part by timber, brush, or other vegetation that serves a commercial purpose (such as rangeland or timber harvesting) or that serves a natural resource value (such as watershed protection). There can be several different types of landowners in SRAs, such as timber operators, rangeland owners, and owners of individual residences. However, CDFFP is not responsible for the protection of structures in SRAs.

The designation of land as SRAs is reviewed by the Board of Forestry every five years. This review ensures that land classified as SRA continues to meet the criteria established for SRA and allows additional lands to be designated as SRA. The most recent review was completed by the department in 2000 and is currently awaiting final approval from the Board of Forestry.

Normal Firefighting Costs Versus Extraordinary Costs. The budget distinguishes between the "normal," day-to-day costs of firefighting and the "extraordinary" costs associated with large fires that require additional resources beyond the typical equipment and staffing level dispatched for firefighting. Normal firefighting costs are relatively predictable and are thus budgeted as part of the department's ongoing support costs. When the conditions of a fire require CDFFP to deploy additional resources beyond the equipment and staffing that is ordinarily available, the costs of those additional resources have traditionally been budgeted separately as "Emergency Fire Suppression," commonly referred to as "e-fund" expenditures.

In the past, if the costs for emergency fire suppression exceeded the amount budgeted in the e-fund, then the department has sought additional funding through a deficiency appropriation. Over the past decade, expenditures for emergency fire suppression have consistently exceeded the base amount of funding provided in the budget for this purpose. The base amount of funding was $20 million until 2000-01, when it was increased to $55 million in recognition of the history of underbudgeting. However, in spite of the higher base amount, estimated 2001-02 expenditures from the General Fund for emergency fire suppression will still require a $45 million deficiency appropriation.

Fire Protection Funded From General Fund. Funding for fire protection on SRA lands has come almost entirely from the General Fund. The department also receives reimbursements from federal or local agencies to cover those instances in which CDFFP responds to incidents for which other agencies are responsible. For 2002-03, the budget proposes $282 million from the General Fund for its fire protection program.

Emergency Fire Suppression Budget Not Realistic

The budget proposes eliminating General Fund support for emergency fire suppression, leaving essentially no funding. Because it is highly likely the state will incur additional costs for emergency fire suppression, we provide options for legislative consideration to budget more realistically for this purpose. We also recommend the deletion of the proposed budget bill language providing the Director of Finance the authority to approve deficiency expenditures without advance notification to the Legislature.

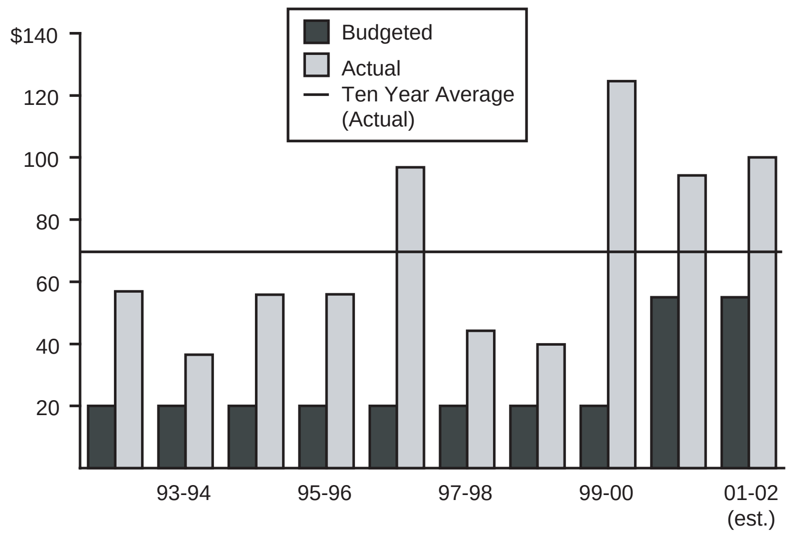
Budget Proposes Eliminating General Fund for Emergency Fire Suppression. The budget proposes no General Fund support and $4 million in federal funds for emergency fire suppression in 2002-03. The budget also includes language to eliminate the current requirement that the Director of the Department of Finance provide advance notification to the Legislature of his approval of expenditures for emergency fire suppression that would require a deficiency appropriation. Instead, the budget proposes that the Director have the authority to approve such deficiency expenditures without advance notification to the Legislature.

Highly Likely CDFFP Will Need Additional Funding For Emergency Fire Suppression. As shown in Figure 1, although annual costs for emergency fire suppression have fluctuated, they have consistently placed a significant demand on General Fund resources. For example, annual costs have consistently been greater than $35 million during the last decade, averaging $70.5 million over this period. Accordingly, it is highly likely that the state will again require substantial expenditures for emergency fire suppression during 2002-03.

Figure 1

Emergency Fire Suppression Expenditures

(In Millions)



Recommend Budgeting More Realistically for Fire. Because it is highly likely the state will incur additional costs for emergency fire suppression, we recommend the Legislature provide a more realistic budget than the Governor's proposal. There are several options for increasing the funding available to provide a reasonable budget amount for emergency fire suppression. For example, the Legislature may wish to consider enacting legislation to establish fees payable by beneficiaries of the department's firefighting services, including emergency fire suppression. We discuss this option next in this *Analysis*. The Legislature could also consider funding emergency fire suppression with General Fund savings arising from recommendations we present in this *Analysis* as well as options we identify in our companion document, *Options for Addressing the State's Fiscal Problem*.

Recommend Maintaining Legislative Oversight. As discussed earlier, under the Governor's proposed budget bill language, the Director of Finance will have the authority to approve deficiency expenditures for emergency fire suppression activities without advance notification to the Legislature. According to the department, the notification process may cause cash flow problems which could create difficulties in paying its vendors. However, we find that this potential problem can be averted by the department getting a short-term loan from the General Fund to pay its vendors, as it has in the past. Furthermore, we find the proposed budget bill language weakens legislative oversight and therefore recommend disapproval of the language.

Legislature Should Enact Fire Protection Fees

We recommend enactment of legislation to partially offset the cost of fire protection services (both ongoing and e-fund costs) by imposing fees on property owners who benefit from these services.

Direct Beneficiary of Fire Protection Service Ought To Share Costs. Property owners in SRAs directly benefit from CDFFP's fire protection services (both ongoing and e-fund costs), as does the state's general population though the preservation of natural lands and their wildlife habitat. As we noted in our discussion of financing resource programs in the *Analysis of the 1992-93 Budget Bill*, combining fees and General Fund revenues to finance a program enables a sharing of costs among private beneficiaries of services and the general public (please see page IV-19 of the *1992-93 Analysis*). We think that the Legislature should consider enacting legislation that would provide for such a sharing of both ongoing and e-fund costs.

Several Fee Structure Options Available. Several other Western states require landowners to share in the costs of fire protection services provided by the state. These states use different types of fee mechanisms to cover the costs of fire protection in SRAs. Some states use a combination of fee mechanisms. These fee mechanisms include the following:

- ***Timber Harvest Tax Dedicated To Fire Protection***. For example, in Idaho, where the state is only responsible for fire protection on forestland, timber operators pay a 12-cent tax per 1,000 board feet of harvested timber.
- ***A Per-Acre Assessment on SRAs***. For example, in Montana, Idaho, and Oregon, landowners are charged a per-acre fee. Each state varies in the type of land for which an assessment is charged and the amount of assessment. For example, in Oregon, there is an assessment on both timberland and rangeland, whereas in Idaho there is an assessment on timberland only.
- ***A Surcharge on All Improved Lots in SRAs***. For example, in Oregon, there is a surcharge of $38 on all improved lots in SRAs, to reflect the fact that the presence of homes increases the threat of fires to forestlands.

Issues to Consider When Establishing Fee Mechanisms. There are several issues that the Legislature should consider in establishing a fee mechanism for ongoing and e-fund fire protection costs.

First, the Legislature needs to determine the proper allocation of costs between fees and the General Fund. For example, as discussed, the 2002-03 budget proposes $282 million from the General Fund for fire protection. Therefore, a fee that covers 50 percent of program costs would generate about $141 million in General Fund savings based on the budgeted General Fund expenditures for fire protection.

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

Third, the Legislature needs to determine whether all property owners should pay. For example, the Legislature might want to reduce the fee rate for those landowners in SRAs who already pay fees to local fire districts. This would recognize that these landowners have already purchased some level of fire protection, thereby potentially lowering the extent of *state* fire protection services that would need to be provided.

Finally, the Legislature also needs to consider how the fee should be collected. For instance, it could be collected by county tax assessors along with the property tax assessment. However, under this option, the state could be obligated to reimburse counties for an added administrative cost burden placed on the county. Alternatively, the fee could be collected through insurance companies as a fire insurance premium surcharge. This was the method used under the now prior state earthquake insurance program. The collection method selected should minimize the state's costs for collection, while ensuring the accurate collection of the fee.

General Fund Savings Proposal Undefined

The budget proposes $20 million in General Fund savings for its day-to-day firefighting costs by increasing reimbursements from local governments by a like amount. We withhold recommendation on this proposal given a lack of details. We recommend that the department present a detailed plan on how it will achieve the proposed General Fund savings prior to budget hearings.

In the preceding write-up, we recommend the enactment of fees on landowners in SRAs to partially offset the state's costs of providing fire protection services and create General Fund savings. Another way of reducing the department's General Fund expenditures for fire protection services would be to shift funding from the General Fund to reimbursements in cases where the state is providing firefighting services for which it is not fiscally responsible. While we support the concept of increasing reimbursements, as discussed below, the Governor's proposal to do so lacks sufficient detail.

Budget Proposes General Fund Savings, But No Details Provided. The budget proposes $20 million in General Fund savings for its day-to-day firefighting costs by increasing reimbursements from local governments by a like amount. The department was not able to provide details on how these costs savings would be achieved since it has just begun the process of identifying ways in which reimbursements can be increased.

The department reports it will consider a wide range of options to increase reimbursements. For example, increasing reimbursements may be possible in instances where CDFFP is presently providing fire services in non-SRA lands or responding to structure fires because it is the nearest fire service in the area. In cases such as these where the department is not fiscally responsible for fire protection, reimbursing the state's costs may be a reasonable option to explore. The administration reports it is also considering changes to the SRA boundaries so as to reduce the geographic area over which the state is fiscally responsible to provide firefighting services. Accordingly, to the extent the state continues to provide fire protection services in areas where it is no longer fiscally responsible, the state could seek reimbursement for its services.

Recommend Department Submit Detailed Plan Prior to Budget Hearings. While there is merit in increasing reimbursements for services for which CDFFP is not fiscally responsible, we withhold recommendation because the details of the proposal have not been presented to the Legislature. In order that the Legislature has the information it needs, we recommend the department submit a detailed plan for increasing local reimbursements to the Legislature prior to budget hearings.

ELIMINATE LAND RECORD INFORMATION PROJECT

The budget includes $415,000 to continue the second year of the Land Record Information Project. This project proposes to standardize land record information for each parcel in the state. Our review finds that there is no clear purpose and plan for the collection of the data at a statewide level. Accordingly, we recommend deletion of $415,000. (Reduce Item 3540-001-0001 by $415,000).

Background. The budget includes $415,000 to continue the second year of a two year (2001-02 and 2002-03) project, the Land Record Information (LRI) Project. The LRI project proposes to standardize land record information (such as assessed value, owner's name, and development status) for each parcel of land in the state. Generally, this information is currently collected and stored at the local level. During the current year, the project intends to conduct a study of how land record information can be used by various state agencies. In addition, the project will develop standards to be used in the collection of statewide parcel data.

No Clear Purpose for The Data Collection. In our review of the project, we found that there does not appear to be a clear purpose or immediate value for the state in collecting parcel data at a statewide level. Without further details of how these data will be used by state agencies, we find funding for this project in the budget year has not been justified. Accordingly, we recommend deletion of the $415,000 (General Fund) from the budget.

DEPARTMENT OF FISH AND GAME
(3600)

The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish, wildlife, and natural resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates fishing and hunting. The DFG currently manages about 850,000 acres including ecological reserves, wildlife management areas, hatcheries, and public access areas throughout the state.

The budget proposes total expenditures of $257.1 million from various sources, mainly for support expenditures ($251.5 million). This is a decrease of about $20 million (7 percent) from the estimated current-year level. The decrease mainly reflects the elimination of one-time expenditures that occurred in the current year of $15.4 million. Major budget proposals include: (1) a reduction of $2.1 million for review of projects pursuant to CEQA; (2) a reduction of $1.2 million for various CALFED Bay-Delta program activities; (3) a reduction of $1 million for local assistance grants under the Natural Community Conservation Planning program; and (4) $8 million from Proposition 40 (on the March 2002 ballot) to replace funding from the Salmon and Steelhead Restoration Account due to a decline in tidelands oil revenues.

