

# RESOURCES



60 YEARS OF SERVICE

2004-05 Analysis



# MAJOR ISSUES

## *Resources*

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### **Governor’s Bond Proposals to Come Later**

- The Governor has deferred the submittal of most of his resources bond expenditure proposals to later in the spring, leaving major gaps in programs traditionally funded from bond funds. We provide a framework to assist the Legislature in evaluating the forthcoming bond proposals; this includes ensuring that the Governor’s proposals reflect legislative priorities for bond funding (see page B-37).



### **“Beneficiary Pays” Principle Not Applied Much in Funding CALFED**

- The CALFED Bay-Delta Program—with a projected \$6 billion funding gap—is at a funding crossroads. To date, the state has been the biggest funding contributor by far to the program, with federal and local governments and water users lagging in their support. We recommend a funding framework for CALFED that applies the beneficiary pays principle, including a fee on water users that take water from the Bay-Delta system (see page B-17).



### **Budget’s Fee Proposals Can Go Further**

- The budget proposes a few fee increases that create General Fund savings in resources programs. We recommend a number of additional opportunities to shift funding from the General Fund to fees, totaling about \$170 million. Fees are an appropriate funding source in these cases, either because the state is providing a service directly to beneficiaries (such as fire protection) or administering an environmental regulatory program that is

reasonably funded by entities seeking regulatory approval to conduct a business activity.

- Our additional fee proposals result in General Fund savings in the following program areas: (1) timber harvest plan review—\$9 million (see page B-43); (2) coastal development permitting—\$7.8 million (see pages B-57 and B-76); (3) fire protection—\$150 million (see page B-51); and (4) risk assessment for regulatory programs—\$3.6 million (see page B-98).



### **More Strategic Approach to Flood Management Needed**

- Development in and around floodplains has contributed to increased losses due to floods, but the state's efforts to improve floodplain management have been reduced significantly in recent years. We recommend reducing the state's share of funding for certain flood control projects to better reflect the local benefit from these projects. This would create future savings that could be used to make more strategic flood management investments and benefit the General Fund (see page B-86).



### **What to Do With the California Power Authority**

- The budget proposes eliminating the California Consumer Power and Conservation Financing Authority (CPA). Although CPA has been unable to fulfill its core mission to finance new power plants, this has largely been due to market conditions. Given significant uncertainties regarding the adequacy of the state's energy supply to meet future demand, we think retaining some of CPA's functions (either within or outside CPA) has merit (see page B-110).



### **Increasing Public-Private Partnerships in State Parks Warrants Consideration**

- We find other park jurisdictions contract with the private sector for the delivery of types of services not contracted out by the Department of Parks and Recreation. We recommend a pilot program to further explore the pros and cons, as well as the costs and benefits, of expanding these public-private partnering activities in state parks (see page B-65).

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# OVERVIEW

## Resources

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**The budget proposes substantially lower state expenditures for resources and environmental protection programs in 2004-05 compared to the estimated current-year level. This mainly reflects the administration's decision to defer to later in the spring the submittal of most of the Governor's proposal to spend resources bond funds in 2004-05. The budget also proposes a lower level of General Fund expenditures for the budget year, reflecting the combination of generally small program reductions and the shifting of program funding to fees.**

## 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 \$3.6 billion in 2004-05, which is 3.6 percent of all state-funded expenditures proposed for 2004-05. This level is a decrease of about \$3.8 billion, or 51 percent, below estimated expenditures for the current year.

***Decrease Largely Reflects Incomplete Bond Expenditure Proposal.*** The proposed reduction in state-funded expenditures of \$3.8 billion for resources and environmental protection programs largely reflects a decrease in bond fund expenditures for park and water projects of a similar amount. Most of the bond expenditures from the current year have been taken out of the budget, leaving only about \$136 million of proposed bond expenditures for the budget year. As discussed in greater depth in our write-up on "Resources Bonds" in this chapter, the administration plans to submit its complete bond proposal later in the spring.

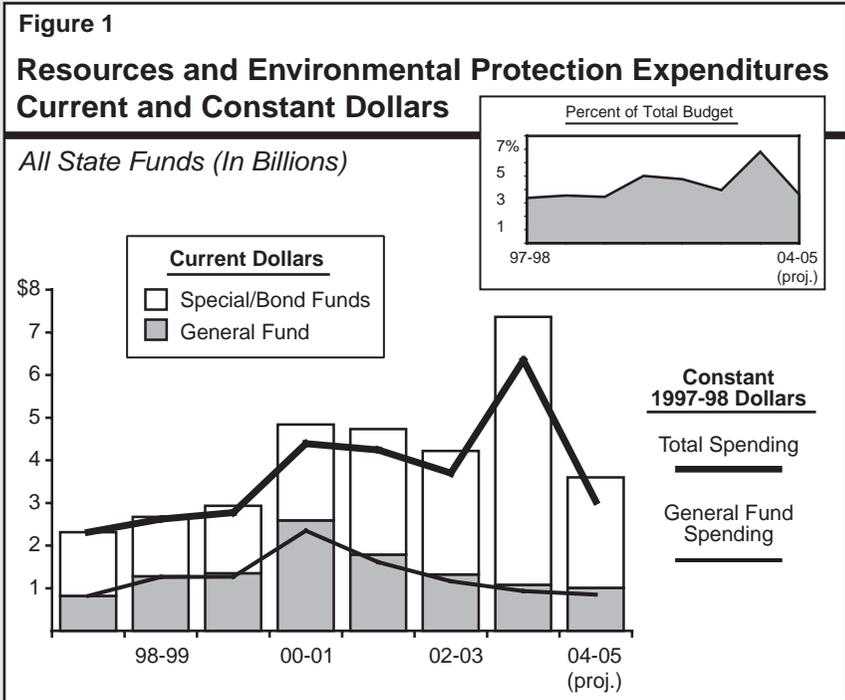
The reduction in state expenditures also reflects a decrease in General Fund expenditures for various purposes, including emergency fire suppression and support for the California Conservation Corps. (We discuss the budget's proposal for emergency fire suppression later in this

write-up.) Some of the proposed General Fund reductions do not result in overall decreased funding levels, as the budget proposes to shift funding in some program areas from the General Fund to fees. In total, the budget proposes General Fund expenditures for resources and environmental protection programs in 2004-05 that are \$68 million, or 6 percent, lower than the current-year level.

**Funding Sources.** In recent years, the largest proportion of state funding for resources and environmental protection programs has come from bond funds. However, since the budget reflects an incomplete bond expenditure proposal, only \$136 million of bond funding is proposed, the budget for now proposes that a majority of state funding for these programs come from various special funds totaling \$2.4 billion. These special 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. These special funds also include funds generated by a new electronic waste recycling fee, levied pursuant to Chapter 526, Statutes of 2003 (SB 20, Sher). Of the remaining expenditures, \$1 billion will come from the General Fund (28 percent of total expenditures).

**Expenditure Trends.** Figure 1 shows that state expenditures for resources and environmental protection programs increased by about \$1.3 billion since 1997-98, representing an average annual increase of about 7 percent. (The amount of average annual increase is substantially skewed by the delay in the Governor’s proposal for bond expenditures in 2004-05. If on the other hand the average annual increase for the years 1997-98 through 2003-04 is considered, the average annual increase jumps to 21 percent.) The increase between 1997-98 and 2004-05 includes about \$200 million in General Fund expenditures and the remainder mainly in special fund expenditures.

When adjusted for inflation, total state expenditures for resources and environmental protection programs increased at an average annual rate of about 4 percent. General Fund expenditures increased at an average annual rate of about 3 percent over this period. When adjusted for inflation, General Fund expenditures proposed for 2004-05 are essentially at the same level as in 1997-98. 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 that is above that found in 1997-98 and prior years, but is significantly below the General Fund expenditures in each of the years 1998-99 through 2002-03.



## SPENDING BY MAJOR PROGRAM

**Cost Drivers for Resources Programs.** For a number of resources departments, expenditure levels are driven mainly by the availability of bond funds for purposes of fulfilling their statutory missions. This would include departments whose main activity is the acquisition of land for restoration and conservation purposes as well as departments who administer grant and loan programs for various resources activities. For other departments that rely heavily on fees, their expenditure levels are affected by the amount of fees collected.

Some resources departments own and operate public facilities, such as state parks and boating facilities. The number and nature of such facilities drive operations and maintenance expenditures for these departments.

In addition, the state's resources programs include a number of regulatory programs. The cost drivers for these programs include the number and complexity of regulatory standards that are required to be enforced.

Finally, some resources activities have a public safety purpose, and the cost drivers include emergency response costs that can vary substan-

tially from year to year. These activities include the California Department of Forestry and Fire Protection's (CDFFP's) emergency fire suppression activities and the emergency flood response actions of the Department of Water Resources (DWR).

**Cost Drivers for Environmental Protection Programs.** A core activity of departments and boards under the California Environmental Protection Agency (Cal-EPA) is the administration of regulatory programs that implement federal and state environmental quality standards. These regulatory programs generally involve permitting, inspection, and enforcement activities. The main cost drivers for environmental protection programs are the number and complexity of environmental standards that are required to be enforced, which dictate the universe of parties regulated by the departments and therefore the regulatory workload.

In addition, a number of Cal-EPA departments administer grant and loan programs. The expenditure level for grant and loan programs, and the staffing requirements to implement them, are driven largely by the availability of bond funds or fee-based special funds to support them.

**Budget's Spending Proposals.** Figure 2 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 B-12) shows similar information for major *environmental protection* programs—those programs within the jurisdiction of the Secretary for Environmental Protection and Cal-EPA.

**Spending for Resources Programs.** Figure 2 shows the General Fund will provide the majority of CDFFP's total expenditures, accounting for 54 percent (\$370.3 million) of the department's 2004-05 expenditures. The General Fund will account for less in the support of other resources departments. For instance, for the Department of Conservation (DOC), the General Fund will constitute less than 1 percent (\$3.8 million) of its budget-year expenditures. In the case of the Departments of Fish and Game (DFG) and Parks and Recreation (DPR), the General Fund will pay about 14 percent (\$37.4 million) and 21 percent (\$82.3 million) of the respective departments' expenditures. The DWR's expenditure total is skewed by the \$5.4 billion budgeted under DWR for energy contracts entered into on behalf of investor-owned utilities. If these energy-related expenditures are excluded from DWR's total, the General Fund pays for about 5 percent (\$45.9 million) of DWR's expenditures.

Figure 2 also shows that compared to current-year expenditures, the budget proposes a substantial reduction in most resources departments. These are mainly departments affected by the administration's decision to defer most of its resources bond expenditure proposals to later in the

## Figure 2 Resources Budget Summary Selected Funding Sources

(Dollars in Millions)

Department	Actual 2002-03	Estimated 2003-04	Proposed 2004-05	Change From 2003-04	
				Amount	Percent
<b>Resources Secretary</b>					
Bond funds	\$109.4	\$184.7	\$3.3	-\$181.4	-98.2%
Other funds	20.9	3.4	3.5	0.1	2.9
<b>Totals</b>	<b>\$130.3</b>	<b>\$188.1</b>	<b>\$6.8</b>	<b>-\$181.3</b>	<b>-96.4%</b>
<b>Conservation</b>					
General Fund	\$21.6	\$5.0	\$3.8	-\$1.2	-24.0%
Recycling funds	494.6	618.6	837.8	219.2	35.4
Other funds	23.6	62.4	40.0	-22.4	-35.9
<b>Totals</b>	<b>\$539.8</b>	<b>\$686.0</b>	<b>\$881.6</b>	<b>\$195.6</b>	<b>28.5%</b>
<b>Forestry and Fire Protection</b>					
General Fund	\$436.4	\$467.7	\$370.3	-\$97.4	-20.8%
Other funds	213.6	378.6	313.1	-65.5	-17.3
<b>Totals</b>	<b>\$650.0</b>	<b>\$846.3</b>	<b>\$683.4</b>	<b>-\$162.9</b>	<b>-19.3%</b>
<b>Fish and Game</b>					
General Fund	\$50.1	\$37.7	\$37.4	-\$0.3	-0.8%
Fish and Game Fund	92.2	89.7	95.0	5.3	5.9
Environmental License	20.1	18.0	15.6	-2.4	-13.3
Other funds	96.0	130.2	126.0	-4.2	-3.2
<b>Totals</b>	<b>\$258.4</b>	<b>\$275.6</b>	<b>\$274.0</b>	<b>-\$1.6</b>	<b>-0.6%</b>
<b>Parks and Recreation</b>					
General Fund	\$132.3	\$97.3	\$82.3	-\$15.0	-15.4%
Parks and Recreation Fund	77.0	96.7	117.1	20.4	21.1
Bond funds	430.0	1,031.6	57.8	-973.8	-94.4
Other funds	105.8	215.1	132.4	-82.7	-38.5
<b>Totals</b>	<b>\$745.1</b>	<b>\$1,440.7</b>	<b>\$389.6</b>	<b>-\$1,051.1</b>	<b>-73.0%</b>
<b>Water Resources</b>					
General Fund	\$195.7	\$54.7	\$45.9	-\$8.8	-16.1%
State Water Project funds	740.0	759.5	763.6	4.1	0.5
Bond funds	131.8	430.8	26.1	-404.7	-93.9
Electric Power Fund	5,176.1	6,814.3	5,414.8	-1,399.5	-20.5
Other funds	83.8	98.1	37.5	-60.6	-61.8
<b>Totals</b>	<b>\$6,327.4</b>	<b>\$8,157.4</b>	<b>\$6,287.9</b>	<b>-\$1,869.5</b>	<b>-22.9%</b>

**Figure 3****Environmental Protection Budget Summary  
Selected Funding Sources***(Dollars in Millions)*

Department/Board	Actual 2002-03	Estimated 2003-04	Proposed 2004-05	Change From 2003-04	
				Amount	Percent
<b>Air Resources</b>					
General Fund	\$23.6	\$4.5	\$2.2	-\$2.3	-51.1%
Motor Vehicle Account	66.4	79.9	68.3	-11.6	-14.5
Other funds	60.7	81.0	59.8	-21.2	-26.2
<b>Totals</b>	<b>\$150.7</b>	<b>\$165.4</b>	<b>\$130.3</b>	<b>-\$35.1</b>	<b>-21.2%</b>
<b>Waste Management</b>					
Integrated Waste Account	\$40.4	\$42.7	\$41.9	-\$0.8	-1.9%
Other funds	78.5	71.9	123.2	51.3	71.4
<b>Totals</b>	<b>\$118.9</b>	<b>\$114.6</b>	<b>\$165.1</b>	<b>\$50.5</b>	<b>44.1%</b>
<b>Pesticide Regulation</b>					
General Fund	\$12.7	\$4.7	— <sup>a</sup>	-\$4.7	-100.0%
Pesticide Regulation Fund	36.3	50.5	\$53.2	2.7	5.4
Other funds	3.5	3.4	3.4	—	—
<b>Totals</b>	<b>\$52.5</b>	<b>\$58.6</b>	<b>\$56.6</b>	<b>-\$2.0</b>	<b>-3.4%</b>
<b>Water Resources Control</b>					
General Fund	\$71.9	\$37.2	\$27.6	-\$9.6	-25.8%
Underground Tank Cleanup	246.7	240.6	243.1	2.5	1.0
Bond funds	65.8	679.7	11.4	-668.3	-98.3
Waste Discharge Fund	28.7	52.5	52.6	0.1	0.2
Other funds	154.2	162.9	170.4	7.5	4.6
<b>Totals</b>	<b>\$567.3</b>	<b>\$1,172.9</b>	<b>\$505.1</b>	<b>-\$667.8</b>	<b>-56.9%</b>
<b>Toxic Substances Control</b>					
General Fund	\$31.3	\$20.5	\$17.2	-\$3.3	-16.1%
Hazardous Waste Control	38.9	49.3	45.4	-3.9	-7.9
Toxic Substances Control	30.4	41.1	42.7	1.6	3.9
Other funds	50.1	49.9	55.1	5.2	10.4
<b>Totals</b>	<b>\$150.7</b>	<b>\$160.8</b>	<b>\$160.4</b>	<b>-\$0.4</b>	<b>-0.3%</b>
<b>Environmental Health Hazard Assessment</b>					
General Fund	\$10.9	\$9.1	\$8.1	-\$1.0	-11.0%
Other funds	2.6	4.4	4.4	—	—
<b>Totals</b>	<b>\$13.5</b>	<b>\$13.5</b>	<b>\$12.5</b>	<b>-\$1.0</b>	<b>-7.4%</b>

<sup>a</sup> Not a meaningful figure.

spring. As shown in the figure, the departments affected substantially by this decision include the Secretary for Resources, DPR, and DWR. Although not shown in the figure, entities that are also affected by this decision include other land acquisition agencies, which include the Wildlife Conservation Board and most of the state's eight land conservancies.

For CDFFP, the proposed reduction in spending—\$162.9 million or 19 percent of total spending—largely reflects a decrease of \$95 million from the General Fund for emergency fire suppression. This leaves \$70 million proposed for emergency fire suppression in the budget year—about \$18 million less than the ten-year annual average for these expenditures. The General Fund expenditures for emergency fire suppression in 2003-04 (\$165 million) reflect the current year being a particularly high fire year. As in the current year, the proposed budget bill for 2004-05 authorizes the Director of Finance to augment the baseline appropriation for emergency fire suppression by an amount necessary to fund these costs.

For DPR, the proposed reduction in General Fund spending largely reflects a shift of \$15 million of funding for state park operations from the General Fund to state park fees.

Finally, the budget proposes a substantial increase in expenditures for DOC in 2004-05. This mainly reflects an increase in payments to recycling industries due to changes enacted by Chapter 753, Statutes of 2003 (AB 28, Jackson).

***Spending for Environmental Protection Programs.*** As Figure 3 shows, the budget proposes decreases in a number of environmental protection programs. As with resources programs, the largest of these reductions—found under the State Water Resources Control Board (SWRCB)—largely reflects the budget's incomplete proposal for bond expenditures. In the case of the Air Resources Board (ARB), the proposed spending reduction mainly reflects the end of limited-term funding from the Motor Vehicle Account for zero-emission vehicle incentives and the depletion of Proposition 40 bond funds for diesel emission reduction incentives.

The budget proposes significant General Fund reductions in a number of Cal-EPA departments totaling about \$23 million. In the case of ARB, SWRCB, and the Department of Toxic Substances Control (DTSC), most of the reduction reflects a shift of funding from the General Fund to fee-based special funds.

Finally, the budget for environmental protection programs includes one substantial funding increase—\$52.3 million (special funds) under the California Integrated Waste Management Board (CIWMB) to implement a new electronic waste recycling program pursuant to Chapter 526.

## MAJOR BUDGET CHANGES

Figure 4 presents the major budget changes in resources and environmental protection programs.

As shown in Figure 4, the budget proposes several General Fund reductions throughout resources and environmental protection departments. These reductions reflect both program reductions as well as funding shifts. The one major funding shift involving a fee increase is the proposed increase in state park fees in DPR. (The budget proposes to increase state park fees by \$18 million, \$15 million of which would replace the General Fund.) Although not reflected in the figure, the budget also proposes some other, smaller funding shifts from the General Fund to fees in the budgets of ARB, DFG, DOC, DTSC, and SWRCB. As far as General Fund program reductions are concerned, the budget proposes reductions in the California Conservation Corps totaling \$12.8 million.

The budget also assumes the enactment of fee legislation that would provide \$10 million of revenues from a new timber harvest review fee in 2004-05. The collection of these fee revenues would not, however, result in new General Fund savings. This is because the *2003-04 Budget Act* assumed the enactment of similar fee legislation and reduced CDFFP's General Fund appropriation for timber harvest plan review by the amount of anticipated fee revenues (\$10 million). The fee legislation was not enacted, leaving CDFFP with a funding gap of \$10 million. The Governor's budget proposes to address this funding gap in the current year with the enactment of fee legislation that would raise \$5 million in the current year and with a \$5 million General Fund augmentation. The budget proposes to address the funding gap in the budget year fully with the new fee revenues.

In addition to General Fund reductions, the budget proposes some reductions in programs funded by special funds. These include a \$12.3 million reduction from the Forest Resources Improvement Fund for resource management activities in CDFFP, particularly those in state-owned forests.

Finally, the budget also proposes two major augmentations in resources and environmental protection programs. These include \$52.3 million (special funds) for a new electronic waste recycling program in CIWMB and \$16.1 million (General Fund) in DWR to pay for the lining of the All-American Canal.

**Figure 4****Resources and Environmental Protection Programs  
Proposed Major Changes for 2004-05****Conservation Corps**

- \$12.8 million (General Fund) in training and work program, including elimination of corpsmember health benefits

**Forestry and Fire Protection**

- + \$10 million in new timber harvest fees
- \$12.3 million (special funds) for resource management activities, particularly in state-owned forests

**Integrated Waste Management**

- + \$52.3 million (special funds) for electronic waste recycling program

**Parks and Recreation**

- + \$15 million from increased state fees to replace General Fund

**Water Resources**

- + \$16.1 million (General Fund) for lining of the All-American Canal



# CROSSCUTTING ISSUES

*Resources*

## CALFED BAY-DELTA PROGRAM: AT A FUNDING CROSSROADS

*The CALFED Bay-Delta Program (CALFED), a consortium of 12 state and 13 federal agencies, was created to address a number of interrelated water problems in the state's Bay-Delta region. To date, there has been little direct application of the "beneficiary pays" principle in allocating the costs of this program, even though a funding gap of roughly \$6 billion is projected to exist over the program's first seven years. We propose a framework for applying this principle and recommend that the Legislature take the following steps to implement this framework:*

- *Enact legislation adopting the beneficiary pays principle for funding CALFED and providing guidance on its application.*
- *Enact a user fee on a broad group of Bay-Delta system water users to partially support CALFED activities that jointly benefit the public-at-large and this group of water users.*
- *Reevaluate the cost-sharing provisions for water projects under current law.*
- *Enact legislation directing the California Bay-Delta Authority to submit updated long-term financial plans as part of its annual budget proposal to the Legislature.*

## CALFED'S FUNDING HISTORY

### CALFED Created to Address Bay-Delta Water Problems

***The CALFED Bay-Delta Program.*** Pursuant to a federal-state accord signed in 1994, 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. The CALFED program now encompasses 12 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 from 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 of 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). This amount has recently been revised upward to \$9.2 billion.

***CALFED Overseen by the California Bay-Delta Authority.*** Chapter 812, Statutes of 2002 (SB 1653, Costa), established a governance structure for CALFED. Of the most important elements of this legislation was the creation of a new state agency in the Resources Agency—the California Bay-Delta Authority (CBDA)—to provide oversight and coordination of CALFED. Among the duties of CBDA are the annual review and approval of long-term expenditure plans of the implementing agencies and the preparation of a comprehensive program budget proposal.

### Legislative and Other Direction Guiding CALFED Financing

***The financing of the CALFED Bay-Delta Program (CALFED) has been guided by funding principles found in the CALFED Record of Decision, various statements of legislative intent, cost-sharing provisions for water projects found in state and federal law, and state bond matching requirements.***

There are a number of places in law that provide guidance regarding the financing of CALFED. As discussed below, the ROD contains some guiding principles, including the beneficiary pays principle. The Legislature has also provided direction on a number of occasions regarding how CALFED should be financed, namely in the annual budget act. Finally, state and federal law include cost-sharing arrangements for water projects in general that are relevant to CALFED. In some cases, the cost-sharing pertains to a certain type of project, such as local levees in the Delta region. In other cases, the cost sharing is in the form of a matching requirement for state bond funds.

***Record of Decision Envisions a Federal-State-Local-User Funding Partnership.*** The ROD allocates responsibility for paying the program's projected costs among federal, state, and local/private sources. In most cases, the cost sharing reflects simply a 50-50 split between state and federal sources or a 33-33-33 split among federal, state, and local/private sources. Thus, it was contemplated that each level of government, as well as water users benefiting from the program, would all be major players in financing the program. As will be discussed below, the program's financing to date has turned out rather differently, with the state picking up a majority of the tab and the federal government lagging substantially in its support.

***Record of Decision Adopts the Beneficiary Pays Principle.*** The ROD also states that "a fundamental philosophy of the CALFED Program is that costs should, to the extent possible, be paid by the beneficiaries of the program actions." The ROD, however, provides few details as to how this principle would be implemented. One exception where specific guidance was provided is the ROD's direction that a user fee be developed—to raise \$35 million annually—to support ecosystem restoration activities that benefit Bay-Delta water users.

The CALFED Implementation Plan (a companion document to the ROD) also references the development of a "user fee" to partially support CALFED program costs and provides a policy rationale for the beneficiary pays principle. In addition to CALFED agencies considering this policy to be equitable and fair, the plan states that having beneficiaries pay for programs encourages more careful review by beneficiaries of their water needs and of program costs in relation to the benefits they receive. In addition, public funds are spent more cost-effectively to the extent that the implementation of the beneficiary pays principle encourages the examination of a broader range of alternatives to meet program goals.

***Legislature Has Provided Direction Regarding CALFED Financing.*** While neither the CALFED governance legislation (Chapter 812) nor other legislation lays out a comprehensive framework for how CALFED should

be financed over the long term, the Legislature on a number of occasions stated its intent regarding CALFED financing. These include budget control language in the *1999-00* and *2000-01 Budget Acts* stating that beneficiaries of surface water storage projects that proceed to construction should reimburse all prior planning expenditures made from the General Fund. Similarly, in the *Supplemental Report of the 2002-03 Budget Act*, the Legislature directed CALFED to draft a financing plan for potential surface storage facilities consistent with the beneficiary pays principle. Finally, the *2003-04 Budget Act* includes a statement of legislative intent that CBDA submit a broad-based user fee proposal for inclusion in the *2004-05 Governor's Budget*, consistent with the beneficiary pays principle specified in the ROD. (We discuss the status of CBDA's user fee proposal later in this write-up.)

***Federal and State Cost-Sharing Provisions for Water Projects.*** There are various provisions under state and federal law that provide for a sharing of costs among federal, state, and local/user sources for the construction and operation of certain types of water projects. Some of these provisions reflect cost-sharing arrangements that were established several decades ago. As will be discussed later, the Legislature may wish to re-evaluate the appropriateness of some of these provisions, including their application to financing CALFED-related projects. This is because if applied to the financing of CALFED projects, some of these cost-sharing provisions might deviate significantly from the application of the beneficiary pays principle. Figure 1 highlights a number of the cost-sharing provisions under current law.

***State Bond Matching Requirements.*** In addition to the cost-sharing provisions discussed above, a number of state bond measures, or their implementing legislation, providing funding for CALFED projects either require, authorize, or encourage matching funds. For example, Chapter 240, Statutes of 2003 (AB 1747, Committee on Budget), provides that the Proposition 50 grant and loan project solicitation and evaluation guidelines may include a requirement for matching funds. As a result, matching funds are currently "considered" in the selection of CALFED's Proposition 50 ecosystem restoration and watershed grants and are a requirement of the Proposition 50 water use efficiency grants.

As regards Proposition 13 bond funding, the bond measure in general encourages, but does not require, matching funds for grants in CALFED's ecosystem restoration, groundwater storage, conveyance, and water supply reliability program elements. In many cases, the CALFED implementing agencies have chosen only to consider the availability of matching funds in their Proposition 13 grant selection rather than require the matching funds. However, Proposition 13 grants under CALFED for conveyance, water use efficiency, and capital projects to control nonpoint

source pollution are subject to matching requirements. Finally, CALFED agencies consider without requiring matching funds in their selection of Proposition 204 ecosystem restoration grants.