Budget Proposes to Significantly Reduce DFG's CEQA Review Efforts

The budget proposes to reduce the Department of Fish and Game's (DFG's) California Environmental Quality Act (CEQA) review activities by $2.1 million from the General Fund. We find that the proposed reduction will result in few CEQA documents being reviewed by DFG. This would limit opportunities for cost-effective project revisions that would serve to reduce a project's adverse impacts on fish and wildlife. If the Legislature wishes to provide additional funding for CEQA review, a portion of the fund balance of the Environmental License Plate Fund could be used. We also discuss the potential for increasing revenues from DFG's environmental filing fees in order to fund CEQA review, and recommend that the department submit the statutorily required annual review of these fees.

The DFG's Role Under CEQA. The California Environmental Quality Act (CEQA) requires agencies approving projects which may impact fish and wildlife to both notify and consult with the Department of Fish and Game (DFG), as the "public trustee" of fish and wildlife resources. As part of the notification and consultation process, agencies approving such projects must send their environmental documents to DFG for review and comment.

The DFG Entitled to Collect Fees for Projects Subject to CEQA. Chapter 1706, Statutes of 1990 (AB 3158, Costa) requires DFG to collect environmental filing fees for projects subject to CEQA. The fees are intended to defray a portion of the costs incurred by DFG in meeting its environmental review obligations under CEQA and the Forest Practice Act, as well as cover a variety of DFG's costs associated with habitat management. Fees are paid to the county clerk at the time of filing the final CEQA documents. Fees are then remitted monthly to DFG. For 2000-01, the department collected $1.8 million in environmental filing fee revenues. These revenues are not dedicated to a specific activity, but are instead used for general support for the department, including habitat restoration and environmental review activities.

Statute establishes the amount of the fee paid to DFG (currently, either $850 or $1,250) based on the "type" of CEQA document (such as environmental impact report) prepared for the project. All CEQA "lead" agencies (the agencies approving projects) can exempt a project from the fee by finding that the project has a minimal impact on wildlife. In addition, statute requires the department to submit an annual review of these filing fees to the Legislature, including any recommendations that it may have for statutory changes to the fee structure.

Budget for CEQA Review Increased in 2000-01. Prior to 2000-01, the department's CEQA review efforts constituted the equivalent of nine personnel-years and about $767,000. In response to findings that the department's activities related to CEQA were not being conducted at an adequate level, the Legislature augmented DFG's budget for CEQA review in 2000-01 by $2.1 million (ongoing) from the General Fund and redirected 25 positions to CEQA review efforts. With the increased resources, DFG estimates it was able to increase the proportion of documents reviewed from aproximately 10 percent to 40 percent.

Budget Proposes to Significantly Reduce DFG's CEQA Activities. The budget proposes to reduce DFG's CEQA review activities by $2.1 million, in effect returning DFG's CEQA review efforts to the level prior to the 2000-01 augmentation. The department estimates that 10 percent of the documents it receives will be reviewed, but it is not able to report on the level of review those documents will receive.

Potential Alternative Funding Sources to Continue CEQA Activities. The DFG's review of CEQA documents provides DFG the opportunity to comment early in the development process on the potential adverse impacts of proposed projects on fish and wildlife. In some cases, DFG's CEQA comments contain recommendations for project changes that may be required subsequently as part of other environmental approvals. As a result of DFG's comments, lead agencies may make better-informed decisions in approving the projects and projects may be changed to minimize the adverse impacts on fish and wildlife. In addition, to the extent that DFG is able to make comments *early* in the project development process, project developers may be able to avoid higher costs and time delays if obligated to make project revisions late in the process due to environmental permitting or litigation issues.

Based on our analysis, we conclude that the level of staffing proposed in the budget will result in most CEQA documents sent to the department not being reviewed. If the Legislature wishes to provide for a higher level of departmental review in the budget year, one option would be to transfer a portion of the ELPF balance (projected to be $9.6 million at the end of 2002-03) to the department for CEQA review. Monies in ELPF are available to the department for the review of the potential impact of development activities and land use changes.

Potential for Increased Revenues for CEQA Review. We also find that there is a potential for additional revenue for the CEQA review program by improving the structure and administration of the environmental filing fees. For example, many of the lead agencies we interviewed felt that the current fee structure (established in statute) is not equitable because project proponents are required to pay the same fee regardless of the project's size and environmental impact (as long as the same "type" of CEQA document is filed). This perceived inequity in the fee structure may result in lead agencies trying to fit a project within the fee exemption, despite the project requiring a fee as defined by statute. To the extent that lead agencies are granting exemptions when they should not, the department is not collecting the fee revenues accorded it by law. Therefore, developing a more equitable fee structure may result in fewer exemptions being granted and, thus, more revenue generated.

To assist the Legislature in its evaluation of this fee and to determine what changes to the fee might be appropriate, we recommend that DFG submit to the Legislature the annual review required by statute of these filing fees. As required by statute, the report should include any recommendations for adjustments to the fee. To date, the department has not submitted this report. The Legislature could encourage the department to submit this report by making the expenditures of the filing fees in the budget year contingent on the submittal of the report.

DEPARTMENT OF PARKS AND RECREATION (3790)

The Department of Parks and Recreation (DPR) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state.

The state park system consists of 266 units, including 39 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,000 miles of trails, 285 miles of coastline, 822 miles of lake and river frontage, and nearly 18,000 camp sites. Over 80 million visitors travel to state parks each year.

The budget proposes $374.5 million in total expenditures for the department in 2002-03. This is an overall decrease of about $1.1 billion (74 percent) below estimated current-year expenditures. Most of this reflects a decrease in Proposition 12 expenditures of $907 million from the current year as well as the elimination of one-time expenditures, including $64 million for deferred maintenance.

The budget proposes about $268.2 million in departmental support, about $48.2 million in local assistance and $58.2 million in capital outlay expenditures. (Please also see the "Capital Outlay" chapter of this *Analysis*.) Of the total proposed expenditures in 2002-03, about $112 million (30 percent) will come from the General Fund; $79 million (21 percent) from Proposition 12; $72 million (19 percent) from the State Parks and Recreation Fund; $44.2 million (12 percent) from the Off-Highway Vehicle Trust Account; and the remainder $67.5 million (18 percent) from various other state funds, federal funds, and reimbursements.

The budget proposes General Fund reductions of $19.8 million for operating expenses and equipment at state parks, of which $15 million is to be offset by an additional transfer of $15 million from the Motor Vehicle Fuel Account to the State Park Recreation Fund. The department proposes to implement the net General Fund reduction ($4.8 million) by limiting hours and days of operation at state parks.

ADDRESSING THE OBLIGATIONS RESULTING FROM DPR'S LAND ACQUISITIONS

The department significantly increased its land acquisitions in 2000-01 and 2001-02. In addition to the funding required to acquire the land, acquisitions can result in future development costs and ongoing operations costs. We find that the department has acquired land without addressing the future development and operating costs associated with these acquisitions. We provide options for funding the development and operation of recent acquisitions, and make recommendations to reduce the likelihood that future acquisitions will result in unfunded obligations.

The DPR's Land Acquisitions Have Increased Significantly

As shown in Figure 1, DPR significantly increased its land acquisitions in 2000-01 and 2001-02. Specifically, DPR projects to increase its land holdings by more than 75,000 acres and projects to expend about $328 million on land acquisition during this period. This increase is largely due to the significant funding available from Proposition 12, the Safe Neighborhood Parks, Clean Air, and Coastal Protection Bond Act of 2000. This bond measure provides $502 million for DPR to acquire lands and improve state park facilities.

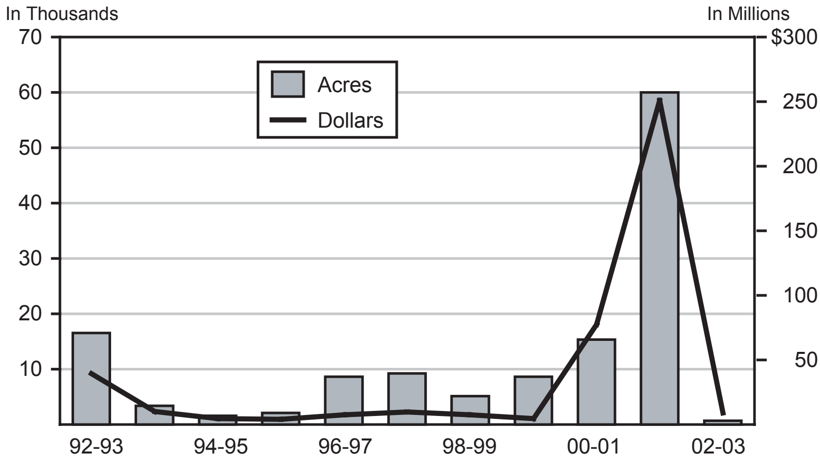
All of DPR's land acquisitions have been for the purpose of expanding existing state parks or acquiring new state parks. The DPR's recent land acquisitions have included a wide range of parcels that will be added to the state park system, from remote redwoods to urban parcels. The acquisitions have been for a variety of purposes associated with DPR's mission, including habitat protection and cultural and historical preservation.

The DPR acquires land when it is identified by the department or the Legislature as high priority. If it is identified by the department as such, then a budget proposal is submitted for that acquisition outlining its significance. Once land is acquired for a new state park or to significantly expand an existing state park, the department begins the planning process for that acquisition, called the park general plan process. During this process a plan is developed that serves as a guide for the future development, management, and operation of the park. The plan defines the proposed land uses, facilities, concessions, and operation of the park. However, the general plan does not include related cost information.

Figure 1

Department of Parks and Recreation Land Acquisitions

1992-93 Through 2002-03[a]



[a] Amounts for 2001-02 are estimates. Amounts for 2002-03 as proposed in Governor's budget.

Land Acquisitions Result in Unfunded Obligations

Land acquisitions create future development and operating obligations for the department. We find that funding for most of these obligations has not been addressed as part of the acquisition process.

Development Costs Mostly Unfunded. In our review of DPR's recent acquisitions, we found that many acquisitions will require additional development in order to (1) provide reasonable access to the acquisition and/or (2) develop the acquisition to achieve its intended purpose for use. For example, new park units or acquisitions that are not immediately adjacent to existing parks typically require development to provide access to them. The types of improvements needed to provide such access vary from parcel to parcel, but in general can include parking, roads, and signage.

In addition, we found that several acquisitions could require potentially significant amounts of development expenditures in order for the acquisition to achieve its purpose. For example, many of the acquisitions in urban areas involve unimproved lots with no existing park features such as trails, natural landscaping, or facilities. These parcels will likely require significant development costs.

In most instances where future development will be required for a recent acquisition, the department has not identified the cost or extent of this development. Furthermore, funding for these costs have not been provided nor have future funding sources been identified. In many instances, without the additional development, public access to these acquisitions will be severely restricted or not possible and the purpose of the acquisition will not be achieved.

Operating Costs of Expanded and New Parks Not Provided For or Identified. As a result of the land acquisitions, DPR will also incur ongoing operating costs to preserve habitat, cultural resources, and to provide recreational opportunities associated with the land acquisitions. These operating costs include trail maintenance, habitat restoration, brush management, and increased ranger patrol areas. These costs will be incurred for both new and expanded parks.

In general, the extent and magnitude of these operating costs are not known because they are not consistently identified for each acquisition as part of the budget process. Complicating matters is the fact that DPR has acquired several new parcels intended to be developed for urban park use. Since these acquisitions differ significantly from the department's traditional acquisitions in the past, the operating costs for these acquisitions are even less certain. In total, the department has only provided estimates of operating costs for less than one-third of the acquisitions made since 2000-01. These estimates total more than $2 million in annual operating costs.

We found that only in limited cases have the funds necessary for operating costs been provided or sources of future funding identified. Failure to provide for the ongoing operating needs for these acquisitions could lead to the deterioration of the park assets, limited public access, public safety risks, and a continuation of the accumulated deferred maintenance problems that DPR has experienced in the past.

Existing Planning Process Does Not Provide For Sufficient Fiscal Oversight of Future Costs. As discussed, for some acquisitions, the extent of future costs will depend on what is planned for the development of the park in the general plan process. While the general plan does not include cost estimates, the plan is very relevant to the future development and operating costs of the park because it defines how the park will be developed. For example, if the general plan proposes a large complex of facilities at a park, then it is likely that the future development and operating costs of a park will be significant.

The general plan is approved by the Parks Commission and is not required to be approved by the Department of Finance (DOF) or the Legislature. Instead, fiscal oversight occurs later when funding is requested in the budget process for individual stages of development projects. As a result, the process in which the scope of facilities and services is typically defined—the park general plan process—includes minimal fiscal oversight.

Funding the Development and Operation of Recent Acquisitions

We recommend adoption of supplemental report language requiring the department to provide an assessment of development and operating costs associated with its recent land acquisitions, and to identify and recommend funding sources. We also identify several potential funding sources for these obligations.

In the previous section we noted that there is limited information on the extent of the future cost obligations created by DPR's recent land acquisitions. Specifically, there is limited information on the costs to develop these land acquisitions to their intended uses and on ongoing operating costs. Although our review focused solely on DPR's acquisitions since 2000-01, it is possible that our findings could apply to prior-year acquisitions as well. In this section we offer recommendations for assessing these obligations and provide options for funding them.

Require Funding Plan for Recent Acquisitions. In order that the Legislature can assess the extent of obligations created by recent acquisitions, we recommend the adoption of the following supplemental report language, requiring that the department prepare a funding plan for its recent land acquisitions.

> The Department of Parks and Recreation shall submit a report to the Legislature by March 1, 2003 that includes the following:
>
> 1. An assessment of the potential costs to develop each land acquisition acquired in 2000-01 and 2001-02 to its intended use and an estimate of the ongoing operations and maintenance costs of each acquisition.
>
> 2. An identification of potential funding sources to pay for the development and operating costs, and the department's plan for which funding sources it will seek.

Once the Legislature has reviewed the funding plan, it may wish to give funding priority to future capital outlay appropriations that would be used to develop timely public access to existing acquisitions which were acquired for recreational purposes, instead of acquiring new properties. Providing such access would be an important component of the public's return on existing state investments.

While developing a funding plan may result in additional workload for the department, we note that the department has received several augmentations in recent years, totaling about $2 million and additional staff, which can be used to complete the funding plan described above.

Potential Funding Sources. Based on our review, we have identified several potential funding sources to cover the development and operations costs of the land acquisitions. These include:

- ***State Beach and Park Service Fees***. For example, revenues could be increased by reinstating fees at state parks which were reduced beginning in 2000-01.
- ***Public-Private Partnerships***. Revenues may be raised by the use of public-private partnerships, which can include limited corporate sponsorship of state parks, licensing and merchandising state park images for commercial use, and advertising at state parks.
- ***Concessions Revenues***. For example, new or expanded programs could generate revenue, such as expanded state park store operations.
- ***Environmental Enhancement Fund***. This fund receives revenues from penalties collected under the state's oil spill program for environmental enhancement projects within or immediately adjacent to marine waters. Some of the funds could be allocated to DPR for restoration and enhancement of coastal state park units. There is a projected fund balance of $979,000 at the end of 2002-03 that could be used for this purpose.
- ***Environmental License Plate Fund***. Monies in this fund are available for appropriation to the department for restoration of natural areas and fish and wildlife habitat in state park units. A portion of these funds could be allocated to DPR for the restoration of recent acquisitions. There is a projected fund balance of $9.6 million at the end of 2002-03 that could be used for this purpose.
- ***Cost-Sharing Agreements with Local Governments***. For those new park units which will in part serve an exclusively local recreation need, as opposed to a statewide need, the department could seek out cost-sharing agreements with local governments.

Process Can Be Improved to Better Budget for Costs Associated With Future Land Acquisitions

We recommend that the Legislature take a number of actions to ensure that the development and ongoing operating costs associated with state park acquisitions are accounted for before funding for an acquisition is approved in the budget process.

As discussed earlier, acquisitions can result in a number of obligations to DPR beyond the actual cost of the parcel. These obligations and appropriate funding sources with which to fund them are often not identified as part of the budget process when approval of funding for a land acquisition is being considered. To the extent that these obligations are unaccounted for in the funding decision, the full benefits to the public associated with the acquisition are not achieved nor are the stewardship needs of the acquisitions met.

In this section we identify a number of statutory actions the Legislature could take in order to improve budgeting for the obligations associated with future land acquisitions. These recommendations are intended to (1) provide the Legislature with more complete information on the obligations associated with a particular acquisition, (2) identify the fiscal resources available for future obligations, (3) provide more fiscal oversight in the planning process, (4) facilitate public access to the acquisitions in a timely manner, and (5) limit future obligations from land acquisitions.

Require DPR to Submit Funding Plan for Future Costs With Budget Proposal. In order to provide the Legislature with information on future obligations associated with land acquisitions, we recommend that DPR be required to submit a funding plan for future development and operating costs with a budget proposal for new land acquisition. The funding plan should include information on the development and operating costs for the budget and future years. The funding plan should also identify the funding sources to meet these obligations. We further recommend, to the extent development costs are identified, that these costs be included in the Governor's five-year infrastructure plan required by Chapter 606, Statutes of 1999 (AB 1473, Hertzberg). (Please see the discussion on the five-year infrastructure plan in the "Crosscutting Issues" section of the "Capital Outlay" chapter.)

Require DPR to Set Aside Bond Funds for Future Development of Bond-Funded Acquisitions. In cases where bond funds are used to acquire land, we recommend that some portion of the bond funds be set aside for future development costs. While exact future development obligations may not be known until the park general plan process is carried out, an estimated amount for these obligations should be set aside. A similar process is currently used with higher education facilities funded from general obligation bonds, in which funding is appropriated for the initial stages of the work and funding needed for future stages is set aside. This appears to work effectively to ensure that funding is available to complete projects the Legislature has approved.

Require DPR to Submit Funding Plan for Discretionary Acquisitions. For those budget act appropriations where a *specific* parcel or state park to be acquired is not identified, it would be difficult to estimate the exact obligations created by the acquisition. For example, recent appropriations from Proposition 12 have included funds for "opportunity purchases" for which specific acquisitions were not identified. In order to provide the Legislature with the appropriate cost information once a specific parcel is acquired, we recommend that DPR in the first budget year following the initial budget appropriation be required to submit a funding plan for the parcel.

Require General Plans for Parks to Be Approved by DOF. As discussed earlier, the park general plan process can have a significant fiscal impact on the development costs of state parks. We therefore recommend that the general plans for new acquisitions, or those that propose significant revisions to existing parks, be reviewed and approved by DOF before funding is requested of the Legislature. This would give the administration the opportunity to review the development plan for a park in its entirety rather than on a project-by-project basis when funding is requested for individual stages of a parks project.

Set Limits in Future Bond Measures on New Acquisitions. In order to ensure an adequate share of funding in any future bond measure is allocated to the development and restoration of *existing* acquisitions, the Legislature should specify the proportion of funds that can be used to acquire new lands as opposed to the development and restoration of existing facilities. This is similar to the existing provision in Proposition 40 (The California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act of 2002) which directs DPR to spend no more than 50 percent of its acquisition and development allocation on new state park acquisitions.

Legislative Oversight of New Bond Funds

Proposition 40, if approved by the voters at the March 2002 election, will provide $225 million for state parks. Our recommendations in the previous section can be applied by the Legislature in its review of May Revision proposals for state park acquisitions, including those proposed to be funded from Proposition 40.

New Bond Funds for State Parks. Proposition 40, if approved by the voters at the March 2002 election, would provide $225 million for state park improvements and acquisitions, of which no more than 50 percent can be used by DPR for land acquisitions. If Proposition 40 is approved, the Governor could propose expenditure of these funds during the May Revision process.

Issues for the Legislature to Consider in Evaluating Proposition 40. If Proposition 40 expenditures are proposed as part of the May Revision, we recommend, consistent with our recommendations in the previous section, that the Legislature:

- Require DPR to submit a funding plan for future obligations associated with land acquisitions proposed to be funded from Proposition 40.
- Require DPR to set aside bond funds to cover costs for future development as a condition of legislative approval of the budget request.
- Consider giving priority to funding development projects that provide timely access to *existing* acquisitions.

BUDGET INCLUDES CONCESSIONS PROPOSALS

The budget includes three concession renewal proposals. We recommend that the Legislature withhold authorizing the department to solicit proposals for a new concession contract for Millerton Lake State Recreation Area and Pfeiffer Big Sur State Park until the department provides information on the terms of the proposals.

Two of Three Proposals Lack Sufficient Detail. Under current law, the Legislature is required to review and approve any proposed or amended concession contract that involves a total investment or annual gross sales over $500,000. In past years, the Legislature has provided the required approval in the supplemental report of the budget act.

The department has included three concessions proposals in its budget that require legislative approval. Of the three proposals, our review found that only one—for Old Sacramento State Historic Park, Jewelry Shop—is warranted. The two other proposals lack sufficient detail on the appropriate rent to be charged and the amount of capital outlay investment that will be required. Without this information, the Legislature is not able to determine whether these proposals are in the state's best interest. Accordingly, we recommend the Legislature withhold approval of the proposals for (1) Millerton Lake State Recreation Area and (2) Pfeiffer Big Sur State Park until the department, based on its economic analysis, provides the Legislature the specific terms of these two concession proposals. Below, we provide information on each of the three concession proposals.

Millerton Lake State Recreation Area. Millerton Marina is an existing concession located on Millerton Lake State Recreation Area (Fresno County). Facilities currently include a marina with 550 boat berths, fuel and retail sales dock, parking, and a restroom building. Services offered include boat berthing, boat repair, boat rentals, and retail sales. The existing concessionaire is presently operating under a contract that expires December 31, 2002.

Our review of the request to solicit proposals found that the department has not finalized major provisions for the terms of the proposal. For example, the type and scope of facilities to be provided, the amount of capital outlay required, and the minimum rent to be paid to the state have not been established. The DPR reports these details will be formulated based upon information provided in an economic feasibility analysis anticipated to be completed in spring 2002. Due to lack of detail, we recommend the Legislature withhold approval of the proposal.

Pfeiffer Big Sur State Park. The department requests approval to solicit bids to improve, operate, and maintain the Big Sur Lodge project consisting of 61 motel-like cottages, up to 70 alternate overnight accommodations, employee housing, camp store, restaurant, gift shop, laundry facilities, and baseball field. The existing concession contract expired on June 30, 2001 and has continued on a month-to-month basis.

Our review of the request to solicit proposals found that the department has not finalized major provisions for the terms of the proposal. For example, the type and scope of facilities to be provided, the amount of capital outlay required, and the minimum rent to be paid to the state have not been established. The DPR reports these details will be formulated based upon information provided in an economic feasibility analysis anticipated to be completed in spring 2002. Due to lack of detail, we recommend the Legislature withhold approval of the proposal.

Old Sacramento State Historic Park, Jewelry Shop. The department requests approval to solicit bids to operate and maintain a jewelry shop in Old Sacramento State Historic Park. The existing concession contract expired on November 30, 2001 and has continued on a month-to-month basis. Proposed conditions for the new contract include: a ten-year term; minimum monthly rent of $2,000 or 3 percent of monthly gross sales up to $25,000, plus 4 percent of all gross sales in excess of $25,000. Our review found this concession proposal to be warranted.

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.

Currently, the department houses and participates with 23 other state and federal agencies in the CALFED Bay-Delta Program. This program is implementing a long-term solution to water supply reliability, water quality, flood control, and fish and wildlife problems in the San Francisco Bay/ Sacramento-San Joaquin Delta Estuary (the "Bay-Delta"). (Please see the discussion on the "CALFED Bay-Delta Program" in the "Crosscutting Issues" section of this chapter.)

Additionally, the department includes a new division—California Energy Resources Scheduling (CERS)—that was created in 2001. This division purchases electricity on the wholesale market and sells it to customers of the state's major private investor-owned utilities (IOUs). (Please see the discussion on "CERS" in the "General Government" chapter of this *Analysis*.)

The budget proposes total expenditures of about $6.5 billion in 2002-03, a decrease of about $2.6 billion, or 29 percent, below estimated expenditures in the current year. Most of this decrease reflects a reduction of about $2.5 billion for energy purchases on behalf of IOUs. Of the proposed total expenditures, about $5.2 billion is for energy purchases on behalf of IOUs and about $760 million is for planning, construction, and operation of SWP, financed with SWP funds (revenues from water contractors).

Major budget proposals include (1) $51.5 million from Proposition 40 (the resources bond on the March 2002 ballot) for various CALFED program activities and (2) a decrease of $19.7 million from the General Fund for various CALFED activities. The budget proposes no funding to pay the state share of costs of federally authorized, locally sponsored flood control projects in 2002-03. (Please see the discussion of flood control subventions in the "Fund Conditions for Resources Programs" write-up in the "Crosscutting Issues" section of this chapter.)

General Fund Savings Potential in Water Shortage Preparation Program

The budget proposes about $9.4 million from the General Fund to implement recommendations of the Governor's Drought Advisory Panel. We recommend that $4.7 million of this amount be deferred, given that ongoing planning activities of local water agencies to prepare for drought conditions could continue at the reduced level of state assistance. This would leave $4.7 million in the budget year to assist local water agencies and rural homeowners in planning to address potential water shortages. (Reduce Item 3860-001-0001 by $1.3 million and Item 3860-101-0001 by $3.4 million.)