**Figure 1  
Federal and State Cost-Sharing Requirements  
For Water Projects**

Type of Project	Cost Allocation
<b>Federal Law</b>	
<ul style="list-style-type: none"> <li>• Federal construction of <b>water supply</b> projects by USBR<sup>a</sup> and Corps<sup>b</sup></li> <li>• Federal construction of <b>flood control</b> projects by Corps</li> <li>• Federal construction of <b>environmental restoration</b> projects (mainly Corps)</li> <li>• Central Valley Project Improvement Act <b>environmental mitigation</b> projects</li> <li>• <b>Operations and maintenance</b> of federally constructed projects</li> </ul>	<ul style="list-style-type: none"> <li>• 100 percent nonfederally funded; except in case of Corps-constructed irrigation projects, 65 percent federal share, and 35 percent nonfederal share</li> <li>• 65 percent federal share, 35 percent nonfederal share</li> <li>• 65 percent to 75 percent federal share, 25 percent to 35 percent nonfederal share</li> <li>• 37.5 percent federal share, 25 percent state share, 37.5 percent local share (for most projects)</li> <li>• 100 percent nonfederal share</li> </ul>
<b>State Law</b>	
<ul style="list-style-type: none"> <li>• <b>State Water Project (SWP)</b> planning, construction, and operations and maintenance of SWP projects</li> <li>• Construction of federally authorized <b>flood control</b> projects</li> <li>• <b>Delta levee</b> improvements</li> </ul>	<ul style="list-style-type: none"> <li>• 100 percent to SWP water users (including costs to repay bond financing)</li> <li>• Of the nonfederal share, 50 percent to 70 percent state, 30 percent to 50 percent locals</li> <li>• Up to 75 percent state, 25 percent locals under the delta levee subventions program; 75 percent to 100 percent state, 0 percent to 25 percent locals under “Special Projects” program</li> </ul>
<p><sup>a</sup> U.S. Bureau of Reclamation.</p> <p><sup>b</sup> U.S. Army Corps of Engineers.</p>	

## State Funds Have Contributed Most to CALFED

***The CALFED Bay-Delta Program (CALFED) has largely been funded by state bond and general funds, with substantially lagging federal and other nonstate support. Our review finds that there has been little direct application of the beneficiary pays principle in developing CALFED's budget proposals up to now.***

***State Has Been the Major Contributor to CALFED, by Far.*** Although the ROD envisioned CALFED being financed over time by roughly equal contributions of federal, state, and local/user funding, the state has been by far the major funding source for the program's first four years, providing over \$1.5 billion, or almost 60 percent, of funding. Figure 2 shows the imbalance of the contributions of these three funding sources.

<b>Figure 2</b>				
<b>CALFED Funding, by Source</b>				
<i>2000-01 Through 2003-04 (In Millions)</i>				
<b>Year</b>	<b>State Funds</b>	<b>Federal Funds</b>	<b>Local/User Funds<sup>a</sup></b>	<b>Total Funding</b>
2000-01	\$342.3	\$51.2	\$118.6	\$512.1
2001-02	380.6	67.6	138.4	586.6
2002-03	299.0	70.9	309.9	679.8
2003-04	489.3	55.4	292.3	837.0
<b>Totals</b>	<b>\$1,511.2</b>	<b>\$245.1</b>	<b>\$859.2</b>	<b>\$2,615.5</b>

<sup>a</sup> Includes revenues from Central Valley Project Improvement Act Restoration Fund (funded by water users), State Water Project contractor revenues, and local matching funds mainly for water recycling grants. There is additional local funding of an unknown amount that supports CALFED objectives, but is not currently tracked by the California Bay-Delta Authority unless it is in the form of matching funds.

Almost all of the state funds supporting CALFED have been taxpayer-supported “general-purpose” funds, namely monies from the General Fund and bond funds. Apart from a relatively small contribution from State Water Project and Central Valley Project contractor revenues, no user fees have supported the program. The local funding support for the program, while significant, largely reflects a match for state bond funds mainly for water use efficiency projects.

***Consequences of Lagging Nonstate Support.*** We find that the lagging nonstate support for CALFED has affected the amount of funds available for the program's various elements very differently. As shown in

Figure 3, the biggest gap between funding anticipated in the ROD and actual funding during CALFED's first four years is found in the drinking water quality (funding shortfall of 73 percent), levees (68 percent), science (52 percent), and water transfers (57 percent) program elements. (The funding gap for levees and science in future years will be partially addressed by Proposition 50 that provides funds explicitly for these two program elements.) Other program elements—water use efficiency and ecosystem restoration in particular—have had access to substantial state bond funds in order to make up most of a funding deficiency due to lagging nonstate support.

**Figure 3****CALFED****Funding Requirements Versus Actual Funding**

2000-01 Through 2003-04  
(Dollars in Millions)

Program Element	Years 1-4 <sup>a</sup> Funding		Shortfall	
	Requirements <sup>b</sup>	Actual	Amount	Percent
Ecosystem Restoration	\$764.0	\$693.5	-\$70.5	-9%
Environmental Water Account	217.9	168.1	-49.8	-23
Water Use Efficiency	1,033.0	851.9	-181.1	-18
Water Transfers	4.9	2.1	-2.8	-57
Watershed	175.0	103.3	-71.7	-41
Drinking Water Quality	311.0	82.7	-228.3	-73
Levees	269.0	86.0	-183.0	-68
Storage	485.7	279.3	-206.4	-43
Conveyance	200.8	125.1	-75.7	-38
Science	210.0	99.9	-110.1	-52
Water Supply Reliability <sup>c</sup>	—	78.8	78.8	—
Oversight and Coordination	51.0	44.8	-6.2	-12
<b>Totals</b>	<b>\$3,722.3</b>	<b>\$2,615.5</b>	<b>-\$1,106.8</b>	<b>-30%</b>

<sup>a</sup> 2000-01 through 2003-04.

<sup>b</sup> Pursuant to Record of Decision.

<sup>c</sup> Could include conveyance, water storage, water use efficiency, water transfers, and Environmental Water Account expenditures.

***Little Direct Application of the Beneficiary Pays Principle.*** Our review finds that during the course of the program's first four years, few funding decisions appear to have been made by the CALFED adminis-

tration that involve an intentional, direct application of the beneficiary pays principle. (There are a few exceptions to this. For example, CALFED's water conservation grant program has developed a new process in which each grant application is reviewed to determine the local and state share of the benefits and costs.)

While CBDA indicates that the program has followed cost-sharing or matching requirements in current law or state bond implementation guidelines, it is unable to say if existing practices are consistent or inconsistent with the beneficiary pays principle. Rather, the CBDA anticipates making this determination when it completes its analysis of the program's benefits and beneficiaries later in the spring.

As a consequence of the above, almost all of the state funds supporting the program have been taxpayer-supported funds, without there being an explicit accounting of the extent to which the program's benefits were received by individuals or groups of beneficiaries, as opposed to the public-at-large.

### **CALFED's Funding Future: An Enormous Gap to Be Filled**

***Actual and expected funding sources have been identified for only about one-third of CALFED's funding requirements for the program's first seven years.***

***Funding Is Uncertain for About Two-thirds of Estimated \$9.2 Billion Program Costs.*** The CALFED program is clearly at a funding crossroads. As shown in Figure 4, CBDA has identified actual and expected funding to support about \$3.1 billion, or roughly 33 percent, of the program's funding requirements for the program's first seven years beginning in 2000. (Expected future-year funding includes remaining state bond funds and continuation of base-level state funding from sources other than bonds, such as the General Fund. No future-year federal funding has been assumed by CBDA. However, while it is likely that some federal funds will materialize in future years, history would suggest that this funding is unlikely to be substantial.) Accordingly, this leaves about \$6.1 billion, or 67 percent, of the program's estimated costs without an identified funding source to pay for them.

## **THE BUDGET PROPOSAL**

***The budget proposes \$68.6 million in state funds for the CALFED Bay-Delta Program in 2004-05, of which \$12 million is from the General Fund and the balance mainly from State Water Project funds and bond funds. This is a decrease of \$454 million, or 87 percent, from estimated state expenditures in the current year. This decrease largely reflects the***

*administration's decision to defer to later in the spring the submittal of most of the Governor's 2004-05 resources bond proposals. Contrary to legislative direction, the budget does not propose funding from a new user fee. Rather, the administration indicates that it intends to submit a framework for long-term finance "options," including a user fee, later in the spring.*

<b>Figure 4</b>				
<b>CALFED</b>				
<b>Funding Requirements Versus Expected Funding</b>				
<i>2000-01 Through 2006-07 (In Millions)</i>				
Program Years	CALFED Funding		Shortfall	
	Requirements <sup>a</sup>	Actual/ Expected	Amount	Percent
2000-01 through 2003-04	\$3,722.3	\$2,615.5	-\$1,106.8	-30%
2004-05 through 2006-07	5,431.5	441.1	-4,990.4	-92
<b>Totals</b>	<b>\$9,153.8</b>	<b>\$3,056.6</b>	<b>-\$6,097.2</b>	<b>-67%</b>

<sup>a</sup> Pursuant to Record of Decision.

Figure 5 (see next page) shows the breakdown of CALFED expenditures in the current year and as proposed for 2004-05, among the program's 12 elements.

**Current-Year Expenditures.** As shown in Figure 5, the budget estimates CALFED-related expenditures from state funds of \$522.6 million in 2003-04. Of this amount, \$14.7 million is from the General Fund, with the balance mainly from Proposition 50 (\$349.9 million), Proposition 13 (\$71.6 million), and Proposition 204 (\$50.1 million) bond funds.

For the current year, the largest state expenditures are in the ecosystem restoration (\$136.3 million) and water use efficiency (\$112.7 million) programs.

**Budget Proposes \$68.6 Million of State Funds for 2004-05.** As shown in Figure 5, the budget proposes \$68.6 million of state funds for various departments to carry out CALFED in 2004-05, a decrease of \$454 million, or 87 percent, from the current year. Of this amount, \$12 million is proposed from the General Fund, with the balance mainly from State Water Project funds (\$33.4 million) and various bond funds (\$20.3 million). This

**Figure 5****CALFED Expenditures<sup>a</sup>***(In Millions)*

<b>Expenditures by Program Elements</b>	<b>2003-04</b>	<b>Proposed 2004-05</b>
Ecosystem restoration	\$136.3	\$11.9
Environmental Water Account	42.1	0.8
Water use efficiency	112.7	5.2
Water transfers	0.6	0.6
Watershed management	30.0	1.3
Drinking water quality	2.8	0.5
Levees	22.0	1.9
Water storage	30.9	7.9
Water conveyance	30.9	21.5
Science	28.6	7.9
Water supply reliability <sup>b</sup>	77.2	1.8
CALFED program management	8.5	7.3
<b>Totals</b>	<b>\$522.6</b>	<b>\$68.6</b>
<b>Expenditures by Department</b>		
Water Resources	\$286.7	\$53.7
California Bay-Delta Authority	146.1	9.4
State Water Resources Control Board	85.3	1.5
Fish and Game	4.1	3.8
Forestry and Fire Protection	0.2	—
Conservation	0.1	0.1
San Francisco Bay Conservation And Development Commission	0.1	0.1
<b>Totals</b>	<b>\$522.6</b>	<b>\$68.6</b>
<b>Expenditures by Fund Source</b>		
Proposition 50	\$349.9	\$15.6
Proposition 13	71.6	3.1
Proposition 204	50.1	1.6
General Fund	14.7	12.0
State Water Project funds	33.4	33.4
Other state funds	2.9	2.9
<b>Totals</b>	<b>\$522.6</b>	<b>\$68.6</b>
<p><sup>a</sup> State funds only.</p> <p><sup>b</sup> Could include conveyance, water storage, water use efficiency, water transfers, and Environmental Water Account expenditures.</p>		

substantial expenditure reduction largely reflects the administration's decision to defer to later in the spring the submittal of most of the Governor's proposals to spend resources bonds in 2004-05.

As Figure 5 indicates, CALFED expenditures are spread among seven agencies. The largest expenditures are found in the Department of Water Resources (\$53.7 million) and CBDA (\$9.4 million). The largest state expenditures are proposed for water conveyance (\$21.5 million) and ecosystem restoration (\$11.9 million).

***Budget Does Not Include a User Fee Proposal.*** The 2003-04 Budget Act stated legislative intent that the Governor's 2004-05 budget proposal for CALFED include a broad-based user fee consistent with the beneficiary pays principle. However, the budget as submitted to the Legislature does not include a user fee proposal. Rather, CBDA is currently developing a framework for financing CALFED over the long term that will include a number of finance options. The CBDA anticipates such a framework being ready for legislative review later this spring.

***Legislative Evaluation of Budget Proposal.*** In the sections that follow, we present a funding framework—based on the beneficiary pays principle—to guide the Legislature's evaluation of the Governor's budget proposal for CALFED and its consideration of how CALFED should be financed over the long term. 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 as was done in past years. Among other issues, these joint hearings should be a forum for the Legislature to be informed of the programmatic implications if federal support for CALFED continues at its laggard pace and of CBDA's plans to address this problem. To the extent possible, we think that the Legislature should articulate its expenditure priorities for CALFED. This would help guide a redistribution of funds among program elements that might become necessary should funding assumed by the budget not materialize.

## THE FUTURE: A RECOMMENDED FUNDING FRAMEWORK FOR CALFED

***In the sections that follow, we recommend a funding framework for the CALFED Bay-Delta Program (CALFED), involving the beneficiary pays principle. This framework should assist the Legislature in evaluating the California Bay-Delta Authority's forthcoming report on CALFED financing options. In addition, we think that the implementation of the beneficiary pays principle can assist in addressing CALFED's substantial projected funding gap.***

## Statutory Adoption of the Beneficiary Pays Principle

***We recommend the enactment of legislation that adopts the beneficiary pays principle as a policy for funding the CALFED Bay-Delta Program (CALFED) and provides guidance on its application. In particular, we recommend that the legislation require that the General Fund be reimbursed for planning costs of surface storage projects that proceed to construction. We also recommend that the legislation provide parameters for using state general-purpose funds to support CALFED activities.***

***Adoption of Beneficiary Pays Principle in Statute.*** Although the Legislature has made statements of intent (such as in budget act language) consistent with the application of the beneficiary pays principle in funding CALFED, it has not adopted this funding principle as a statutory policy to guide CALFED's funding on an ongoing basis. We think that there are major benefits from applying this principle to CALFED funding-related decision making. Not only will this result in a more appropriate allocation of the program's costs to those who benefit from the program, but it will also serve as a foundation to begin addressing the substantial projected funding gap facing the program. The application of the beneficiary pays principle serves to refine the rough 33-33-33 cost allocation (to federal, state, and local/user sources) found in the ROD. The 33-33-33 allocation was more of an indication that the program's costs would be shared, with the intent that costs would be allocated more specifically to program beneficiaries on an activity-by-activity basis.

We therefore recommend the enactment of legislation that adopts the beneficiary pays principle for funding CALFED and provides guidance regarding its application. We think that providing this guidance will be important for a couple of reasons. First, if this funding principle is not defined, there is a substantial risk that stakeholder gridlock would result when CALFED attempts to apply it on its own, due to inevitable disagreements among program beneficiaries about the extent to which costs should be allocated to them. Second, as noted by the California Business Roundtable in a report on financing water infrastructure, there is a tendency to over-allocate the costs of water projects to the broad public benefit, perhaps because it is easier to do and it avoids difficult decisions about allocating costs to specific beneficiaries. However, this tendency should be avoided, particularly in light of the significant drawing down in recent years of bond funds available for water projects.

***Fairness and Administrative Simplicity Should Guide Application of Beneficiary Pays Principle.*** We recommend that the legislation provide a framework for the application of the beneficiary pays principle that is guided by principles of fairness and administrative simplicity. By

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fairness, we mean that costs imposed on beneficiaries should be reasonably proportional to the benefit received by them. In the sections that follow, we discuss a framework that we think would be fair and administratively cost-effective to implement.

***Categorizing Activities by Directness of the Cost-Benefit Connection.*** The legislation should recognize that there is great variability among CALFED activities in the directness of the connection between an activity's costs and the benefits received by clearly identified, well-defined beneficiaries. We think that the administrative workability of implementing the beneficiary pays principle would be improved if the legislation required CALFED's activities to be broadly categorized on a spectrum according to the directness of this cost-benefit connection. We recommend that there be three broad categories on this spectrum as follows.

***When Private Parties Should Pay.*** At one end of the spectrum would be activities where there is a very direct link between a cost and a well-defined, discrete group of private beneficiaries. A case in point would be the construction of a surface storage project that benefits an easily identified, discrete group of water users. It would be consistent with how the state currently funds the SWP to require full cost recovery for such projects from these direct project beneficiaries.

It is important to note that of the projected funding gap for CALFED programs discussed earlier, the largest portions by far relate to the storage and water use efficiency programs (over \$3 billion of the gap). Projects under these programs typically have a well-defined, discrete group of private beneficiaries. Therefore, as these projects are finalized over the coming years and the beneficiaries are identified, the implementation of the beneficiary pays principle would result in the costs being allocated to these private beneficiaries.

As part of implementing the beneficiary pays principle in the storage program, we recommend that the legislation require that the General Fund be reimbursed for any planning costs that it has already funded for surface storage projects that proceed to construction. This would be consistent with legislative practice in prior budget acts. We think that establishing this practice in statute would ensure that this policy of reimbursing the General Fund will be followed consistently in future years. We estimate that, to date, the General Fund has funded about \$23 million of CALFED's surface storage planning activities.

***When the Public-At-Large Should Pay.*** At the other end of the spectrum would be activities where the primary beneficiaries are the public-at-large. For example, certain of CALFED's ecosystem restoration activities would likely fall into this category. For such cases, general-purpose

funds, such as the General Fund and bond funds, are appropriate funding sources.

We think, however, that circumstances exist where legislative policy may dictate that state general-purpose funds should help fund an activity, even though a strict application of the beneficiary pays principle would point to a narrower group of beneficiaries as the appropriate payers. For example, the primary direct beneficiaries of a groundwater storage project may be a particular local community, but the project in question may not be cost-effective from a purely *local* perspective or the local community might be economically disadvantaged and unable to afford the project. In such cases, there may be a state interest in seeing the project proceed, thereby providing the potential for using state general-purpose funds. Similarly, a case might be made for the use of general-purpose funds to “jump start” the use of a new water conservation technology. Accordingly, we recommend that the legislation set policy parameters for when state general-purpose funds are appropriate to support CALFED activities even though a strict application of the beneficiary pays principle would suggest otherwise.

***Many of CALFED’s Activities Have Shared Public-Private Benefits.*** Finally, in the middle of the spectrum—where we think a large number of CALFED activities would fall—would be activities where the benefits are shared between the public-at-large and a large, but definable, group of water users. Because of the very nature of shared benefits, it is difficult to separate out and quantify with precision the benefit to the private beneficiaries. However, this should not mean that the private beneficiaries are absolved from any responsibility for sharing in the costs for activities from which they directly benefit. Rather, we think that these are cases where the activity should be funded by a combination of general-purpose funds and user fees levied on Bay-Delta water diverters. (We discuss our recommendation for such a user fee in greater detail below.)

A good candidate for this “shared benefits” activity would be much of what is carried out in CALFED’s Environmental Water Account (EWA) program. As we noted in our *Analysis of the 2002-03 Budget Bill* (at page B-24) and in our January 2001 report, *Environmental Water Account: Need for Legislative Definition and Oversight*, the objectives of the EWA program are two-fold. They are to: (1) minimize reductions in water deliveries from the state and federal water projects (or compensate water users for such reductions) and (2) enhance endangered species protection and recovery. 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 it makes water supplies more reliable. However, it is appropriate for the program’s costs to be shared with the public-at-large given the benefits to endangered species protection and recovery.

## Enact a User Fee on Bay-Delta Water Diverters

***We recommend the enactment of legislation imposing a fee on a broad group of Bay-Delta water diverters to pay an appropriate share of costs for CALFED activities that benefit them. In order to implement this new fee, it may be necessary to amend existing reporting requirements related to water rights.***

As discussed above, many CALFED activities provide benefits that are shared between the public-at-large and a large, but discrete group of private beneficiaries. A share of these activities is appropriately funded by a user fee. The CBDA is currently developing a user fee proposal for legislative consideration. Below, we present findings and recommendations to assist the Legislature in evaluating the forthcoming fee proposal.

***CALFED Activities Often Benefit Bay-Delta System Water Diverters as a Group.*** Our review finds that water users that take (“divert”) water from the Bay-Delta system, as a broad group, benefit significantly from a large number of CALFED activities that also provide benefits to the public-at-large. (Water is diverted from the Bay-Delta pursuant to the state’s system of water rights.) A sharing of costs for these activities, using general-purpose funds and revenues from a user fee, is appropriate. There is precedent under federal law for such a fee. Currently, most users of water and power from the federal Central Valley Project pay a user fee that pays for environmental restoration activities.

The CBDA is currently evaluating what portion of each of its program elements benefits Bay-Delta water diverters as a broad group. This information is necessary to determine the portion of CALFED’s costs that can reasonably be allocated to this broad group of beneficiaries. Until this information is available to the Legislature, it is difficult to assess the potential amount of revenues that could be raised from the user fee. However, we note that the ROD anticipated that a user fee raising \$35 million annually for ecosystem restoration would be in place by 2003-04.

Our review finds that, to a large degree, the benefits of CALFED to the Bay-Delta water diverters as a group are in the form of increased water supply reliability. For example, ecosystem restoration expenditures for fish habitat improvements can facilitate the easing of restrictions on pumping water from the system, thereby making water deliveries more reliable. This is because the amount of allowable pumping (and thus the amount of water delivered) is constrained by the existing condition of the fish habitat and the cumulative impact on that condition from additional pumping.

We think that there are similar benefits to Bay-Delta water diverters as a group in other program elements as well. These include the EWA

(discussed earlier), watershed, and drinking water quality programs. We note, however, that some expenditures in the drinking water program benefit a well-defined subset of beneficiaries, and therefore would be inappropriate for funding from a fee assessed on a broad base of Bay-Delta water diverters. For example, the beneficiaries of expenditures related to the North Bay Aqueduct are limited to the two counties receiving water from the aqueduct.

***How Inclusive Should the Fee Base Be?*** A major issue for the Legislature to consider in structuring a user fee is whether to include all, or just a portion of, Bay-Delta water diverters in the fee paying base. The issue here is one of balancing fairness with administrative cost-effectiveness. While fairness would dictate that *all* diverters who benefit should pay a fee, it must be noted that there are literally thousands of water diverters in the Bay-Delta system, meaning that it is unlikely that it is administratively cost-effective to collect a fee from all such water diverters. Accordingly, it may be practical to assess the fee only on larger diverters defined as having a right to some threshold level of diversion.

***Water Rights Reporting Requirements May Need to Be Amended.*** Finally, it should be noted that while there is currently good information on an annual basis about water deliveries from the state and federal water projects, the reporting on other (“non-project”) water diversions of Bay-Delta water is much less reliable and is much more sporadic. For example, under current law, many water rights holders are required to report on their water diversions to the State Water Resources Control Board only every three years. In addition, the reliability of these reports has been seriously questioned. Therefore, if a user fee based on Bay-Delta water diversions were to be enacted, there would likely be a need to amend current water diversion reporting requirements to require more frequent reporting as well as adopt measures to encourage more accurate reporting.

## **Reevaluate Existing Statutory Cost-Sharing Provisions**

***We recommend that the Legislature reevaluate existing statutory cost-sharing provisions for water projects for their consistency with the beneficiary pays principle, and make any necessary amendments.***

As shown in Figure 1 (see page B-21), there are a number of provisions under current state law that allocate costs for water projects. Some of these provisions clearly apply the beneficiary pays principle—namely the provisions guiding the financing of SWP. However, we think that there are other cost-sharing provisions that should be reevaluated by the Legislature for their consistency with the beneficiary pays principle.

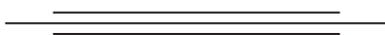
In particular, we recommend that the cost-sharing provisions for federally authorized flood control projects be amended to better reflect the extent of the local benefit from these projects. We discuss this recommendation further in our “Department of Water Resources” write-up in this chapter. In addition, we think that there is an opportunity to apply more of a benefits-based approach in funding Delta levee projects than is done currently under statutory cost-sharing provisions. Specifically, the benefit to local agencies from levee projects is often likely to be higher than that dictated by the statutory cost-share structure. In addition, although these levees can provide water supply reliability benefits to a discrete group of water users, these water users do not contribute under the existing cost-share structure. The Legislature may therefore wish to consider amending the existing cost-sharing provisions to more accurately reflect the local and water user benefits from these levee projects.

### **Establish Financial Planning Requirements for CBDA**

***We recommend that legislation creating the California Bay-Delta Authority be amended to add specified financial planning requirements to the authority’s responsibilities.***

As mentioned above, Chapter 812 (the CALFED governance legislation) lays out the responsibilities and authority of CBDA. While CBDA is required to report annually to the Legislature on the status of program implementation, it is not required to develop and update a long-term financing plan for submittal to the Legislature. (However, CBDA is currently developing a report on financing options that it plans to submit to the Legislature later this spring.)

We think that the Legislature’s evaluation of the administration’s annual budget proposal for CALFED would be significantly aided if it could consider the proposal in the context of a long-term financing plan for CALFED. We therefore recommend that Chapter 812 be amended to direct CBDA to develop a financing plan for submittal to the Legislature that (1) lays out CALFED’s funding requirements over at least a five-year period and (2) identifies the funding sources anticipated to meet these requirements. The financing plan should be updated on an annual basis to account for refinements to expenditure projections and to update for actual funding contributions that have been received. Since CBDA is currently developing financing options to address CALFED’s long-term funding requirements, we think that our recommended planning and reporting requirements should not add significantly to CBDA’s workload.



## RESOURCES BONDS

In past years, the state has used a substantial amount of bond funds to support the departments, conservancies, boards, and programs under the Resources and California Environmental Protection Agencies that regulate and manage the state's natural resources. Of the \$3.6 billion in state-funded expenditures for resources and environmental protection programs proposed for 2004-05, only about \$136 million (less than 4 percent) is proposed to come from bond funds. Of this amount, \$107 million comes from five resources bonds approved by the voters since 1996. This mainly reflects the administration's decision to defer to later in the spring the submittal of most of the Governor's proposals to spend resources bond funds in 2004-05.

In the sections that follow, we provide:

- A status report on the fund condition of various resources bond funds.
- Details of the Governor's January budget proposal for resources bond funds, including the program activities being funded.
- A summary of program areas that have received bond funds in the past and where bond funds remain available, but where the January budget proposal has put bond funding on hold until the submittal of the balance of the Governor's proposal later this spring.
- A discussion of a number of issues for legislative consideration when evaluating the Governor's bond expenditure proposals.

### RESOURCES BOND FUND CONDITIONS

***The budget proposes expenditures in 2004-05 of about \$107 million from five resources bonds approved by the voters since 1996. The proposed expenditures would leave a balance of about \$3 billion for new projects. Most of the bond funds for park projects have been appropriated, with***

***the funds remaining being mainly for water projects, land acquisition and restoration, and the CALFED Bay-Delta Program.***

As Figure 1 shows, the budget proposes expenditures totaling about \$107 million in 2004-05 from five resources bonds approved by the voters between 1996 and 2002. These bonds include Proposition 204 approved in 1996, Propositions 12 and 13 approved in 2000, and Propositions 40 and 50 approved in 2002. While Propositions 204 and 13 are generally referred to as water bonds, and Proposition 12 as a park bond, Propositions 40 and 50 are more accurately described as resources bonds, since they provide funding for a mix of water, park, and land acquisition and restoration purposes.