Governor's Drought Advisory Panel Recommendations. In 2000, the Governor convened an advisory panel to develop a plan to reduce the impacts of critical water shortages in the near-term due to drought and other causes. (The panel was convened on the heels of what was initially anticipated to be a "dry" year.) The panel made a number of recommendations for state assistance to be provided to local and private water purveyors to help them better prepare to respond to water shortages. Specifically, the panel recommended that state funds be provided:

- To prepare an environmental review of a drought water bank proposal.
- To provide technical and financial assistance to help local agencies prepare groundwater management plans and integrated water resource management plans.
- To provide technical assistance to rural homeowners and small domestic water systems on private wells. This assistance would educate homeowners with private wells about well construction and maintenance and provide informational resources on water supply options when dry conditions reduce or eliminate well supplies.

For 2001-02, the Legislature approved $10.5 million from the General Fund to implement the panel's recommendations. Of this amount, $9.5 million was ongoing funding for financial and technical assistance and $1 million was one-time funding for the review of a drought water bank proposal.

Budget Proposal. The budget proposes about $9.4 million from the General Fund to implement the drought panel's recommendations in the budget year. This is a decrease of $1.1 million from the current year, mainly reflecting the elimination of a one-time expenditure. Of the proposed amount, about $2.6 million is for state support and $6.8 million for local assistance.

General Fund Savings Potential. While the activities proposed to be funded by the budget proposal—which are largely for local assistance—are not without merit, we think that they should be funded at a reduced level. In light of the state's General Fund condition, we believe a portion of the financial assistance to local water agencies for long-term planning purposes can be deferred. This is because the proposed funding reflects a state augmentation to ongoing planning activities that local water agencies are carrying out. These local agencies have a funding source (ratepayer revenues) to support these planning functions.

We do, however, think that it is cost-effective to sustain some funding for this program. This is because by facilitating local planning to prepare for water shortages, the state might reduce its costs down the road to respond to a drought.

Recommend Reduction in Funding. We therefore recommend a reduction of $4.7 million from the General Fund, which would leave $4.7 million for the department to continue to provide technical and financial assistance to local water agencies and rural homeowners to help them better prepare for the possibility of drought conditions.

AIR RESOURCES BOARD
(3900)

The Air Resources Board (ARB), along with 35 local air pollution control and air quality management districts, protects the state's air quality. The local air districts regulate *stationary sources* of pollution and prepare local implementation plans to achieve compliance with federal and state standards. The ARB is responsible primarily for the regulation of *mobile sources* of pollution and for the review of local district programs and plans. The ARB also establishes air quality standards for certain pollutants, administers air pollution research studies, and identifies and controls toxic air pollutants.

The budget proposes $134 million from various funds, primarily the Motor Vehicle Account and the General Fund, for support of ARB in 2002-03. This is a decrease of about $86 million, or 39 percent, from estimated 2001-02 expenditures. This decrease reflects (1) the elimination of $52 million in one-time expenditures for diesel emissions reduction and zero-emission vehicle incentives that occurred in the current year, and (2) a $10.5 million reduction in Motor Vehicle Account funding for mobile source programs and local air district subventions.

Legislature Should Reexamine Stationary Source Funding and Fee Structure

We recommend the enactment of legislation to apply the "polluter pays principle" to the board's stationary source program. We find that the application of this funding principle would result in a shift of $18.7 million from the General Fund to fees. (Reduce Item 3900-001-0001 by $18.7 million and increase Item 3900-001-0115 by a like amount.)

Stationary Source Program. Air quality was first regulated in California at the local level in 1947 when state statute authorized the creation of an air district in every county. (Subsequent law provided for the formation of multicounty and regional districts.) The focus of air quality regulation was initially on stationary sources of "visible" pollution, such as smoke and particulate matter.

Today there are 35 local air districts that are the primary agencies responsible for regulating emissions from stationary sources of pollution. Stationary sources include "point" sources (fixed sources such as petroleum refineries) and "area" sources (sources which individually emit small quantities of pollutants but which collectively emit significant emissions, such as gas stations). The ARB conducts research, planning, and compliance functions in conjunction with the local districts and oversees local air district activities.

Stationary sources contribute substantially to emissions of certain pollutants. For example, between one-quarter and one-half of ozone-forming chemicals (the major components of smog) are from stationary sources. The nature of stationary source pollution is that it is identifiable, from a specific source, whether it be a single polluter such as a factory or a class of polluters such as home chimneys.

Budget Proposes Mix of Fund Sources to Support Stationary Source Program. As shown in Figure 1, the budget proposes $43 million for ARB's stationary source program in 2002-03. Funding is proposed from various sources, primarily the General Fund (58 percent). Fees, federal funds, and reimbursements make up the balance.

Figure 1

Stationary Source Program Proposed Funding Sources

2002-03
(Dollars In Millions)

Fund Source	Amount	Percent of Stationary Source Budget
General Fund	$24.9	58%
Federal funds	9.5	22
Special funds (mainly fees)[a]	4.9	11
Reimbursements	3.8	9
Total	**$43.1**	

[a] Includes Air Pollution Control Fund ($3.8 million) and the Air Toxics Inventory and Assessment Account ($1.1 million).

Fees Support Little of the Stationary Source Program. As shown in Figure 1, the budget proposes that special funds support only 11 percent ($4.9 million) of stationary source program expenditures. Of this amount, $3 million is from fees levied on stationary source polluters. (The balance mainly comes from penalties.) The California Clean Air Act (Chapter 1568, Statutes of 1988 [AB 2595, Sher]) caps the total amount of fees that may be levied on stationary sources for ARB's stationary source program at $3 million. Further, these may only be levied on facilities emitting over 500 tons of pollution per year. Currently, less than 250 facilities (out of about 20,000 point stationary sources statewide) pay the stationary source fee. The fee is currently $25.56 per ton of emissions. Additionally, to the extent that more high-emitting polluters are added in the state, the fee per ton of emissions would be adjusted downward due to the $3 million statewide cap on fees.

General Fund Proposes to Fund Various Activities. As shown in Figure 2, the budget proposes about $25 million from the General Fund for various activities under the stationary source program.

Figure 2

Stationary Source Program Proposed General Fund Expenditures

2002-03
(In Millions)

Program Activities	Amount
Planning and technical support	$7.9
Research division	5.8
Monitoring and laboratory	5.3
Consumer products/statewide control measures	3.7
Compliance division	1.1
Program direction and support	1.1
Total	**$24.9**

As mentioned above, the budget proposes to fund a majority of stationary source program expenditures from the General Fund, with fees and penalties supporting only 11 percent of the program. As discussed below, our review finds that a large proportion of the activities proposed to be funded from the General Fund are more appropriately funded from fees.

The "Polluter Pays" Principle. We think that funding for the stationary source program should be governed by the polluter pays principle. Under the polluter pays principle, private parties that benefit from using public resources are responsible for paying the costs imposed on society to regulate such activities. We think that the relationship between private degradation of resources and public costs is particularly strong in the case of stationary source pollution.

The nature of stationary source pollution is that it is identifiable, in the form of stack or emission pipe, whether it be a single polluter or class of polluters. We have previously recommended that those pollution sources that can be identified should pay for any planning, permitting, compliance, and enforcement activities necessary to regulate and reduce pollution. (For example, please see our write-up on the State Water Resources Control Board's core regulatory program in the *Analysis of the 1999-00 Budget Bill*, page B-110.)

Review Finds Much of General Fund Support Can Be Shifted to Fees. Our review of various activities proposed to be funded by the General Fund (as shown in Figure 2) finds that if the polluter pays principle were fully applied, a substantial portion of the General Fund support could be shifted to fees. Of the $24.9 million General Fund proposed, we think that all but the $5.8 million for research and about $0.4 million for program support would be funded appropriately by fees. The stationary source research division performs studies of broad health and ecological effects of stationary source pollution, indoor air quality studies, and supports broader air quality research. We find that the General Fund is the more appropriate fund source for the research division because of its broad-based public health nature. In addition, program direction and support associated with the research division should also remain payable by the General Fund.

We think that the remaining activities proposed to be funded from the General Fund ($18.7 million) are appropriately funded from fees. The remaining activities, including data collection, planning, and monitoring, are critical steps to develop air quality standards that form the basis of air quality permitting and enforcement activities statewide. These activities provide a basis in science and technology for the permits and prevent the permit requirements from being arbitrary or unduly burdensome. As such, they provide a benefit to the permit holder and therefore should be funded through fees.

Recommend Enactment of Legislation to Increase Fee-Based Support. We recommend the enactment of legislation that would shift certain stationary source expenditures from the General Fund to fees, for a General Fund savings of $18.7 million. We therefore recommend the deletion of

$18.7 million from the General Fund and an increase of $18.7 million in the Air Pollution Control Fund.

There are a number of issues for the Legislature to consider in enacting this legislation, including determining who should pay the fee, what the fee rates should be, and whether there should be a cap on total revenues collected from the fee. The state fees should not supplant efforts in local air districts to assess fees to capture their costs of regulating stationary sources within their jurisdictions, but should be added to offset the costs of providing the statewide regulatory program.

Specifically, we think that the Legislature should consider the following. First, the existing statutory cap of $3 million on the total amount of stationary source fees that may be collected by the state would have to be removed to fully apply the polluter pays principle. The ARB should be given the flexibility to set fees at a level that allows full recovery of its costs for the stationary source program that are appropriately funded from fees, as discussed above. Second, increasing the feepaying universe to include a broader group of feepayers than currently would spread the burden of paying fees among more feepayers, thereby reducing the burden on an individual feepayer.

DEPARTMENT OF PESTICIDE REGULATION
(3930)

The Department of Pesticide Regulation (DPR) administers programs to protect the public health and the environment from unsafe exposures to pesticides. The department (1) evaluates the public health and environmental impact of pesticide use; (2) regulates, monitors, and controls the sale and use of pesticides in the state; and (3) develops and promotes the use of reduced-risk practices for pest management. The department is funded primarily by an assessment on the sale of pesticides in the state and by the General Fund.

The budget proposes expenditures of about $59.7 million and 426 positions in 2002-03 for the department, including $39.2 million from the DPR Fund (funded mainly by an assessment on pesticide sales) and $17 million from the General Fund. The proposed expenditures are $3.3 million, or 5 percent below estimated current-year expenditures.

STATE ENFORCEMENT ACTIVITIES INEFFECTIVE

Background

The state uses a significant amount of pesticides, mainly for agricultural purposes. In 2000, pesticide use in the state totaled nearly 188 million pounds. The department is responsible for implementing state and federal laws to regulate the use of these pesticides in order to protect worker safety and community and environmental health.

Figure 1 (see next page) shows the DPR's enforcement expenditures for 1998-99 through the proposed budget year. Enforcement activities are funded primarily from the DPR Fund. For 2002-03, the budget proposes that the DPR Fund support 64 percent of all enforcement expenditures, with the General Fund contributing approximately 29 percent of these expenditures.

Figure 1

Enforcement Expenditures

(In Millions)

Purpose	1998-99	1999-00	2000-01	2001-02	2002-03
State	$11.6	$12.2	$13.9	$11.4	$10.9
Counties	12.4	12.3	15.2	13.3	13.3
Totals	**$24.0**	**$24.5**	**$29.1**	**$24.7**	**$24.2**
Fund source					
General Fund	$6.1	$5.9	$5.9	$6.7	$6.9
DPR Fund	15.2	15.9	20.3	15.4	15.5
Other funds	2.7	2.7	3.0	2.6	1.8

State and Local Agencies Share Enforcement Responsibilities. While DPR is ultimately responsible for ensuring compliance with state pesticide laws, enforcement activities are carried out jointly by the department and the County Agriculture Commissioners (CACs). As shown in Figure 1, county enforcement activities account for more than one-half of the department's enforcement spending. In addition to state funds, counties also provide some of their own funds for these enforcement activities. Figure 2 highlights the respective enforcement responsibilities of CACs and the department.

The state is responsible for overseeing the counties' enforcement efforts. Specifically, as outlined in Figure 2, the state provides counties with program information and guidance to facilitate enforcement, while the CACs monitor pesticide application, conduct field inspections, investigate complaints, and assess penalties for violations. The state monitors the counties' enforcement efforts and effectiveness by conducting program overview inspections. In these overview inspections, DPR staff accompany county staff into the field to measure both how well a local individual applying pesticides adheres to safety regulations and how well the county assesses the level of compliance for that application. State overview inspections, however, occur on less than 1 percent of all county inspections. In addition to field inspections, DPR reviews the compliance and enforcement actions taken by the counties.