**Figure 1**

**Resources Bond Fund Conditions<sup>a</sup>  
By Bond Measure**

*2004-05  
(In Millions)*

	<b>Total Authorization In Bond</b>	<b>Resources Available</b>	<b>Proposed Expenditures</b>	<b>Balances</b>
Proposition 204 <sup>b</sup>	\$995	\$74	\$3	\$71
Proposition 12 <sup>c</sup>	2,100	35	19	16
Proposition 13 <sup>d</sup>	1,970	760	31	729
Proposition 40 <sup>e</sup>	2,600	302	19	283
Proposition 50 <sup>f</sup>	3,440	1,977	35	1,942
<b>Totals</b>	<b>\$11,105</b>	<b>\$3,148</b>	<b>\$107</b>	<b>\$3,041</b>

<sup>a</sup> Based on the 2004-05 Governor's Budget.

<sup>b</sup> Safe, Clean, Reliable Water Supply Fund, 1996.

<sup>c</sup> Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund, 2000.

<sup>d</sup> Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Fund, 2000.

<sup>e</sup> California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund, 2002.

<sup>f</sup> Water Security, Clean Drinking Water, Coastal and Beach Protection Fund, 2002.

As shown in Figure 1, most of the bond funds from Propositions 204 and 12 will have been appropriated at the end of the budget year. The budget projects a balance remaining of about \$3 billion from the five bonds for new projects.

Figure 2 shows proposed expenditures and remaining fund balances in the five resources bonds, broken down by broad program category. We discuss each of these program categories in further detail below.

<b>Figure 2</b>			
<b>Resources Bond Fund Conditions<sup>a</sup></b>			
<b>By Programmatic Area</b>			
<i>2004-05</i>			
<i>(In Millions)</i>			
	<b>Resources</b>	<b>Expenditures</b>	<b>Balances</b>
<b>Parks and Recreation</b>	\$144	\$31	\$113
State parks	(59)	(24)	(35)
Local parks	(83)	(5)	(78)
Historical and cultural resources	(2)	(2)	(—)
<b>Water quality</b>	772	26	746
<b>Water management</b>	756	7	749
<b>Land acquisition and restoration</b>	908	30	878
<b>CALFED Bay-Delta Program</b>	568	13	555
<b>Air quality</b>	—	—	—
<b>Totals</b>	<b>\$3,148</b>	<b>\$107</b>	<b>\$3,041</b>

<sup>a</sup> Based on Governor's budget; includes Propositions 204, 12, 13, 40, and 50.

**Parks and Recreation.** Propositions 12 and 40 together allocated about \$2.3 billion for state and local park projects and for historical and cultural resources preservation. The budget proposes expenditures of \$31 million for these purposes in 2004-05, with a balance remaining of \$113 million for new projects. Bond funds for historical and cultural resources preservation have essentially all been appropriated.

**Water Quality.** Propositions 204, 13, 40, and 50 together allocated about \$2 billion for various water quality purposes. These include funding for wastewater treatment, watershed protection, clean beaches, and safe drinking water infrastructure upgrades. The budget proposes expenditures of \$26 million for these purposes in 2004-05, with a balance of \$746 million remaining for new projects.

**Water Management.** Propositions 204, 13, and 50 together allocated about \$1.7 billion for various water management purposes, including water supply, flood control, desalination, water recycling, water conservation, and water system security. The budget proposes expenditures of

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\$7 million for these purposes in 2004-05, leaving a balance of \$749 million remaining for new projects.

**Land Acquisition and Restoration.** Propositions 204, 12, 40, and 50 together allocated about \$3.2 billion for a broad array of land acquisition and restoration projects. These allocations include funding to the several state conservancies and the Wildlife Conservation Board (WCB), as well as for ecosystem restoration, agricultural land preservation, urban forestry, and river parkway programs. The budget proposes expenditures of \$30 million for these purposes in the budget year, with a balance of \$878 million remaining for new projects.

**CALFED Bay-Delta Program.** The CALFED Bay-Delta Program (CALFED) is a consortium of over 20 state and federal agencies that was created to address a number of interrelated water problems in the state's Bay-Delta region. These problems relate to water quality, water supply, fish and wildlife habitat, and flood protection. Although each of the five bond measures allocated funds that could (and have) been used for purposes that are consistent with CALFED's objectives and work plan, only Propositions 204, 13, and 50 allocated funds explicitly for this program. From these specific allocations, the budget proposes expenditures of \$13 million in 2004-05, leaving a balance of \$555 million.

**Air Quality.** Finally, Proposition 40 allocated \$50 million for grants to reduce air emissions from diesel-fueled equipment operating within state and local parks. This allocation will be depleted in the current year.

## GOVERNOR'S RESOURCES BOND EXPENDITURE PROPOSAL

***The Governor is deferring the submittal of most of his proposals to spend resources bond funds in 2004-05 to later in the spring. Most of the bond expenditures proposed in the January budget are for state operations or capital outlay, rather than for local assistance.***

**Governor's January Proposal.** As mentioned previously, the budget proposes expenditures from all resources bonds totaling \$136 million in 2004-05. Of this amount, \$107 million is for programs funded by the five resources bonds approved by the voters since 1996. These proposed expenditures represent a decrease of about 97 percent from estimated bond expenditures in the current year. This reflects the administration's decision to defer to later in the spring the submittal of most of the Governor's 2004-05 resources bond expenditure proposals. In the sections that follow, we first provide a summary of what program activities are proposed for funding from bond funds in the January budget. We then provide a summary of program activities for which bond funding is available, but

where the Governor's expenditure proposals for this funding have been deferred.

**Programs Funded in January Budget.** The Governor's January budget proposal includes the following significant resources bond expenditures:

- **CALFED.** The budget proposes \$20.3 million from various bond funds for CALFED. These funds are to support staff in various of the CALFED program elements, with the water conveyance program receiving the largest amount of funding.
- **Habitat Conservation Fund.** As in the current year, the budget proposes to transfer \$21 million of Proposition 50 bond funds to the Habitat Conservation Fund (HCF). The HCF funds wildlife habitat acquisitions and improvements by WCB.
- **State Parks.** The budget proposes about \$24 million from Propositions 12 and 40 bond funds for state park operations and capital outlay.
- **Safe Drinking Water.** The budget proposes \$24 million from Proposition 13 bond funds for grants and loans to upgrade safe drinking water infrastructure. (These funds are administered by the Department of Health Services.)

**Programs for Which Bond Funding Decisions Have Been Deferred.** Major program areas for which bond funding has been provided in the past and remains available for expenditure in 2004-05, but where the administration has largely chosen to defer funding decisions to later in the spring, include:

- **Land Acquisitions by the State Conservancies and WCB.** The January budget has essentially zeroed out all bond funding for this purpose. In contrast, estimated bond expenditures by the conservancies and WCB for capital outlay total over \$1.5 billion in the current year.
- **CALFED.** Bond funds have been the major source of funding for CALFED in recent years, providing \$472 million of support in 2003-04. The January budget proposes \$20.3 million from bond funds for CALFED's state operations, deferring funding decisions for bond-supported local assistance and capital outlay to later in the spring.
- **Local Water Quality and Supply Projects.** A substantial amount of bond funds from Propositions 13, 40, 50, and 204 that are administered by the Department of Water Resources (DWR) and the State Water Resources Control Board (SWRCB) outside of

CALFED remain available for local water quality and water supply projects. Most funding decisions regarding this local assistance have been deferred to later in the spring.

- **Local Parks.** Significant Proposition 40 bond funds for local parks remain available, and funding decisions with respect to these funds have been deferred to later in the spring.

## ISSUES TO CONSIDER WHEN EVALUATING BOND PROPOSALS

*We discuss below a number of issues for legislative consideration when evaluating the Governor's resources bond expenditure proposals. We also make recommendations to improve the information available to the Legislature on the expenditure of bond fund appropriations in the current and prior years, as well as improve the coordination of bond-funded state land acquisition expenditures.*

### Substantial Prior Bond Fund Appropriations Remain Unexpended

*We find that there are a significant amount of bond funds that were appropriated in the current and prior years that have not yet been expended, in part because a majority of these funds are available for expenditure over multiple years. However, we find that staffing reductions have substantially delayed the implementation of some new bond-funded programs. We recommend that the administration report to the Legislature at budget hearings on the status of expenditures made from current- and prior-year bond fund appropriations and its plans to improve the timeliness of implementing bond-funded programs.*

**Significant Bond Fund Appropriations Have Not Been Expended.** The Legislature has appropriated a large amount of resources bond funds over the past few years. For example, over \$3 billion was appropriated from Propositions 40 and 50 bond funds in 2002-03 and 2003-04 combined. Of the funds appropriated in the current and prior years, we estimate that roughly \$2 billion of these bond funds have yet to be expended. In part, this delay reflects the fact that a majority of the bond funds appropriated in recent years were approved for expenditure over multiple years. While we anticipate additional expenditures from these funds between now and the end of the current year, the balance of the appropriations available in future years, although unknown, is likely to be substantial.

**Staffing Reductions Have Slowed Some Bond Fund Expenditures.** We find that some departments have not undertaken even the initial steps, such as hiring staff and developing guidelines, to implement new bond-

funded programs. For example, DWR has taken few steps to initiate its Proposition 50 bond-funded program to finance projects that treat or remove contaminants from drinking water. Also, SWRCB indicates that due to staffing shortages, it will not distribute funds in the current year for several of its Proposition 40 bond-funded programs that provide grants for agricultural water quality and small community groundwater projects. In general, we find that staffing shortages resulting from the hiring freeze and vacancy reductions have slowed or stopped the initiation of a number of new bond-funded programs.

***Recommend Administration Report on Status of Bond Fund Expenditures.*** We recommend that the administration report at budget hearings on the expenditure of resources bond funds appropriated in current and prior years. This will allow the Legislature to evaluate the administration's proposal to spend bond funds in the budget year in the context of existing prior-year appropriation balances. Specifically, in determining the amount of bond funds to appropriate in 2004-05, it is important for the Legislature to be advised of balances from prior-year appropriations that remain available for expenditure in the budget year, as this could affect the total level of budget-year expenditures. Second, information about the rate at which prior-year appropriations are being drawn down will assist the Legislature in identifying and addressing impediments to the timeliness of implementing bond-funded programs. Therefore, we also recommend that the administration report at budget hearings on its plan for improving the timeliness of implementing bond-funded programs that have been delayed for various reasons, including staffing reductions.

### **State Land Acquisition Activities Should Be Coordinated**

***We find that significant bond funds have been allocated for land acquisitions by several state agencies. We recommend that the Secretary of Resources report at budget hearings on the administration's plan to coordinate the state's land acquisition efforts.***

***Significant Bond Funds Have Been Provided for Land Acquisitions.*** The most recent resources bond measures (Propositions 40 and 50) have provided close to \$3 billion for land acquisitions. These funds are provided to several agencies, including WCB, the Department of Parks and Recreation, the State Coastal Conservancy, and the seven regional state conservancies. Around \$900 million earmarked in the bond measures remain available for appropriation in future years.

***Coordination of State's Land Acquisition Efforts Is Important.*** We find that coordination among the multiple agencies that engage in land acquisition activities is important. Coordination is needed to ensure that

the state is acquiring land in a strategic manner and using its bond funds in a manner that is the most effective for meeting state resources objectives. For a further discussion on this issue, please see our January 5, 2001 report, *California's Land Conservation Efforts: The Role of State Conservancies*.

**Recommend Secretary of Resources Report on Plans to Coordinate Land Acquisition Activities.** We therefore recommend that the Secretary of Resources report to the Legislature on the administration's plan to coordinate the state's land acquisition activities. As mentioned above, we think coordinating the state's land acquisition activities will result in a more effective use of the bond funds proposed for expenditure on this activity. In addition, as part of this report, we recommend that the Secretary discuss the administration's plan to ensure that development and operational costs that arise from land acquisitions are adequately funded.

### Additional Issues for Legislative Consideration

**We have identified several additional issues for the Legislature to consider as it evaluates the Governor's forthcoming proposals to expend resources bond funds. These include evaluating whether the bond fund expenditures are consistent with the bond measure and current law governing expenditures funded by bonds, ensuring that administrative costs are reasonable, and ensuring that prior legislative direction and legislative priorities are followed.**

**Evaluate the Appropriateness and Eligibility of Bond Fund Expenditures.** In evaluating the Governor's bond fund proposal in the spring, it is important for the Legislature to consider whether the expenditures are consistent with both (1) the provisions of the bond measure and (2) current law that provides general direction regarding the type of expenditures that are appropriately funded from general obligation bonds.

We find that the provisions of Proposition 50 provide more flexibility than earlier bond measures in funding activities of a "non-capital" nature that would traditionally be ineligible for bond funding. For example, Proposition 50 funds support a significant number of ongoing staff positions (previously funded from the General Fund) in CALFED's surface storage planning program. Since bond funds are only a temporary funding source, we think that the Legislature should be judicious in its approval of these expenditures, seeking to minimize debt financing of ongoing state operations expenditures (by the use of bond funds), such as for the support of staff positions.

**Ensure Administrative Costs Are Reasonable.** The administrative costs associated with implementing the Governor's bond proposals

should be evaluated to ensure that they are reasonable. We find that reasonable administrative costs can vary considerably depending on the type of program being implemented, and it is important to consider legislative intent guiding program administration. For example, providing technical assistance to disadvantaged communities in the grant application process as required by recent legislation can increase program administrative costs, but may be required to be effective in reaching these communities as intended by the Legislature. However, as a rule of thumb, we think that a cap of up to 5 percent is a reasonable level of administrative costs for some grant programs and individual property acquisition projects. (Please see our May 7, 2002 report, *Enhancing Implementation and Oversight: Proposition 40 Resources Bond*, for a further discussion on bond administrative costs.)

***Ensure That Legislative Direction Is Followed.*** In evaluating the Governor's bond proposals, the Legislature should consider whether the proposals are consistent with previous direction provided by the Legislature, such as that found in implementing legislation. For example, Chapter 240, Statutes of 2003 (AB 1747, Committee on Budget), and other legislation enacted in the current year provide legislative direction and guidance on the implementation of Proposition 50 bond funds. Specifically, Chapter 240 requires state agencies administering bond funds for grants and loans to develop project solicitation and evaluation guidelines. For some programs, Chapter 240 specifies that priority be given for certain types of projects and designates a state agency to administer bond funds where the bond measure is silent on this issue.

***Ensure That Expenditure Proposals Reflect Legislative Priorities.*** Finally, in evaluating the Governor's bond proposals, the Legislature should consider whether they include funding for its priorities. For example, in recent years, the Legislature has expressed its commitment to provide adequate funding for CALFED by approving a substantial amount of bond funding for this program. Although bond funds have provided well over \$300 million of CALFED's annual funding in recent years, the Governor's January budget includes just \$20 million of bond funds for CALFED. Accordingly, the Legislature will want to determine whether the Governor's forthcoming bond proposals reflect its priorities for funding CALFED as well as other resources programs.

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## TIMBER HARVEST FEE PROPOSAL SHOULD GO FURTHER

***The budget proposes to impose a new fee on timber owners to partially cover the costs incurred by the California Department of Forestry and Fire Protection (CDFFP) in its review and enforcement of timber harvest plans (THPs) beginning in the current year. While this is a step in the right direction, we recommend the enactment of fee legislation that would go further by fully funding the costs of CDFFP and all other state agencies with THP review responsibilities. This would result in budget-year savings of \$9 million to the General Fund and \$808,000 to special funds. (Reduce various General Fund items by a total of \$9 million and various special fund items by a total of \$808,000, and increase various Forest Practice Regulatory Fund items by a total of like amounts. We further recommend a reduction of \$5 million from the General Fund in CDFFP's current-year budget due to double budgeting.)***

***Timber Harvest Review Program.*** The state regulates the harvesting of timber on nonfederal lands in California under the Forest Practice Act. Specifically, timber harvest plans are prepared by a registered professional forester and cover such matters as harvest volume, cutting method, erosion control, and wildlife habitat protection.

The California Department of Forestry and Fire Protection (CDFFP) is the lead agency responsible for reviewing THPs. However, THPs are also reviewed by other agencies, including the Departments of Conservation and Fish and Game, and the nine regional boards of the State Water Resources Control Board (SWRCB). Historically, CDFFP was the only agency with the authority to approve THPs, while the other departments would review and comment on the THPs as they affected their program areas. These comments were advisory only to CDFFP. However, the recently enacted Chapter 900, Statutes of 2003 (SB 810, Burton), prohibits the approval of a THP if the SWRCB finds that the proposed timber operations will result in water pollution exceeding specified minimum

allowable levels. The CDFFP and the SWRCB report they are in the planning stages of implementing this law.

**Budget Proposal Includes Timber Yield Fee.** As shown in Figure 1, the budget proposes expenditures totaling \$20.3 million for various state agencies to review and enforce THPs. The proposal includes a plan to impose fees on timber owners (beginning in the current year) in order to partially offset CDFFP's costs for the review and enforcement of THPs. The fees are projected to generate \$5 million in the current year and \$10 million in the budget year. The budget-year revenue projections are higher as they reflect a full year of revenues.

As part of this proposal, the administration has submitted draft legislation to implement the new fee. Under this draft legislation, timber owners would pay a fee based on the value of timber that is harvested. Such a fee would be assessed on an individual timber owner based on the value of harvested timber, at a level to partially cover CDFFP's costs to review and enforce THPs. The fees would be deposited in the new Forest Practice Regulatory Fund that the legislation would create. At the time this analysis was prepared, the specific fee level needed to generate the fee revenues projected in the budget had not been finalized by the administration.

<b>Figure 1</b>				
<b>Timber Harvest Plan Review Expenditures</b>				
<i>2004-05 (In Millions)</i>				
<b>Department</b>	<b>General Fund</b>	<b>Forest Practice Regulatory Fund</b>	<b>Other</b>	<b>Total</b>
Forestry and Fire Protection	\$2.9	\$10.0	\$0.5 <sup>a</sup>	\$13.4
Fish and Game	1.7	—	0.8 <sup>b</sup>	2.5
State Water Resources Control Board	3.1	—	—	3.1
Conservation	1.3	—	—	1.3
<b>Totals</b>	<b>\$9.0</b>	<b>\$10.0</b>	<b>\$1.3</b>	<b>\$20.3</b>

<sup>a</sup> Public Resources Account, Timber Tax Fund, and reimbursements.  
<sup>b</sup> Environmental License Plate Fund and reimbursements.

**Proposal Addresses Current-Year Funding Shortfall.** The *2003-04 Budget Act* assumed the enactment of legislation that would have generated \$10 million in fee revenues for CDFFP from the review of THPs. The fee revenues would backfill a General Fund reduction of a like amount. However, the legislation raising the timber harvest fees was not enacted. As a consequence, CDFFP's timber harvest review program faces a \$10 million shortfall in the current year from the level authorized in the *2003-04 Budget Act*.

The administration proposes to address this current-year shortfall by augmenting the current-year budget by \$10 million (\$5 million from the Forest Practice Regulatory Fund and \$5 million from the General Fund). In order to realize the revenue augmentations to the Forest Practice Regulatory Fund in the current year, the administration indicates it will seek the timely enactment of the proposed legislation. However, the budget's display of current-year expenditures also includes an additional \$5 million from the General Fund as "contingency" funding in the event that the proposed fee legislation is not enacted in time to partially address the current-year shortfall. All of the proposed additional expenditures to fill the current-year funding shortfall (the \$5 million in fee revenues, the \$5 million from the General Fund, and the additional \$5 million from the General Fund as a contingency measure) would require a legislative appropriation.

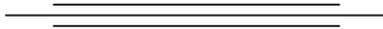
**Recommend Eliminating Contingency Funding in Current-Year Proposal.** We think the Governor's proposal to provide a "back-up" of \$5 million from the General Fund in the *current* year to address the uncertainty of the enactment of timber harvest fee legislation results in "double budgeting." We therefore recommend that the Legislature, in reviewing the Governor's proposed amendments to the current-year budget, not approve the request for \$5 million of contingency funding from the General Fund in CDFFP's THP review program.

**Fee Proposal a Good Start, But Can Go Further in Budget Year.** We think the budget's proposed shift of funding from the General Fund to fees to fund CDFFP's timber harvest regulatory activities is a step in the right direction. However, we think that the proposed fund shift does not go far enough. As we discussed in our *Analysis of the 2003-04 Budget Bill* (page B-60), we think that timber owners should cover the total state agency costs to review and enforce THPs, including the costs incurred by state agencies in addition to CDFFP in their review of THPs. This is because there is a direct link between THP review and enforcement and the timber owners who directly benefit from the state regulatory activities. In other words, without the state review and approval of the THP, businesses would not be able to harvest timber. Establishing such a fee would be consistent with the Legislature's actions in requiring the costs of most

other environmental regulatory programs, such as those protecting air and water quality, to be fully reimbursed through industry fees and assessments.

**General Fund and Special Fund Savings.** Implementing our recommendation to fully shift funding for the timber harvest regulatory program to fees levied on timber owners would result in additional budget-year savings of \$9 million to the General Fund, \$386,000 to the Public Resources Account (PRA), and \$422,000 to the Environmental License Plate Fund (ELPF).

We therefore recommend that the Legislature make the corresponding reductions in General Fund, PRA, and ELPF and the increases of a like amount from the new Forest Practice Regulatory Fund.



# 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
- California Bay-Delta Authority
- 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
- San Diego River Conservancy
- San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy
- Santa Monica Mountains Conservancy
- Delta Protection Commission
- Coachella Valley Mountains Conservancy

The budget requests \$6.8 million for the Secretary in 2004-05, a decrease of \$181 million below estimated current-year expenditures. The requested amount is solely for the Secretary's support budget and includes no funding for local assistance. The decrease in expenditures reflects both the substantial drawing down in the current and prior years of bond funds from Propositions 12, 13, 40, and 204 and the administration's decision to defer to later in the spring the submittal of most of its resources bond proposals. (Please see the discussion on "Resources Bonds" in the "Crosscutting Issues" section of this chapter.) For the core administrative functions of the Secretary supported with funds other than bond funds (mainly the Environmental License Plate Fund), the budget proposes a funding level about the same as in the current year.

### **Withhold Recommendation on Support Budget Pending Receipt of Restructuring Plan**

***We withhold recommendation on the support budget for the Secretary for Resources pending the receipt and review of the Governor's plan to restructure the Secretary.***

***Governor Proposes Restructuring the Secretary for Resources.*** The Governor's budget includes \$6.8 million from various funds for support of the Secretary for Resources. The administration indicates that a plan to revise the structure of the Secretary is under development and will be released as part of the May Revision. At the time this analysis was prepared, the administration was not able to provide information on the specific activities or positions that would be funded as part of the Secretary's support budget.

***Withhold Recommendation Until Plan Is Submitted.*** We find that the Legislature lacks the information necessary to fully evaluate the benefits of the proposed support expenditures, including their consistency with legislative priorities. In the past, we have raised concerns with the effectiveness of certain support expenditures proposed for the Secretary. (For example, please see pages B-57 and B-77 in the *Analysis of the 2003-04 Budget Bill*.) We therefore withhold recommendation on the Secretary's support budget pending the submittal and review of a plan on the Secretary's structure.

***Direct Secretary to Provide Specific Information in Plan.*** In order for the plan on the Secretary's structure to be most useful to the Legislature in its review of the Secretary's budget, we recommend that the Legislature direct the Secretary to include, at a minimum, the following information in its plan:

- A detailed description of the activities (by dollar amount and fund source) that will be funded as part of the Secretary's support budget for 2004-05.
- A list of positions that are proposed to be funded as part of the Secretary's support budget for 2004-05.

In order for the Legislature to have an adequate amount of time to evaluate the plan, we recommend that the information requested above be submitted to the Legislature prior to budget subcommittee hearings on this item.



## 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 about \$683 million for the department in 2004-05, including support and capital outlay expenditures. Of this total, 93 percent is for fire protection, 5 percent is for resource management, and the remainder is for State Fire Marshal activities and administration.

The total proposed budget is a decrease of about \$163 million (or 19 percent) below estimated current-year expenditures. Most of this decrease reflects higher expenditures for fire suppression activities during the current year than proposed for 2004-05, reflecting a particularly high fire year in 2003-04. As in the current year, the proposed budget bill for 2004-05 authorizes the Director of Finance to augment the baseline appropriation for emergency fire suppression by an amount necessary to fund these costs.

The General Fund will provide the bulk of CDFFP's funding for state operations—\$366 million (about 58 percent). The remaining funding will come from federal funds and reimbursements (\$197 million), fees for fire protection and the review of timber harvest plans (THPs) (\$63 million); and various other state funds. Major budget proposals include: (1) a reduction of \$12.3 million in various resource management programs funded from the Forest Resources Improvement Fund (FRIF); (2) a plan to impose fees on timber operators (beginning in the current year and ramping up to \$10 million for the budget year) in order to partially offset

CDFFP's costs for the review and enforcement of THPs; (3) a continuation of federal reimbursement authority for the Cooperative Forestry Assistance Programs (\$3.5 million); and (4) an increase of \$1.6 million (State Emergency Telephone Number Account) to continue the implementation of the Computer Aided Dispatch (CAD) system. (For a discussion of the Governor's timber harvest plan fee proposal, please see the write-up in the "Crosscutting Issues" section of this chapter.)

## Fire Protection Fees Should Go Further

***As in the current year, the budget includes \$52.5 million from fire protection fees to partially offset state costs to provide fire protection services on state responsibility areas. We recommend the enactment of legislation so that the state's costs of providing fire protection will be shared evenly between private landowners and the General Fund. This would result in budget-year savings of about \$150 million to the General Fund. (Reduce Item 3540-001-0001 by \$150 million; Increase Item 3540-001-3063 by \$150 million.)***

***Background.*** 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" (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 property owners 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 2003-04 Budget Act included \$52.5 million in fire protection fees levied on private landowners in SRAs to partially offset the state's costs to provide fire protection services benefiting these landowners. According to the administration, the department is currently working to implement the fee collection.

***Budget Proposal Includes Revenue From Fire Protection Fees.*** The budget proposes expenditures of about \$589.5 million for the department's fire protection services in 2004-05, of which \$52.5 million is from fire protection fees, the same level as in the current year. The balance of the funding is from the General Fund (\$353.1 million), reimbursements (\$165.5 million), and federal and other funds (\$182.3 million). Accordingly, the budget proposes that fees fund 9 percent of the department's fire protection budget. The administration indicates it will propose legislation to amend

the fee legislation that was enacted this past session (Chapter 741, Statutes of 2003 [SB 1049, Committee on Budget and Fiscal Review]). At the time this analysis was prepared, the administration had not provided information to the Legislature indicating what those changes will be.

***Recommend Administration Report on Proposed Changes to Fire Protection Fee.*** In order to assist the Legislature's evaluation of the department's budget proposal for fire protection, we recommend that the administration report prior to budget hearings on its proposed changes to the fire protection fee structure.

***Recommend Fees Go Further in Budget Year.*** We think the proposed level of fee revenue from fire protection fees does not go far enough. As we discussed in our *Analysis of the 2003-04 Budget Bill* (page B-88), we think that the costs for providing fire protection on private lands should be shared evenly between property owners and the general public. We think that such an even sharing of costs resulting in a higher level of support from private landowners is more reflective of the benefits to private landowners from the state's fire protection efforts. We therefore recommend the enactment of legislation to increase existing fire protection fees so that the state's costs of providing fire protection on SRAs are shared evenly between private landowners and the General Fund. Under the current fee structure, fees are assessed at a flat \$35 per parcel annually. If our recommendation were adopted, this fee would increase to about \$135 per parcel.