The state also reviews a large amount of local data that describe various county activities. For instance, the state reviews county inspection records of pesticide use by businesses and growers. The state reviews these records to ensure that the county is applying appropriate enforcement standards. Much of the county data provide information only on the quantity of activity carried out, not the quality or results of the activity. In effect, DPR knows *what* the counties are doing, but not *how well* they are doing it.

Figure 2

Pesticide Enforcement Duties and Responsibilities

Counties

- ✓ Provide industry outreach and training.
- ✓ Certify private applicators.
- ✓ Inspect pesticide handlers.
- ✓ Evaluate restricted material permits.
- ✓ Conduct scheduled and unannounced inspections.
- ✓ Investigate complaints and worker illnesses.
- ✓ Assess penalties.

State

- ✓ Provide guidance and direction to counties.
- ✓ Conduct overview inspections.
- ✓ Provide general program support.

Recent Assessment Report Showed Compliance Needs Improvement. To gain a clearer picture of how individual pesticide users comply with the law, DPR conducted an assessment of twenty counties with high pesticide use and high agricultural activity in order to determine the effectiveness of pesticide regulation compliance programs. From June 1997 to March 2001, DPR conducted extensive field inspections and reviews of county level data, and monitored local pesticide applications to determine compliance levels. The department has defined 80 percent compliance with inspection criteria as an acceptable compliance level, and any compliance lower than that as needing improvement. This assessment was one-time-only in nature and was in addition to the regular compliance activities undertaken by the counties. Figure 3 summarizes the Compliance Assessment Report's findings.

Figure 3

Pesticide Compliance Assessment Report: General Findings

- Statewide compliance with regulatory requirements was below acceptable (80 percent or greater) level.
- Growers, in general, had significantly lower compliance than licensed pest control businesses.
- Pesticide handlers had low compliance (less than 80 percent).
- Field worker safety survey showed no significant differences between grower and farm labor contractor compliance.
- There was significant noncompliance in the posting of hazard signs and information.

Specifically, the report found lower-than-acceptable levels of compliance throughout the state, and that compliance levels for agricultural growers was below that for pest control businesses. The report noted a low level of compliance for agricultural workers that handle pesticides and for hazard posting in agricultural areas. However, the report found no real difference for worker safety between those who worked directly for growers and those who worked for labor contractors. Overall, the department concluded that compliance statewide "needs improvement."

Data Reveal Significant Noncompliance

A detailed review of the county level data from the Compliance Assessment Report reveals significant noncompliance in several counties. We recommend the enactment of legislation that holds counties accountable for enforcing and improving the compliance of local pesticide users. We further recommend that the legislation direct the Department of Pesticide Regulation to report annually on local compliance as measured by the department using appropriate performance measures.

The Compliance Assessment Report grouped all county compliance data together to gain a statewide perspective. To obtain a more detailed look of compliance by counties, we requested the 20 individual county reports for further analysis. County-level data contained information on specific inspections, as well as summary data for each county. The goal of our analysis was to get a sense of the range of compliance across the counties in the sample.

A Small Number of Counties Have a Significant Amount of Noncompliance. Our review of the individual county data shows that of the counties covered by the report, six located in the Central Valley are among the worst performing counties in the state for pesticide regulation compliance. Each of these six counties has substantial local pesticide usage. Together, they accounted for nearly forty-five percent (85 million pounds) of the state's pesticide use in 2000. Specifically, data for these six counties show several areas where compliance levels were below 50 percent, including the use of personal protective equipment and the posting of information on the handling of hazardous pesticides. As a comparison, most of the other counties reviewed by DPR had few or no areas of compliance below 50 percent. Less than 50 percent compliance in an area represents significant noncompliance.

Significant Noncompliance with Protective Equipment Requirement. Current DPR regulations require that personal protection equipment be available and used in certain pesticide applications. Our review shows that compliance with these requirements is particularly problematic. Of particular concern is the use and availability of personal protective equipment in agriculture. The data show that for growers, nearly 20 percent—or one-in-five—had a compliance level of less than 10 percent. This means that personal protection equipment, such as aprons, gloves, protective eyewear, chemical-resistant clothing, and the information on when and how to use this equipment was largely unavailable to agricultural pesticide handlers 20 percent of the time throughout the state.

High Level of Noncompliance Raises Questions of Effectiveness of Local Inspections. As Figure 1 shows, the state provides substantial funding to counties to inspect and enforce pesticide use laws and regulations. For the current year, the state provided $13.3 million and the budget proposes the same amount for 2002-03. While counties conduct about 40,000 pesticide use inspections a year using these funds, DPR's compliance assessment suggests that these inspections have not been effective in ensuring acceptable levels of compliance in several counties in the department's study.

Negotiated Work Plans Used to Set Enforcement Goals. Discussions with DPR indicate that since completion of the compliance assessment, the department has started to use "negotiated work plans" to set goals with CACs. These work plans set out the level of inspections and the scope of education and outreach to be conducted by the CACs. These work plans are negotiated individually with each county and tailored to strengthen the weakest parts of the county program. The work plans are used by DPR regional staff to monitor county enforcement activities.

Funding for Local Enforcement Should Be Tied to Attainment of Negotiated Work Plan Goals. We think that these negotiated work plans can provide a tool for DPR to help counties define enforcement and compliance goals. In order to ensure that compliance improves, we recommend the enactment of legislation requiring DPR to report annually on the level of compliance achieved by each county receiving funds for enforcement.

Based on the information reported, the Legislature can determine what further actions are needed to improve local compliance. For instance, if after several years, counties still fail to meet an acceptable level of compliance as measured against goals set in the negotiated work plans, then the Legislature could consider adopting legislation directing DPR to withhold funds to such counties, and assume the CAC's enforcement responsibility. This approach would provide sufficient time for DPR to work with counties to improve local compliance. The DPR's assumption of county enforcement would be a last resort, similar to what current law provides in the case of Air Resources Board's oversight of local air quality districts' enforcement of the air quality standard requirements.

Department Oversight of Counties Lacks Measurable Goals

Departmental oversight of county enforcement programs lacks performance measures and goals. We recommend the enactment of legislation that directs the department to develop clear goals for its enforcement program and measurable performance criteria to monitor the progress of the counties toward those goals.

While the compliance assessment report provides a useful one-time assessment of compliance with pesticide regulations, it does not provide data over time that can be used to evaluate county performance on an ongoing basis.

Negotiated Work Plans Measure Activity Not Results. As mentioned earlier, a primary tool DPR uses to improve compliance is the negotiated work plans. One problem with these work plans, however, is that they rely heavily on county workload data to determine program success and not on well-defined performance measures. For example, counties count and report on the number and type of inspections conducted as required by the work plans. Such data, however, do not provide an indication of the accuracy or rigor of the inspection. For that, the state must conduct overview inspections to assess the quality of the county program.

Overview Inspection Data Not Available. For the state's overview inspection program to be effective, data must be compiled regarding the level of compliance by pesticide users in the counties. Currently, such data are not available as an oversight tool. For instance, for our review, the department was unable to supply any summary information that would indicate how well (or poorly) a county had performed based on DPR's overview inspections. Our review of DPR field inspection records provide no evidence that the department's overview inspection efforts are either targeted towards problematic counties or focused in areas of greatest noncompliance. Without such data, DPR cannot ensure that it is allocating its staff resources in the most effective and efficient manner. It also cannot assess whether the negotiated work plans are effective in changing user behaviors and improving compliance.

Negotiated Work Plans Should Specify Performance Measures and Goals. In order that the work plans can provide an effective tool to measure compliance, DPR must set clear compliance goals in the work plans. These compliance goals should be in addition to enforcement activity goals. The DPR should also identify clear performance measures by which to measure progress towards achieving these goals. Doing so would make clear to counties what they are expected to achieve.

The DPR Needs to Compile Summary Data on Compliance. The DPR should also compile summary data based on its overview inspections of counties. The data should provide information that enables the department to (1) track the level of compliance of a county on an ongoing basis, and (2) identify specific areas of noncompliance. Only with this type of information can DPR help counties to revise their negotiated work plans to target enforcement activities in order to improve compliance. Without such data, DPR will be unaware of ongoing compliance deficiencies and unable to focus state resources in the most efficient and effective manner.

Accordingly, we recommend the enactment of legislation requiring DPR to develop compliance goals for county enforcement and identify measurable performance criteria to monitor county achievement of these goals. The legislation should also require DPR to track data on county compliance on an ongoing basis.

DEPARTMENT FUNDING

Justification for General Fund Support Incomplete and Inaccurate

We withhold recommendation on the department's request for a $3.4 million General Fund augmentation for general support of the department until it provides, at budget hearings, accurate information detailing the program impacts if these funds are not provided. Further, should the department not provide this information, we recommend deletion of the $3.4 million General Fund.

Mill Assessment Insufficient to Maintain DPR Current Program; General Fund Requested. The primary source of funding for DPR is an assessment levied on the sale of registered pesticides for use in the state (the mill assessment). Chapter 523, Statutes of 2001 (AB 780, Thomson), sets the mill assessment rate at 17.5 (1.75 cents) per dollar of sales, through June 30, 2004. Of this amount, current law requires that 6 mills be distributed to the counties for enforcement activities and 0.75 mill be distributed to the Department of Food and Agriculture. The remaining 10.75 mills are available for support of DPR. For the budget-year, DPR estimates $32 million to be available for departmental support from the mill assessment.

At the current mill assessment level, there would not be sufficient resources from the DPR Fund to support the current level of department activities. To maintain those activities, the department requests an increase of $3.4 million in General Fund support for 2002-03. The amount would fund activities that are currently supported with DPR Fund money.

Need for General Fund Support Not Accurately Identified. The department indicated that the General Fund would be needed to support certain programs that are either federally required or of relatively high priority. It further indicated, however, that should the additional General Funds not be provided it will seek alternate ways of absorbing the shortfall rather than eliminating the programs. This suggests that the General Fund is in effect requested to fund other, potentially lower priority activities.

Since the submitted request does not accurately portray either the benefits from, or the negative impacts without these General Funds, we recommend that the department provide the Legislature at budget hearings complete and accurate information that describes the actual program impact should these funds not be provided. Without such information, the Legislature cannot determine the impact of the budget proposal. Therefore, we recommend that the Legislature not act on this request until such time as the department provides this information. Should the department not provide the information, we recommend the Legislature not approve the General Fund augmentation.

STATE WATER RESOURCES CONTROL BOARD (3940)

The State Water Resources Control Board (SWRCB), in conjunction with nine semiautonomous regional boards, regulates water quality in the state. The regional boards—which are funded by the state board and are under the state board's oversight—implement water quality programs in accordance with policies, plans, and standards developed by the state board.

The board carries out its water quality responsibilities by (1) establishing wastewater discharge policies and standards; (2) implementing programs to ensure that the waters of the state are not contaminated by underground or aboveground tanks; and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment, water reclamation, and storm drainage facilities. Waste discharge permits are issued and enforced mainly by the regional boards, although the state board issues some permits and initiates enforcement action when deemed necessary.

The state board also administers water rights in the state. It does this by issuing and reviewing permits and licenses to applicants who wish to take water from the state's streams, rivers, and lakes.

The budget proposes expenditures of $663.6 million from various funds for support of SWRCB in 2002-03. This amount is a decrease of $394.6 million, or about 37 percent, below estimated current-year expenditures. Most of this decrease reflects a reduction of $403.2 million of bond-funded expenditures, mainly for loans and grants for local water quality and water recycling projects. Major budget proposals include (1) a one-time increase of $22.4 million in payments from an insurance fund to underground storage tank owners and operators for the cleanup of leaking tanks, (2) an increase of $4.3 million for information management improvements, and (3) a shift of $15 million from the General Fund to fees to support the board's core regulatory program.

FUNDING SWRCB'S CORE REGULATORY PROGRAM

The budget proposes to create General Fund savings by shifting some General Fund support for the State Water Resources Control Board's core regulatory program to fees. In the sections that follow, we discuss the Governor's proposal, make recommendations for fee legislation, and provide an assessment of the board's funding requirements over the longer term in order to meet its statutory mandates.

The SWRCB's Core Regulatory Program

The board's core regulatory program involves permitting, inspection, monitoring, and enforcement activities concerning dischargers of waste into the state's waters. The program has been traditionally funded by a mix of funding sources. While General Fund support for the program has increased substantially in recent years, fee-based support has remained relatively stable. This is partially due to the fact that statute provides a cap on fee levels as well as fee exemptions.

Regulation of Waste Discharges. Since the 1960s, discharges of waste into the state's surface waters and groundwater have been regulated by the state and regional boards. The state board assesses the state's water quality, sets standards, and develops statewide plans to control water pollution.

There are two major types of water pollution—"point source" and "nonpoint source" pollution. Point source pollution involves the discharge of an identifiable amount of waste directly into water bodies by identifiable entities. To control point source pollution, the state and regional boards issue permits ("waste discharge permits") that set limits on the types and amount of discharges and enforce compliance with these permits.