***General Fund Savings.*** Implementing our recommendation for the sharing of costs of providing fire protection on SRAs evenly between property owners and the general public would result in budget-year savings of about \$150 million to the General Fund.

## **Minimal Revenues Projected for the Forest Resources Improvement Fund**

***Revenues generated from timber harvesting on Jackson State Demonstration Forest (JSDF) have been used to support a variety of forest resource management programs. Because of ongoing litigation, timber harvesting will not occur on JSDF in the budget year. Therefore, the budget proposes to eliminate the activities funded from these revenues.***

***Background.*** Revenues generated from timber harvesting in state-owned forests are deposited into FRIF. Most of this revenue is generated from timber harvesting on the JSDF. Funds in FRIF have been used to support the operation of the state forests, for forestry assistance grants to

landowners, and for the support of state nurseries, forest pest research and management, forest and rangeland assessment activities, and urban forestry programs.

For the fourth consecutive year, litigation has halted timber harvesting on JSDF. In August 2003, the Superior Court enjoined the department from harvesting timber on JSDF until a revised management plan and environmental analysis are approved by the Board of Forestry and submitted to the court for its approval. As a result of these requirements, the department indicates that timber harvesting will not likely occur on JSDF until 2005-06, at which time the department anticipates meeting the court's requirements that will allow it to resume harvesting on JSDF.

In recent years the department has addressed the shortfall in revenues from FRIF by reducing activities, providing a loan from the General Fund, and redirecting funds within CDFFP.

**Budget Proposal.** Due to the lack of FRIF revenues projected for the budget year, the budget proposes to eliminate funding (\$12.3 million) for all FRIF-funded activities. Figure 1 shows the activities affected by this reduction.

<b>Figure 1</b>	
<b>Forest Resources Improvement Fund</b>	
<b>2004-05 Proposed Reductions</b>	
<i>(In Millions)</i>	
<b>Program</b>	<b>Amount</b>
State Forest Operation	\$3.2
State Forest Stewardship	2.0
Watershed Assessment	1.6
California Forest Improvement	1.5
Nurseries	1.4
Forest Pest Management	1.1
Other	0.6
Urban Forestry	0.5
State Forest Research	0.4
<b>Total Reductions</b>	<b>\$12.3</b>

## 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 \$274 million from various sources, mainly for support expenditures (\$271.1 million). This level of expenditure is about the same as estimated current-year expenditures. However, the current-year budget reflects reductions of about \$15 million from 2002-03 expenditure levels. These reductions impact a variety of DFG's activities, including timber harvest plan review, management of marine resources, and resource assessment activities.

The budget includes proposals to expand special-funded programs, including \$1.2 million to implement the Marine Invasive Species Act (Chapter 491, Statutes of 2003 [AB 433, Nation]) and \$2.5 million for restoration and planning efforts related to the Salton Sea. The department also intends to increase revenues to the Fish and Game Preservation Fund by increasing its collection efforts of environmental filing fees for projects subject to the California Environmental Quality Act (CEQA) and by implementing a new fee schedule for streambed alteration permits.

### **Federal Funds for Fisheries Restoration Require State Match**

***The budget includes federal funds for the Fisheries Restoration Grant Program, but falls short of the state matching requirement for the receipt of these funds by \$2,275,000. We recommend an increase of \$2,275,000 from Proposition 40 bond funds to maximize receipt of available federal funds. (Increase Item 3600-001-6029 by \$2,275,000).***

**Background.** Since 1981, DFG has provided grant funds through the Fisheries Restoration Grant Program (FRGP) to landowners, public agencies (including DFG), and nonprofit groups to restore salmon and steelhead population through improved habitat. The program funds a variety of different activities including education projects, on-the-ground restoration work, and field surveys by DFG. As shown in Figure 1, the level of expenditures for this program has varied during recent years depending on available funding. There have been three primary sources of funding for FRGP: federal funds, bond funds (Propositions 40 and 13), and tidelands oil revenues.

<b>Figure 1</b>					
<b>Fisheries Restoration Grant Program Expenditures</b>					
<i>2000-01 Through 2004-05</i> <i>(In Millions)</i>					
<b>Fund Source</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Federal funds	\$9.0	\$15.1	\$17.0	\$13.8	\$13.1
Proposition 13 bond funds	7.1	5.2	5.7	1.3	—
Proposition 40 bond funds	—	—	8.0	8.0	1.0
Tidelands oil revenues	8.0	3.0	—	—	—
<b>Totals</b>	<b>\$24.1</b>	<b>\$23.3</b>	<b>\$30.7</b>	<b>\$23.1</b>	<b>\$14.1</b>

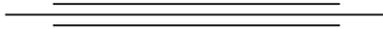
**Budget Proposal Lacks Full Match Requirement.** The budget proposes expenditures of \$14.1 million (\$13.1 million from federal funds and \$1 million from Proposition 40) for FRGP in 2004-05, a reduction of about \$9 million from the current year. This decrease largely reflects a decrease in bond expenditures. The department indicates that the reduced bond funding in the budget year is due to the administration's decision to defer to later in the spring the submittal of most of its resources bond proposals. (Please see the "Resources Bonds" write-up in the "Crosscutting Issues" section of this chapter.)

The federal funds included in the budget require a match of 25 percent in state funds. However, we find that the budget falls short of that matching requirement by \$2,275,000. Without the match, the department will not be eligible to receive the full level of federal funding that is available to the state.

**Bond Funding Available to Meet the Match Requirement.** Our review of the Proposition 40 fund condition finds eligible funding remain-

ing available—almost \$40 million—to fully meet the matching requirements for the federal salmon restoration dollars.

***Recommend Increase in Bond Funding to Meet the Match Requirement.*** In order to maximize the receipt of federal funds available to the state, we recommend that the Legislature, in evaluating the Governor's resources bond proposals to be submitted later in the spring, ensure that an additional \$2,275,000 from Proposition 40 bond funds is included so as to fully meet the match requirement.



## CALIFORNIA COASTAL COMMISSION (3720)

The California Coastal Commission, following its initial creation in 1972 by a voter initiative, was permanently established by the State Coastal Act of 1976. In general, the act seeks to protect the state's natural and scenic resources along California's coast. It also delineates a "coastal zone" running the length of California's coast, extending seaward to the state's territorial limit of three miles, and extending inland a varying width from 1,000 yards to several miles. The commission's primary responsibility is to implement the act's provisions. It is also the state's planning and management agency for the coastal zone. The commission's jurisdiction does not include the San Francisco Bay Area, where development is regulated by the San Francisco Bay Conservation and Development Commission.

The Coastal Commission has its headquarters in San Francisco and operates six regional offices throughout the coastal zone. The commission proposes expenditures totaling \$14.5 million in 2004-05. This is a decrease of \$384,000, or 3 percent, below estimated expenditures in the current year.

### Stable Funding Source Needed for Commission's Permitting Functions

***We recommend the enactment of legislation directing the California Coastal Commission to modify its permit fee schedule so that its permitting and enforcement costs are fully recovered from fees and other non-General Fund sources. This would result in General Fund savings of \$5.8 million. We also recommend the enactment of legislation (1) deleting the current-law requirement that the commission's permit fee and penalty revenues be transferred to accounts administered by the State Coastal Conservancy and (2) establishing a special fund at the commission for the deposit of the commission's fee and penalty revenues. Finally, we recommend that the commission report prior to budget hearings on its projected permitting and enforcement workload for the budget year.***

***(Reduce Item 3720-001-0001 by \$5.8 million; Item 3760-001-0565 by \$150,000; Item 3760-301-0593 by \$500,000; and increase new special fund item by like amounts.)***

***Commission's Permitting Authority Over Coastal Development.*** The commission's core program activities include issuing and enforcing permits for coastal development. The commission retains this permitting authority in cases where a local government within the state's coastal zone does not have a local coastal plan (LCP) that has been certified by the commission. In jurisdictions with a certified LCP, coastal development permits are processed and issued by the local government, and are only seen by the commission if an appeal is filed on the basis that the permitted development conflicts with the Coastal Act.

***General Fund Supports Most of Commission's Permitting and Enforcement Activities.*** The budget proposes about \$7.5 million for the commission's permitting and enforcement activities in 2004-05. Of this amount, about \$5.8 million is from the General Fund, with the balance from federal funds and reimbursements. The budget also projects that the commission will have permit fee revenues of \$500,000 and penalty revenues of \$150,000 in the budget year. However, as discussed below, none of these revenues are used to support the commission's permitting and enforcement activities.

***Budget Reflects Program Reductions Over Last Few Years.*** The commission's proposed budget for 2004-05 reflects cumulative reductions totaling around \$3 million (and 30 positions) made over the last three years. These reductions reflect the commission's reliance on the General Fund as its primary funding source and the consequences on the commission's budget when the General Fund condition is weakened. The commission indicates that these reductions have significantly slowed down the work of the commission, resulting in backlogs of permit reviews and enforcement-related actions that continue to build. In addition, the commission has had to reduce the level of technical assistance that it provides to permit applicants to ensure compliance with the Coastal Act and regulations.

***Commission's Permit Fees Are Low Compared to Local Fees.*** Under current law, the commission is provided broad authority to assess reasonable permit fees. However, as indicated above, even if the permit fees collected by the commission were used to fund the commission's permitting and enforcement activities, the fee revenues assessed at their current level would support only a small portion of these activities.

In addition, our review finds that the commission's current permit fees are set at levels far below the permit fees assessed by many local agencies for comparable development projects. For example, the

commission's highest current permit fee is \$20,000. This fee applies to large projects, including those with a development cost of over \$5 million, major energy production facilities, and residential projects with at least 167 units. We find that many counties and cities in coastal areas assess permit fees up to a few million dollars for comparable development projects.

***Current Law Requires Transfer of Commission's Permit Fee and Penalty Revenues.*** Under current law, permit fee revenues collected by the commission do not stay with the commission. Rather, all of the commission's permit fee revenues are transferred to the Coastal Access Account in the State Coastal Conservancy (SCC), to be used for the development and operation of coastal public access projects. Similarly, the commission's enforcement fine and penalty revenues are required to be transferred to the Violation Remediation Account in SCC, to be used for the general purposes of carrying out the Coastal Act.

***Fees Should Fully Cover Permitting and Enforcement Costs.*** We think that fees levied on permittees/developers should, along with any other non-General Fund funding source, fully cover the commission's costs to issue and enforce permits. This is because there is a direct link between the activities carried out by the commission and those who directly benefit from them through their development actions. Doing so would be consistent with the Legislature's actions in requiring the costs of most other environmental regulatory programs, such as those protecting air and water quality, to be largely if not totally reimbursed through industry fees and assessments.

***Recommend Legislation to Direct Revision of Fee Schedule.*** We therefore recommend the enactment of legislation to direct the commission to modify its fee schedule in order that permit fees, combined with other non-General Fund sources including reimbursements and penalties, fully cover the commission's permitting and related enforcement costs.

The implementation of this recommendation would result in General Fund savings of \$5.8 million in the budget year, as this is the approximate amount of General Fund that would be replaced by additional fee revenues.

In order that permit fee and penalty revenues collected by the commission can be used to support the commission's permitting and enforcement activities, we also recommend that the legislation delete the current-law requirement that these revenues be transferred to SCC for purposes of developing and maintaining coastal public access. As discussed above, we think that the commission's permitting and enforcement functions are appropriately supported by these particular funding sources. In addition, we find that substantial funding remains available from recent

resources bond measures (Proposition 40 and Proposition 50) for SCC to improve coastal public access.

Finally, we recommend that the legislation create a special fund in the commission's budget into which the fee and penalty revenues would be deposited, with expenditures from the fund subject to appropriation by the Legislature. We think that the Legislature's oversight of, and accountability for, the use of the fees are facilitated by depositing the fees into a special fund.

As mentioned previously, the budget proposes to transfer the commission's projected \$650,000 of permit and penalty revenues to SCC. If our recommendations were adopted, these revenues would be deposited in the commission's new special fund, for expenditure by the commission on permitting and enforcement.

***Recommend Commission Report on Permitting and Enforcement Workload.*** We think that shifting funding for the commission's permitting and enforcement activities from the General Fund to fees, thereby making the commission less reliant on the General Fund, would also have the benefit of providing the commission with a more stable funding source over time. However, to the extent that increased fee revenues are used simply to replace a General Fund appropriation to the commission of the same amount, the issue remains as to whether the proposed expenditures for these activities are at an adequate level in light of the commission's workload. As mentioned previously, sizable General Fund program reductions in recent years have resulted in significant backlogs in the processing of permit and enforcement actions.

Therefore, we recommend that the commission report to the budget subcommittees, prior to budget hearings, on (1) its projected workload in the budget year to process permit and enforcement actions in a reasonably timely manner, including addressing the backlog that has developed in these activities and (2) the resources required to address this projected workload. We think that the provision of this information will assist the Legislature's evaluation of the proposed level of expenditures for the commission's permitting and enforcement functions.

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## 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 277 units, including 31 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,800 miles of trails, 300 miles of coastline, 800 miles of lake and river frontage, and about 14,800 camp sites. Over 80 million visitors travel to state parks each year.

The budget proposes \$389.6 million in total expenditures for the department in 2004-05. This is an overall decrease of about \$1.1 billion below estimated current-year expenditures. Most of this reflects a decrease in available bond funds for local parks.

The budget proposes \$290.1 million in departmental support, \$41.1 million in local assistance, and \$58.4 million in capital outlay expenditures. (Please also see the “Capital Outlay” chapter of this *Analysis*.) Of the total proposed expenditures in 2004-05, about \$82.3 million (21 percent) will come from the General Fund; \$57.8 million (15 percent) from bond funding; \$117.1 million (30 percent) from the State Parks and Recreation Fund; \$67.8 million (17 percent) from the Off-Highway Vehicle Trust Account; and the remainder \$64.6 million (17 percent) from various other state funds, federal funds, and reimbursements.