Nonpoint source pollution is created when water picks up contaminants from pesticide use, mining, logging, and other sources and deposits them in water bodies. The diffuse nature of nonpoint source pollution makes it difficult to identify and quantify the extent to which an individual source degrades water quality. These sources are generally not controlled by a permitting program. Rather, the board develops voluntary best management practices to be adopted by farmers and other nonpoint source waste dischargers. An exception pertains to *stormwater* pollution, which, while sometimes nonpoint source in nature, is regulated through a series of statewide or countywide permits that apply to a multitude of construction, industrial, or municipal sources of pollution.

The board's "core regulatory program" refers to the board's five programs that issue and enforce permits for point sources, including the stormwater program. Figure 1 shows the type and number of facilities regulated under the various components of the core regulatory program.

Figure 1

State Water Resources Control Board Core Regulatory Program Components

Program Component	
Rivers, lakes, coastal waters (NPDES)[a]	• Regulates about 2,600 dischargers of waste into the state's streams, rivers, lakes, and coastal waters. • Regional boards issue NPDES permits to dischargers. • There is a special category of NPDES permits for dairy farms. • Under federal law, NPDES permits generally must be reissued every five years.
Landfills (Chapter 15[b])	• Regulates about 1,200 dischargers of waste to waste management units such as landfills. • Regional boards issue Chapter 15 waste discharge requirements (WDRs) to dischargers. • WDRs are to be updated every three, five, and ten years, based on relative threat to water quality of the permittee's activities.
Lands, other than landfills (non-Chapter 15)	• Regulates about 3,500 dischargers of waste to land, excluding landfills and other specified lands. • Regional boards issue non-Chapter 15 WDRs to dischargers. • WDRs are to be updated every three, five, and ten years as above.
Stormwater	• Regulates about 16,000 construction and industrial sites contributing to stormwater runoff under a statewide general NPDES permit. • Regulates municipal stormwater runoff under areawide general NPDES permits.
Water quality certification[d] (Section 401)	• Reviews about 1,100 applications annually for projects requiring a *federal* permit or license to certify that discharges will not violate state water quality standards.

[a] National Pollutant Discharge Elimination System, implementing the federal Clean Water Act under agreement with U.S. Environmental Protection Agency.

[b] Chapter 15, Title 23, California Code of Regulations, pursuant to Porter-Cologne Water Quality Control Act.

[c] Pursuant to Porter-Cologne Water Quality Control Act.

[d] Section 401, federal Clean Water Act.

Core Regulatory Program Involves Permitting and Enforcement. The main activities of SWRCB's core regulatory program are permitting, inspections, review of self-monitoring conducted by dischargers, and enforcement for the five categories of waste dischargers as set out in Figure 1. The program does not encompass a number of other major activities carried out by the board in other programs. Specifically, the program does not include the board's water quality planning and standard-setting activities, nor does it include the local assistance, nonpoint source pollution control, or the underground fuel tank cleanup programs.

Core Regulatory Program Is Funded By A Mix of Fund Sources. The board's core regulatory program has traditionally been funded by a mix of four funding sources. These include:

- The General Fund.
- The Waste Discharge Permit Fund (WDPF). These are fees levied by the state and regional boards on dischargers of waste into the state's waters.
- The Integrated Waste Management Account (IWMA). These are "tipping fees" levied by the California Integrated Waste Management Board on solid waste disposed at landfills.
- Federal funds.

Figure 2 shows the expenditures of the core regulatory program by funding source.

Figure 2

Core Regulatory Program Expenditures by Funding Source

(In Millions)

	2000-01	2001-02	2002-03[a]
General Fund	$26.8	$39.0	$22.5
Waste Discharge Permit Fund[b]	15.3	17.0	31.7
Integrated Waste Management Account[b]	6.0	5.3	5.3
Federal funds	5.7	8.8	8.8
Totals	**$53.8**	**$70.1**	**$68.3**

[a] As proposed by the Governor's budget.
[b] Fees.

Through the current year, the General Fund has supported a majority of the expenditures in the core regulatory program. For example, about 56 percent of the estimated $70.1 million of program expenditures in 2001-02 will come from the General Fund.

General Fund Support Has Increased Substantially in Recent Years. From 1990-91 through 1998-99, annual General Fund support for the core regulatory program remained relatively stable—at around $13 million. However, beginning with the 1999-00 budget, the Legislature has approved a number of General Fund augmentations to the core regulatory program to bring General Fund support to $39 million in the current year.

These augmentations came about largely as a result of findings from legislative oversight hearings on the board's core regulatory program conducted in 1999 and 2000. At these hearings, the Legislature expressed concern about the low level of inspections and enforcement, as well as the significant backlog in the update and renewal of water quality permits which had developed. In particular, the Legislature found that there were substantial unmet funding requirements in the board's stormwater program.

Fee-Based Support Has Remained Stable. Although General Fund support for the core regulatory program has increased substantially in recent years, the program's fee-based support has remained relatively stable. The ability of the board to increase fee revenues by raising fee rates has been restricted due to a statutory cap of $10,000 on annual waste discharge permit fees that was set in 1989. (Although fee *rates* are capped, fee *revenues* have increased somewhat, although rather modestly over time, due to an increase in the number of feepayers.)

The setting of the statutory cap of $10,000 in 1989 was based in part on the board's analysis of workload needs in light of statutory requirements at that time. However, as will be discussed later, the board's core regulatory workload has increased significantly since 1989 due to federal and state law changes affecting the board's responsibilities.

Current Fee Structure. By regulation, the board has adopted a schedule for the annual waste discharge permit fees ranging from $200 to the statutory cap of $10,000, based on a discharger's relative threat to water quality. Under current law, confined animal feeding operations (such as dairy farms) are exempt from paying the annual permit fee, but they may be subject to a one-time $2,000 fee. This exemption has been in statute since 1990.

The board has interpreted statute as authorizing the assessment of only one permit fee per permit. Therefore, for example, if a regional board issues a municipal stormwater permit to a county (with individual cities as copermittees), the maximum permit fee under statute would remain $10,000, even though dozens of cities might be covered under the permit.

Currently, the board's waste discharge permit fees generate about $15 million annually from about 17,000 dischargers, less than 2 percent of which pay a $10,000 annual fee (the statutory cap). About 70 percent of these feepayers are stormwater dischargers who pay an annual fee of up to $500 to operate under a statewide stormwater permit.

State's Fees Are Much Lower Than Several Other States' Fees. Based on a survey of other states' waste discharge fees conducted in 1998, our review finds that California's maximum fee ($10,000) is significantly lower than the maximum fee in several other states. For example, the survey found a maximum fee of $400,000 in New Jersey, $100,000 in South Dakota, and $54,000 in Ohio.

Increasing Fee-Based Support

The budget proposes to create General Fund savings of $15 million by increasing the level of fee-based support for the program. While we think that this is a step in the right direction, we recommend that the Legislature shift a higher amount of General Fund to fees than proposed by the Governor. We also recommend that the Legislature enact legislation to revise the board's fee structure, both to facilitate a higher level of fee revenues as well as address equity and other issues. (Reduce Item 3940-001-0001 by $22.5 million and increase Item 3940-001-0193 by a like amount.)

Governor's Budget Proposal. For 2002-03, the budget proposes $68.3 million for the board's core regulatory program, a slight decrease from estimated expenditures in the current year. However, the budget proposes a significantly different mix of funding sources than in the current year. Specifically, as shown in Figure 2, the budget proposes to shift funding of about $15 million from the General Fund to the WDPF. Accounting for this fund shift, the budget proposes $22.5 million from the General Fund, $31.7 million from WDPF, $5.3 million from IWMA, and $8.8 million from federal funds for the core regulatory program. Under the proposed funding mix, fees (from WDPF and IWMA) would support about 54 percent of the core regulatory program's budget.

In order to raise the additional revenues in WDPF to support the proposed fund shift, the budget proposes that the current statutory cap on fee levels of $10,000 be raised to $20,000. Presumably, the board would by regulation establish a fee schedule setting particular fee rates for different classes of dischargers up to the higher cap.

Basis of Governor's Proposal Is "Polluter Pays" Principle. In documents submitted with the Governor's budget proposal, it is stated that the basis for the proposed shift of funding from the General Fund to fees is the implementation of the polluter pays principle. The budget documents note that "private individuals or businesses that use or degrade a public resource (such as air, water, or wildlife) should pay all, or a portion of, the social cost imposed by their use of the resource."

The budget documents also note that the particular dollar amount for the fund shift was derived from the results of a survey of 800 of the board's feepayers (of which 116 responded) regarding their preferences for a revised fee system. According to the board, 80 percent of survey respondents supported a funding structure where permit fees fund up to 50 percent of program costs. As mentioned above, the budget proposes that fees cover 54 percent of program costs.

Proposed Fund Shift Is Step in Right Direction, But Should Go Further. We think that the budget proposal to shift some current General Fund support of the board's core regulatory program to fees is a step in the right direction. We agree with having the polluter pays principle guide the funding of this program.

However, we think that the proposed fund shift does not go far enough. As we discussed in a prior-year's analysis (please see our *Analysis of the 1999-00 Budget Bill*, page B-109), we think that the relationship between private degradation of resources is particularly strong in the case of *point source* water pollution (the focus of the board's core regulatory program), thereby justifying a *full* fee-based recovery of the (nonfederal) costs of the core regulatory program. Furthermore, fee-based support is appropriate given that the workload of the core regulatory program (permitting, inspections, discharger monitoring, and enforcement) is tied directly and completely to individual polluters/feepayers.

Recommend Greater Funding Shift to Fees. In order to fully apply the polluter pays principle to funding the board's core regulatory program, we therefore recommend that the General Fund be reduced by an additional $22.1 million and that WDPF be increased by a like amount.

In order to implement the funding shift at either the level the budget proposes or as we recommend, the Legislature would need to enact legislation. This is because the existing statutory fee cap of $10,000 would have to be lifted (raised or removed) in order that sufficient revenues could be raised from feepayers to provide for the fund shift.

We think that the need to enact fee legislation provides the Legislature the opportunity to address a couple of other issues arising with the existing fee structure. These issues relate to (1) an existing fee exemption and (2) the one permit, one fee rule. We discuss these two issues in the sections that follow.

Annual Fee Exemption for Dairy Operations Should be Revisited. As mentioned above, current law exempts confined animal feeding operations (mainly dairy farms) from paying the annual waste discharge permit fee. (Some of these operations are required to pay a one-time fee of $2,000. Also, if a dairy undergoes a significant change in operations or expands, it may be required to pay another one-time fee.)

We think that in enacting fee legislation to accommodate our recommended funding shift, the Legislature should consider whether or not to continue this fee exemption. When the fee exemption was established in the late 1980s, it was generally thought that waste from these operations were not a significant source of water pollution. However, enhanced monitoring of the state's waters in recent years has shown that these operations contribute much more to water pollution than originally thought. In light of this fact, the board's budget was increased by $401,000 (General Fund) in 1999-00 to provide specifically for permitting and inspections of dairies.

Our review finds that the board plans expenditures of $883,000 to regulate dairies in 2002-03, while it expects to collect only about $60,000 in one-time fees from dairies. Accordingly, the (one-time) fees levied on dairies bear little relationship to the board's workload to regulate this source of pollution. As a consequence, fees levied on other polluters, and the General Fund, have been used to subsidize the board's regulation of dairies. This has raised concerns from other feepayers that the fee structure is not equitable.

Therefore, we recommend that the Legislature consider removing the current exemption from paying the annual waste discharge permit fee that is granted to confined animal feeding operations. Alternatively, the Legislature could consider enacting annual fees only for the larger feeding operations that pose greater threats to water quality.

"One Permit, One Fee" Rule Needs Revision. As mentioned above, current law appears to limit fee assessment to one fee for each permit. In light of the addition of the stormwater component to the board's core regulatory program (in 1991) as discussed below, we think that the one permit, one fee rule leads to problems and should be revised.

Currently, municipalities are required to implement plans for controlling stormwater runoff. These plans are regulated under municipal stormwater permits issued by the regional boards. Rather than issue a separate permit to every city, regional boards generally issue a municipal stormwater permit to a county, with individual cities as "copermittees." Issuing an areawide permit is more cost-efficient and is appropriate particularly when cities drain into a single county storm drain system. However, given that an areawide permit is issued only to one jurisdiction (the county), only one fee (up to the $10,000 statutory cap) is assessed.

Our review finds that the workload (inspections, enforcement) generally associated with these areawide permits greatly exceeds $10,000 annually. This is particularly the case in larger counties, such as Los Angeles County that has over 80 cities as copermittees.

Given workload demands associated with the municipal stormwater permit program, we think that a change in the statutory fee structure that explicitly allows for an assessment of fees on copermittees is warranted. In addition to the stormwater permit program, there are other permitting programs under the board's core regulatory program which issue a single permit that includes copermittees. The Legislature may wish to consider authorizing fees to be assessed on copermittees in general to cover these other cases as well.

Substantial Unmet Funding Requirements Identified

The budget does not address the substantial unmet funding requirements identified by the board in its legislatively required review of the core regulatory program. We think that the Legislature should consider these funding requirements as part of its review in enacting the fee legislation to increase the level of fee-based support for the program.

Legislature Required Baseline Needs Analysis. In light of findings that the board was not carrying out a number of core regulatory program activities at adequate levels, the Legislature in the *Supplemental Report of the 1999 Budget Act* directed the board to conduct a baseline funding "needs analysis" for the program. The needs analysis was to reflect current program responsibilities under state and federal law and the major threats to water quality needing to be addressed in light of existing water quality conditions. In particular, the board was directed to assess the funding needs for a cost-effective compliance assurance and enforcement program.

Board Identified Substantial Unmet Funding Requirements. In order to project workload for the needs analysis, the board identified any requirement in state or federal law that dictates how its work is to be conducted. For example, federal law requires that National Pollutant Discharge Elimination System (NPDES) permits (which are federal permits) must be reissued at least every five years. In other cases where law does not provide direction, the board applied administratively developed standards that are intended to provide a reasonable level of frequency for inspections and the updating of permits. For example, the board's administrative standards provide that permittees should be inspected between one-and-three times a year, depending on relative threat to water quality. Similarly, these standards provide that permits should be "updated" every three, five, or ten years, again depending on threat to water quality (except in the case of NPDES permits discussed earlier). We think that the board's methodology was reasonable.

In its January 2001 report to the Legislature with the baseline needs analysis, the board identified substantial unmet funding requirements, both in terms of existing workload and new workload that was anticipated in future years. As shown in Figure 3, the baseline needs analysis identified funding requirements for the board's existing workload of about $107 million *above* the level of funding provided in the 2002-03 proposed budget for the core regulatory program. In other words, the board estimates that it would cost an additional $107 million to inspect currently permitted waste dischargers, conduct enforcement, and update permits at a frequency it considers adequate in light of threats to water quality.

The needs analysis also identified an additional $73.7 million of funding requirements in future years, related to an expansion of the universe of dischargers to be regulated under the stormwater program. This brings the unmet annual funding requirements in the longer term to a total of $180.7 million—an increase of over 260 percent above the proposed 2002-03 budget for the core regulatory program.

Figure 3

Core Regulatory Program Funding Requirements[a]

(In Millions)

		Additional Funding Requirements[b]		
Program Component	**2002-03 Budget**	**Existing Workload**	**Future-Year Requirements**	**Total**
NPDES	$23.3	$11.5	—	$11.4
Dairies	0.9	24.3	—	—
Non-Chapter 15	12.7	20.8	—	—
Chapter 15	10.1	9.2	—	—
Stormwater	18.9	27.8	$73.7	101.5
Section 401 Certification	2.4	13.4	—	13.4
Totals	**$68.3**	**$107.0**	**$73.7**	**$180.7**

a Based on January 2001 SWRCB report submitted to the Legislature pursuant to the *Supplemental Report of the 1999 Budget Act*.

b Funding requirements identified *above* 2002-03 baseline, including staffing and contracts.

Proposed Budget Does Not Address Unmet Funding Requirements. The proposed budget for the core regulatory program is essentially a status quo budget in terms of total expenditures. Therefore, the budget does not address the issue of workload identified by the board that is going undone.

To get a sense for the workload that is going undone, we reviewed the board's most recent set of performance measures for the core regulatory program—for 2000-01. For example, we find that only about 25 percent of NPDES and stormwater permitees were inspected at least once that year (the board's standard being at least one-to-three inspections for *all* permittees annually). As another measure of performance, only 44 percent of significant permit violations of WDR permitees resulted in *any* form of enforcement action (whether informal—such as a verbal warning, or formal—such as a penalty). We also find that significant backlogs in updating and reissuing permits continue to exist. For example, at the beginning of 2001-02, 26 percent of "major" NPDES permits (facilities posing the most significant potential threats to water quality) had already expired under federal law and needed to be reissued.

Fee Legislation Discussion Is Opportunity to Consider Unmet Funding Requirements. While we think that the board has made considerable progress in its core regulatory program as a result of the recent budgetary augmentations, the board reports that there remains substantial workload that is not being addressed. According to the board, it would probably take at least seven years for it to absorb all the additional staffing needed in the core regulatory program, assuming facilities (and funding) needs can be met. We think that in the discussions surrounding the fee legislation that would be required to implement the funding shift to fees, the Legislature should consider the role that fees may play over the coming years in addressing the unmet funding requirements that have been identified.

Department of Toxic Substances Control (3960)

The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up or oversees the cleanup of contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded by fees paid by persons that generate, transport, store, treat, or dispose of hazardous wastes; environmental fees levied on most corporations; the General Fund; and federal funds.

The budget requests $156 million from various funds for support of DTSC in 2002-03. This is a decrease of about $152 million, or 49 percent, from estimated current-year expenditures. This decrease is accounted for mostly by the elimination of one-time expenditures that occurred in the current year consisting of (1) $115 million for the Stringfellow/Casmalia hazardous waste site settlements and (2) $21 million from the General Fund to repay a loan from the Superfund Bond Trust Fund. Major budget proposals include (1) an increase of $2.2 million (special funds) for various purposes in the hazardous waste management program, (2) an increase of $6.8 million (special funds) for office-related costs, and (3) a shift of $7.9 million from the General Fund to special funds for site cleanup and administrative costs.

Governor's Budget Proposes to Substantially Reduce CLEAN Program

The budget proposes $1 million for a loan and grant program (the Cleanup Loans and Environmental Assistance to Neighborhoods program) to assess and clean up contamination at abandoned or underutilized sites known as brownfields. This reflects a decrease of $7 million from current-year expenditures.

"Brownfield" sites are abandoned, idled, or under-used industrial and commercial facilities where expansion or redevelopment is complicated by real or potential environmental contamination. To address the impediments to brownfield redevelopment, Chapter 912, Statutes of 2000 (SB 667, Sher) established the Cleanup Loans and Environmental Assistance to Neighborhoods (CLEAN) program in DTSC. The CLEAN program provides grants and low-interest loans to property owners, developers, community groups, and local governments to (1) assess the level of contamination at abandoned and underutilized properties with either real or potential toxic waste found on site and (2) clean up the contamination at these sites. The majority of funds are to be dispersed as loans, creating a "revolving door" of funding such that, after an initial investment in the program, the program would largely refinance itself.

In 2000-01, the Legislature approved a transfer of $85 million from the General Fund to the CLEAN Account as "seed money" for the loans and grants to assess and clean up brownfield sites. Due to the state's General Fund condition, the Legislature has approved the transfer of $77 million of the $85 million back to the General Fund. Figure 1 shows the use of the remaining $8 million in funds (almost all to be spent in the current year). As shown in the figure, the Governor proposes expenditures of $1 million for the CLEAN program in 2002-03, a decrease of $7 million from the current-year level. Expenditures in the current year have been mainly for cleanup loans. For the budget year, expenditures will be solely for ongoing loan administration and oversight.

Figure 1

CLEAN Program Expenditures

(In Millions)

	2001-02	2002-03[a]
Start-up costs	$0.3	—
Loans for site cleanup	5.5	—
Ongoing loan administration and oversight	0.3	$1.0
Develop environmental insurance proposal	0.5	—
Develop guidelines and conduct studies[b]	0.4	—
Totals	**$7.0**	**$1.0**

[a] As proposed by the Governor's budget.

[b] Required by California Land Environmental Restoration and Reuse Act (Chapter 764, Statutes of 2001 [SB 32, Escutia]).

To date, the financial assistance provided under the CLEAN program has been in the form of loans approved for commercial and industrial redevelopment, low-income and market rate housing, mixed-used developments, and downtown revitalization. The DTSC has encumbered six loans ranging from $400,000 to $1.9 million in six different communities.

Overlap Found Between Pollution Authority Program and CLEAN Program

We find that the department and the California Pollution Control Financing Authority (CPCFA) have overlapping statutory authority to operate potentially similar programs to promote the redevelopment of brownfields. We therefore recommend the enactment of legislation to reduce the potential for programmatic overlap between the department and CPCFA. We further recommend the adoption of supplemental report language requiring CPCFA and the department to report on their efforts to coordinate their activities.

The CPCFA Also Has a Brownfields Program. The main activity of CPCFA is to issue bonds (sometimes tax-exempt) on behalf of private borrowers for the acquisition, construction, or installation of pollution control facilities. The authority charges fees to borrowers for its services and accordingly has built up a fund balance from these fees since the mid-1980s.

Recent legislation (Chapters 914, Statutes of 2000 [AB 779, Torlakson] and Chapter 915, Statutes of 2000 [SB 1986, Costa]) also authorized CPCFA to establish a program to provide grants and loans for the identification, assessment, and mitigation of brownfield sites. According to the authority, the CPCFA has a fund balance of approximately $55 million in the current year. Of this amount, CPCFA has set aside $10 million for the brownfield program and $2.5 million for another economic development program. Additionally, the Governor's budget proposes a $20 million loan to the General Fund from this fund. This leaves the authority with approximately $22.5 million for future CPCFA program activity.

Of the $10 million set aside for brownfield programs, $2.3 million has been encumbered to date for three communities to assess contamination at sites and determine the development potential of the sites. This leaves an uncommitted balance of $7.7 million. The three loans serve the communities of Oakland ($1 million), San Diego ($1 million), and Emeryville ($0.3 million). According to CPCFA, priority for remaining funds will be given to "cleaner" sites that have greater development potential rather than "dirtier" sites. If a redevelopment project proceeds, any funding from CPCFA for site assessment must be repaid with interest.

Overlap in Statutory Authority, But Differences in Practice. Both DTSC and CPCFA have the authority to provide financial assistance through loans and grants to identify, assess, and clean up sites with real or potential environmental hazards. Although there is overlap between DTSC and CPCFA in their statutory authority, we find that there are clear differences in how each has implemented its brownfield program in practice. To date, both DTSC and CPCFA have focused on specific portions of their statutory authority in their grant/loan programs, reflecting their specific expertise. The DTSC through the CLEAN program has focused on actual mitigation and cleanup of brownfield sites while the CPCFA program has focused on funding the assessment (prepurchase) phase of development. The DTSC's focus appears reasonable, as DTSC is able to offer the recipients of cleanup loans ongoing technical assistance on cleaning up sites, based on its programmatic knowledge and scientific expertise. This is an expertise that is not found at the CPCFA.

On the other hand, we find that CPCFA is well positioned to provide "predevelopment" assistance in the form of loans or grants to assess contamination and development potential at brownfield sites. This is because, as a financing authority, CPCFA understands the property development process. Commercial loan packages and grants do not typically provide financing at this stage of development, therefore the CPCFA's predevelopment program fits a specific need in brownfields site development financing.

While CPCFA and DTSC have to date each focused on different aspects of brownfield redevelopment (site assessment versus cleanup), there is no guarantee that their program activities will not overlap in future years given the overlap in their respective statutory authorities. We think that this overlap in authority—if exercised by DTSC and CPCFA in practice—could compromise the effectiveness of the state's overall effort to facilitate brownfield redevelopment.

Recommend Enactment of Legislation to Reduce Potential for Programmatic Overlap. As discussed above, we think that CPCFA and DTSC have unique expertise in different aspects of brownfield redevelopment. We therefore recommend the enactment of legislation that would divide authority for brownfields programs between these two agencies based on their respective expertise. Specifically, we recommend that statute require CPCFA to give *priority* to providing loans and grants for predevelopment site assessment and that DTSC be required to give *priority* to providing cleanup loans and grants.

We recognize that the department's and CPCFA's programs, even with their different focuses, will need to work together to ensure that there are not gaps in the assistance provided by the state to facilitate brownfield development. Additionally, with limited state resources for brownfields programs, it is important that the state is using its collective resources devoted to this purpose most effectively. We therefore recommend that the legislation also require that CPCFA and DTSC develop a memorandum of understanding (MOU) to establish the extent to which collaboration between the two agencies should occur. To the extent possible, criteria for providing financial assistance should be jointly established. As a result of these actions, limited state resources can be appropriately targeted and financing mechanisms for redevelopment and loan applicants can be streamlined.

There are a number of examples where state agencies with overlapping authorities have signed MOUs to coordinate their activities in order to be more effective. For example, the Department of Conservation and the California Integrated Waste Management Board have signed an MOU to coordinate both agencies' activities related to public education and outreach to promote recycling.

In addition, we recommend the adoption of supplemental report language requiring CPCFA and DTSC to submit a report to the Legislature, by January 1, 2003, on the MOU, including their efforts to reduce overlap and streamline the process for providing financial assistance for brownfield redevelopment.

Potential Funding for Cleanup Loans and Grants

If the Legislature wishes to provide additional state funding for loans and grants for brownfield site cleanup in the budget year, we recommend the enactment of legislation to authorize a one-time transfer of $5 million from the California Pollution Control Financing Authority's fund balance to the Cleanup Loans and Environmental Assistance to Neighborhoods Account.

We further recommend increasing the department's federal reimbursement authority by $1 million to enable the department to receive recently authorized federal funds for brownfield cleanup. (Increase 3960-001-0890 by $1 million.)

Budget Proposal Lacks Funding for One of Two Statutory Objectives. As discussed above, statute provides for various state functions to promote the development of brownfields. Statute sets two main objectives—the provision of financial assistance for site assessment and the provision of financial assistance for site cleanup. The Governor's budget proposal, however, lacks funding for one of these objectives—there is no funding proposed for new loans and grants for site cleanup under DTSC's CLEAN program. On the other hand, CPCFA plans to continue drawing down a $10 million set-aside to award new grants and loans for site assessment.

Option to Transfer Funds From CPCFA to DTSC. As discussed above, due to the state's General Fund condition, most of the funding initially deposited in the CLEAN account has been transferred back to the General Fund. This leaves slightly less than $1 million available for expenditure from the account in the budget year. The budget proposes that the $1 million be spent solely for ongoing administration and not for new loans and grants for site cleanup. Should the Legislature wish to provide funding for new loans and grants for site cleanup in the budget year, one option available to it is to enact legislation providing for a one-time transfer of $5 million from CPCFA's fund balance to the CLEAN account. Our review finds that CPCFA's fund (off-budget) has a sufficient balance to support this transfer. If the transfer were made, this would leave about $17.5 million in CPCFA's fund for future program activities, in addition to the $7.7 million remaining from the $10 million set-aside for CPCFA's brownfield programs.

Recommend Budget Include Authority to Receive Federal Funds. Our review finds that recently enacted federal legislation—the Small Business Liability Relief and Brownfields Revitalization Act—provides funding to states to be used for grants for brownfield liability relief, cleanup, reuse, and revitalization. According to the department, California appears eligible for about $1 million in subvention funding. We therefore recommend that the department's federal reimbursement authority be increased by $1 million to enable the department to apply for and expend these funds.

FINDINGS AND RECOMMENDATIONS

Resources

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CALFED Bay-Delta Program

B-18 ■ **Substantial State Funding for CALFED Proposed.** The budget proposes $519 million in various departments for CALFED-related programs in 2002-03.

B-20 ■ **Enhancing Legislative Review of CALFED Proposals**. Recommend joint policy/budget committee hearings to review CALFED's budget proposal.

B-21 ■ **Budget Proposal Based on Risky Assumptions.** Recommend CALFED advise the Legislature on programmatic implications, and the administration's plans, if federal funds and Proposition 40 bond funds do not materialize. Recommend approval of budget control language to provide legislative oversight over CALFED expenditures.

B-24 ■ **Environmental Water Account Raises Issues. Reduce Item 0540-001-0546 by $28,233,000, Item 3600-001-0001 by $160,000; and Item 3860-001-0001 by $786,000.** Recommend deletion of funding for Environmental Water Account until a number of policy and implementation issues are resolved in legislation.

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B-25 ■ **General Fund Savings in Water Use Efficiency Program. Reduce Item 3860-001-0001 by $3.9 Million.** Recommend reduction in funding since adequate level of state support to promote water use efficiency would remain at reduced funding level.

Fund Conditions for Resources Programs

B-27 ■ **Resources Special Funds.** The budget proposes to spend most of the special funds projected to be available for resource protection in 2002-03. This will leave about $21 million for legislative priorities.

B-32 ■ **Major Change Proposed for Tidelands Revenue Distribution**. The budget proposes to eliminate existing statutory requirements that tidelands revenues fund various resources accounts. Recommend that the State Lands Commission provide update on tidelands revenue projections at budget hearings.

B-35 ■ **Parks Bond.** The budget proposes to spend $123 million from the 2000 Parks Bond (Proposition 12) for park acquisition and development and habitat restoration.

B-36 ■ **Resources Bond on March Ballot.** If adopted by voters, Proposition 40 on the March 2002 ballot would provide $2.6 billion in new bond funds for various resources purposes including parks.

B-37 ■ **Water Bonds.** The budget proposes $480 million in bond funds for various water-related projects. No bond funds are available in the budget year for the state's unmet share of costs for federally authorized local flood control projects. The budget proposes no alternative funding for this purpose.

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B-41 ■ **Improving Bond Fund Accountability.** Recommend enactment of legislation to require fund conditions for the Propositions 12, 13, and 204 and any future resources bond measures be displayed annually in the Governor's budget document.

Tahoe Environmental Improvement Program

B-47 ■ **Enhancing Legislative Oversight of Tahoe Environmental Improvement Program (EIP).** Recommend joint policy and budget committee hearings to review Tahoe EIP budget proposals. Recommend adoption of supplemental report language to require future Governor's budget displays to include Tahoe EIP expenditure information.

Timber Harvest Plan Review

B-50 ■ **Timber Harvest Fees Should Be Enacted. Reduce Item 3480-001-0001 by $1.3 Million, Item 3540-001-0001 by $12.7 Million, Item 3540-001-0235 by $385,000, Item 3600-001-0001 by $4.8 Million, and Item 3940-001-0001 by $2.7 Million.** Recommend enactment of legislation imposing fees on timber operators to fully cover the costs incurred by state agencies in their review and enforcement of timber harvest plans.

Secretary for Resources

B-54 ■ **Recommend Federal Funding for California Legacy Project. Reduce Item 0540-001-0001 by $1,459,000, Increase Item 0540-001-0995 by $1,459,000, and Increase Reimbursements for That Item by a Like Amount.** Recommend the Secretary seek available federal funds to partially cover the program costs.

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Department of Forestry & Fire Protection

B-58 ■ **Emergency Fire Suppression Budget Not Realistic.** The budget proposes eliminating most funding for emergency fire suppression and eliminating an existing legislative notification requirement. Because it is highly likely the state will incur additional costs for emergency fire suppression, we offer options to budget more realistically. Recommend deletion of the proposed budget bill language to eliminate existing legislative notification requirement.

B-60 ■ **Legislature Should Enact Fire Protection Fees.** Recommend enactment of legislation imposing fees on property owners in State Responsibility Areas to help cover the state's costs (both ongoing and e-fund) of providing fire protection services.

B-61 ■ **General Fund Savings Proposal Undefined**. Withhold recommendation on proposal to shift $20 million in firefighting costs from the General Fund to reimbursements due to lack of detail. Recommend the department present a detailed plan to achieve the proposed savings prior to budget hearings.

B-62 ■ **Eliminate Land Record Information (LRI) Project**. **Reduce Item 3540-001-0001 by $415,000**. The budget proposes to continue the second year of the LRI Project to standardize land record information for each parcel in the state. Our review finds that there is no clear purpose and plan for the collection of the data at a statewide level. Recommend elimination of the project.

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Department of Fish & Game

B-64 ■ **Budget Proposes to Significantly Reduce the Department of Fish and Game's (DFG's) California Environmental Quality Act (CEQA) Activities**. The budget proposes to reduce DFG's CEQA review activities by $2.1 million, in effect returning DFG's CEQA review efforts to the level prior to 2000-01. If the Legislature wishes to provide additional funding for CEQA review, a portion of the fund balance of the Environmental License Plate Fund could be used. We also find that there is a potential for increasing revenues from DFG's environmental filing fees in order to fund CEQA review.

Department of Parks and Recreation

B-68 ■ **Department's Land Acquisitions Have Increased Significantly**. During 2000-01 and 2001-02, the Department of Parks and Recreation (DPR) projects to increase its land holdings by more than 75,000 acres and expend about $328 million on acquisitions.

B-69 ■ **Land Acquisitions Result in Unfunded Obligations.** Land acquisitions create future development and operating obligations. We find many of these funding obligations have not been addressed as part of the acquisition or budget process.

B-71 ■ **Funding the Development and Operation of Existing Acquisitions**. Recommend the adoption of supplemental report language requiring the department to develop a funding plan for existing acquisitions that includes an assessment of development and operating cost obligations and an identification of funding sources.

B-72 ■ **Process Can Be Improved to Better Budget For Costs Associated With Future Land Acquisitions.** Recom-

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mend the enactment of legislation (1) requiring DPR to submit funding plans for future land acquisitions and set aside bond funds for future development of bond-funded acquisitions, and (2) requiring the Department of Finance to approve park general plans. Further recommend the Legislature set specific limits in future bond measures on the proportion of funding allocations to DPR to be spent to acquire lands.

B-74 ■ **Legislative Oversight of New Bond Funds**. Proposition 40, if approved by the voters at the March 2002 election, would provide $225 million to DPR for state park improvements and acquisitions. The Legislature may be called upon to evaluate May Revision proposals related to the expenditure of Proposition 40 funds for parks. We offer recommendations to guide the Legislature's review of these proposals.

B-75 ■ **Two of Three Concession Proposals Lack Key Information.** Recommend the Legislature withhold approval of the concession proposals for Pfeiffer Big Sur State Park and Millerton Lake State Recreation Area until the Legislature receives and reviews the department's selected terms for the concessions.

Department of Water Resources

B-78 ■ **General Fund Savings in Water Shortage Preparation Program. Reduce Item 3860-001-0001 by $1.3 Million and Item 3860-101-0001 by $3.4 Million.** Recommend deferral of $4.7 million for program implementing Governor's Drought Advisory Panel recommendations, given that ongoing planning activities of local water agencies to prepare for drought conditions could continue at the reduced level of state assistance.

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Air Resources Board

B-80 ■ **Enact Stationary Source Program "Polluter Pays" Fees. Reduce Item 3900-001-0001 by $18.7 Million and Increase Item 3900-001-0115 by a Like Amount.** We recommend that the Legislature enact legislation to apply the polluter pays principle, so as to shift $18.7 million from the General Fund to fees to pay for the stationary source program.

Department of Pesticide Regulation

B-88 ■ **Data Reveal Significant Noncompliance.** Recommend the enactment of legislation that ties county-level enforcement activity to improved regulatory compliance for local pesticide users.

B-90 ■ **Department Oversight of Counties Lacks Measurable Goals.** Recommend enactment of legislation that directs the department to develop clear goals for its enforcement program and measurable performance criteria to monitor the progress of the counties toward those goals.

B-91 ■ **Justification for General Fund Support Incomplete and Inaccurate.** Withhold recommendation on $3.4 million in General Fund augmentation until the department provides at budget hearings accurate information detailing the negative program impacts if these funds are not provided. Further, should the department not provide this information, recommend deletion of the $3.4 million General Fund.

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State Water Resources Control Board

B-94 ■ **Core Regulatory Program.** The board's core regulatory program involves permitting, inspection, monitoring, and enforcement activities. The program has been traditionally funded by a mix of funding sources, including the General Fund. Statute provides a $10,000 cap on fees assessed to waste dischargers.

B-98 ■ **Recommend Increasing Fee-Based Support**. **Reduce Item 3940-001-0001 by $22.5 Million and Increase Item 3940-001-0193 by a like amount.** Recommend increasing proposed funding shift to fees in core regulatory program by an additional $22.5 million. Recommend enactment of legislation to facilitate funding shift and address other fee issues.

B-101 ■ **Substantial Unmet Funding Requirements.** The board identified about $181 million of unmet funding requirements for the core regulatory program in a report to the Legislature.

Department of Toxic Substances Control

B-104 ■ **Budget Proposes to Substantially Reduce CLEAN Program.** The budget proposes about $1 million for the Cleanup Loans and Environmental Assistance to Neighborhoods (CLEAN) program in 2002-03. This is a substantial decrease from current-year expenditures.

B-106 ■ **Statutory Overlap Exists Between the California Pollution Control Financing Authority (CPCFA) and the Department of Toxic Substances Control's (DTSC's) CLEAN Program.** Recommend enactment of legislation to reduce potential for programmatic overlap between CPCFA's and DTSC's brownfields programs. Also recommend adoption of supplemental report

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language requiring CPCFA and the department to report on their efforts to coordinate their activities.

B-108 ■ **Opportunities Exist to Provide Funding for Brownfield Cleanup. Increase Item 3960-001-0890 by $1 Million.** Recommend Legislature consider option to transfer $5 million from CPCFA's fund balance to DTSC to provide funding for cleanup loans and grants at brownfield sites. Also recommend increasing DTSC's federal reimbursement authority by $1 million to allow for receipt of recently authorized federal funding.