The budget proposes to increase state park fees by \$18 million to offset General Fund costs (\$15 million) and expand specified activities, as discussed in detail below.

## Governor's Fee Proposal

*The budget proposes to increase revenues from park fees by \$18 million in order to offset General Fund expenditures of the department. While we recommend approval of the funding shift, we also recommend that the department report prior to budget hearings on its revenue projections for the fee changes and be directed to report mid-year on the implementation of the new fee schedule. We also recommend the enactment of legislation to set parameters for the structure of state park fees.*

**Governor Proposes Increasing Park Fee Revenue by \$18 Million.** The budget proposes to increase revenues from state park visitor fees by \$18 million, of which \$15 million will be used to replace General Fund support currently budgeted in the department for state park operations. The remaining additional revenue will be used for expanded collection activities (\$1 million) and additional maintenance activities (\$2 million). Under this proposal, the percentage of the department's operating costs that will be funded by visitor fees will increase from 18 percent to 24 percent. The balance of state park operations will be funded mainly by the General Fund and other special funds.

Under the Governor's fee proposal, almost all types of park fees will increase, effective July 1, 2004. For example, day use fees will be increased from a current range of \$3 to \$5 to a proposed range of \$4 to \$14. Figure 1 compares the current and proposed fee schedules.

<b>Figure 1</b>		
<b>Current and Proposed State Park Fee Schedule</b>		
	<b>Current</b>	<b>Proposed</b>
Day use	\$3 - \$5	\$4 - \$14
Camping	8 - 20	11 - 44
Boat launching	2 - 4	5 - 8
Annual passes	67	75 - 125

The administration's proposal includes a plan to change the way fee increases are structured. In the past, the fees at all parks have generally been increased at the same rate. Under this proposal, the degree to which the fees will increase will vary from park to park. This is because fee adjustments will be based more on "market" factors than in the past.

These market factors would include a consideration of other competing recreational opportunities (both public and private) in the vicinity of the park, visitor demand for the park, the time of year, and the particular service features at a park. As a result, there will be a greater differential in fees among and within parks under the new schedule. Figure 2 illustrates this variation in fees for selected parks.

Day use fees for individual state parks have not yet been set. However, current law requires the department to make available reduced price day-use passes to those receiving public assistance and senior citizens.

**Figure 2**

**Current and Proposed In-Season Camping Fees At Selected Parks**

	Current	Proposed	Percentage Increase
Anza Borego Desert	\$13	\$17	31%
Carpinteria State Beach (beachfront)	20	31	55
D.L. Bliss State Park	15	20	33
Colonel Allensworth SHP (primitive)	8	12	50
Pfeiffer Big Sur (premium)	20	30	50
Pfeiffer Big Sur (nonpremium)	16	20	25

**Recommend Approval of Fund Shift to Fees.** We think the Governor's proposal to increase the support of park operations from park visitors is appropriate because park users benefit directly from the recreational services provided by state parks. We therefore recommend that the Legislature approve the fund shift of \$15 million from the General Fund to visitor fees deposited in the State Parks and Recreation Fund. We also support, in concept, the department's plan to structure fees using more of a market-based approach that results in differential pricing based on demand and the service provided. This is because such a market-based approach is better able to reflect the value to park users of their visit to state parks, thereby being consistent with the application of the beneficiary pays principle. This approach is in line with the way other state and federal land managers structure park fees.

**Recommend Department Report Prior to Budget Hearings on Revenue Projections.** At the time this analysis was prepared, the department had not provided information supporting its revenue projections under the proposed revised fee structure. In order for the Legislature to be con-

fident that the department's revenue projections are realistic and achievable, we recommend the department report prior to budget hearings on how such projections were calculated.

**Require Department to Report Mid-Year on Actual Revenues, Visitor Attendance, and Final Fee Schedule.** The department's revenue projections in the budget are more uncertain than in past years because of the magnitude and number of fee adjustments proposed and the uncertain impact of these fee changes on park visitor attendance. Because of the uncertainties related to this proposal, we recommend that the Legislature adopt supplemental report language to direct DPR to report at the time the Governor submits his 2005-06 budget proposal on various matters. The report should include information on the department's final fee schedule, updated revenue estimates, and visitor attendance numbers. By mid-year, DPR will have sufficient data from the summer visitor season, which is the most significant revenue period. This information will help the Legislature in evaluating the need for any mid-year budget adjustments or addressing policy concerns that may arise (such as a greater-than-anticipated reduction in visitors).

**Recommend Legislation to Provide Parameters for Fees.** Current law provides DPR the authority to enact fees, but provides few parameters to guide how park fees should be structured. While we think that the setting of specific park fees should be done administratively, we think that the Legislature should provide some policy and implementation parameters to guide the department and to ensure an effective level of legislative oversight. We therefore recommend such guidance be developed in legislation to ensure adjustments in visitor fees over time are guided consistently by legislative policies.

We think legislation establishing policies for the setting and collection of park fees should specify the following, while leaving the department with an appropriate level of flexibility to set specific fees:

- **The Role of Fees in State Park Funding.** Funding for state parks should include a reasonable sharing of costs between the users of state parks and the general public.
- **Fee Structure Should Include Differential Pricing.** Any fee structure should reflect the different levels of service and facilities that are offered by state parks.
- **Fees Should be Comparable With the Fees of Similarly Situated Recreational Providers.** Fees for the use of state parks should be comparable with the fees for the use of similar privately and publicly owned facilities in the vicinity of the state park.

- ***Innovative User-Friendly Fee Collection Should Be Encouraged.*** Revenues from fee collections are likely to increase when visitors are offered convenient methods of payment (such as automated fee machines and payment by credit cards).
- ***Schedule of Park Fees Should Be Reported Annually.*** The department has the authority to administratively adjust fees at any time during the year. The department should be required to annually prepare a schedule of park fees for all units of the park system and submit the schedule as part of its annual budget proposal to the Legislature.
- ***Fees Should Be Used to Support Deferred Maintenance When Feasible.*** The department should be encouraged to maintain a portion of the fee revenues at the site where they are collected in order to address deferred maintenance needs. Research from federal park managers who use such a fee system has shown positive results in terms of reducing deferred maintenance and increasing user support for the fees.

## Evaluating the Potential for Increased Private Sector Partnership in State Park Services

***The Governor's budget document indicates the administration's intent to propose a constitutional amendment to expand the circumstances in which the state can contract with private entities. While a specific proposal is not included in the department's budget, we think there are opportunities for the Department of Parks and Recreation to expand its current contracting with the private sector in providing park services. We discuss these opportunities, their limitations, and identify the factors that can increase the success of private sector involvement. We then recommend a specific pilot program to further explore these opportunities.***

During the last several years, DPR has faced a number of operational and funding challenges. The size of the park system and the number of visitors have increased, while there have been reductions in the operating budgets for the department. The department currently estimates that it is only spending about 40 percent of what is needed on maintenance. As a result, the department's deferred maintenance backlog has increased to about \$1 billion, thereby impairing the quality of visitor experience.

In light of increasing costs and unmet funding requirements for state park operations, it is particularly important to identify opportunities for efficiencies and to create savings in state park operations. One such approach is to increase the role of contracting with the private sector in the

delivery of state park services. We discuss this approach in the sections that follow.

***Increased Private Sector Involvement in State Parks Warrants Consideration.*** The Governor's budget document indicates the administration's intent to pursue a state constitutional amendment which would allow for a greater use of contracting for the delivery of services. (Please see the discussion of this proposal in the "Crosscutting Issues" section of the General Government chapter of this *Analysis*.) This constitutional amendment is designed to provide greater legal certainty and therefore opportunities to contract out for services.

The increased use of the private sector is seen as having several potential advantages, including reduced costs, increased efficiencies, and/or improved service delivery. While a specific "privatization" proposal is not proposed for state parks, the budget does recommend that there be further consideration given to promoting the greater use of concessions within state parks.

Recreational services provided by public agencies, such as those provided by DPR, are often considered good candidates for increasing private sector involvement because these are activities that the private sector is substantially involved in. For example, recreational services such as golfing and camping are often offered by the private sector. In fact, DPR already uses the private sector in many ways, such as in providing food, equipment, lodging rentals, and professional services such as archaeological and architectural services.

The purpose of this analysis is to evaluate the potential of increasing the role of the private sector in state park operations in order to achieve savings, expand services, or increase the efficiency and quality of the services delivered. We discuss the department's current use of the private sector, how the private sector is used in other park jurisdictions, and important factors for the successful use of the private sector in state park operations.

In preparing this analysis, we surveyed a broad variety of other land management agencies who have a track record in contracting with the private sector. We spoke to federal land managers at the National Park Service (NPS) and the United States Forest Service (USFS) as well as provincial park managers in Canada. We also interviewed state park departments in several states, including New York, Montana, Ohio, and Texas, as well as local park agencies. In the sections that follow, we use the term "park jurisdictions" broadly to refer to these land management agencies and the term "parks" to refer to the land they manage, such as campgrounds, beaches, open space areas, as well as traditional parks.

**Private Sector Participation in Park Operations Can Take Many Forms.** Private sector participation can take many different forms within public park operations. For example, we found examples of private concession operators that provide recreational and food services, as well as lodging. We also found park jurisdictions that use the private sector to do basic maintenance, operate campgrounds, collect fees, or run an entire park. The providers of these services to park jurisdictions can be businesses, nonprofit organizations, or even other public jurisdictions.

**Current DPR Park Operations Rely on a Mix of Private and Public Sector Involvement.** Contracting with the private sector to provide services at parks is nothing new in California. Currently, DPR relies on a combination of the private and public sectors to operate and maintain its parks. Typically, DPR uses its own seasonal and permanent staff for house-keeping activities, maintenance, fee collection, interpretative services, and public safety activities. However, the department also relies on the private sector (including nonprofit organizations) for a variety of activities, as shown in Figure 3.

**Figure 3**  
**Examples of Existing Private Sector Involvement In DPR’s Park Operations**

Contracts	Concessions	Nonprofit Providers
Refuse disposal	Snack stands	Interpretation
Chemical toilet pumping	Restaurants	Operation of facilities
Alarm monitoring	Hearst Castle operations	Retail stores
Snow removal	Day use fee collections	
Pest control	Golf course operations	
Exhibit design and fabrication	Lodging	
	Retail shops	
	Marina operations	
	Camp stores	
	Equipment rentals	

As shown in Figure 3, the department contracts for a variety of activities related to the operation of state parks. The department reports expenditures of about \$17 million (about 5 percent of its operating budget) on these activities in 2002-03.

Through its concession program, the department offers visitors a variety of services as illustrated in Figure 3. Concessions are private busi-

nesses operating under contract in state parks to provide products and services to state park visitors. Concessionaires keep the revenues that they generate, after making a rental payment to the state. Currently the department has about 160 concession contracts which in 2004-05 are expected to generate about \$12 million in revenue for state parks. In the past, DPR has also used concessionaires to operate campgrounds and day use areas.

Lastly, private sector involvement also includes the use of volunteers and nonprofit organizations. In 2002-03, volunteer services with a "value" of about \$14 million were provided at state parks. For example, volunteers serve as docents, provide clerical support, collect fees, and do habitat restoration.

***Other Park Jurisdictions Go Further in Involving the Private Sector.***

Our review found several examples where other park jurisdictions involve the private sector significantly in additional ways beyond those used by DPR. We have categorized these additional activities into four general categories. While some jurisdictions used the private sector for only one of these activities, others involved the private sector in all of them.

- ***Assisting With Daily Maintenance Activities.*** We found that several park jurisdictions contract with the private sector for daily maintenance activities such as maintaining restrooms and landscaping. For example, USFS uses the private sector to maintain restroom facilities at several of its lakefront parks in the Lake Tahoe basin. At the local level, the County of Los Angeles has contracted extensively with the private sector to provide basic maintenance activities. The City of Sacramento uses contracts to provide some of the landscaping and maintenance activities at its new parks. At the state level, New York has experimented using the private sector to provide basic maintenance activities.
- ***Operation of Campgrounds.*** The USFS, NPS, several Canadian provinces, and Ohio have all used the private sector to operate some of their campgrounds. For example, most of the USFS campgrounds in the Lake Tahoe basin are operated as concessions, with the concessionaire collecting the fees, operating the campground, and doing basic maintenance. In return, the concessionaire pays a rental payment to the land management agency. Like all concessions, the amount of rent paid to the land manager varies by individual parks.
- ***Operating Day Use Facilities.*** Many of the Canadian provinces use the private sector to operate day use facilities.

- **Operating Entire Parks.** Among the many park jurisdictions we spoke to, only Canadian provinces reported contracting with the private sector for the operation of an entire park. In some cases these parks are self-supporting, in other cases, the province pays the private sector to operate the park.

**Jurisdictions Report Mixed Results From Increasing the Use of Private Sector.** All of the jurisdictions we surveyed reported a lack of quantifiable data on the results of their efforts to increase the role of the private sector in park operations. These jurisdictions were not able to report on specific savings that resulted or to what extent any savings were redirected to providing other activities. Despite the lack of quantifiable results, these other jurisdictions were able to provide anecdotal evidence on some of the benefits and risks in increasing the involvement of the private sector in state park operations. Although the experience of these jurisdictions varied, we have identified common advantages and disadvantages reported by the jurisdictions that we surveyed, as shown in Figure 4.

Figure 4 Pros and Cons of Increased Private Sector Involvement As Reported by Park Jurisdictions	
Pros	Cons
<ul style="list-style-type: none"> <li>• Concession contracts can help with cash flow.</li> <li>• Can allow public resources to be redirected to other activities.</li> <li>• Provides more staffing options.</li> <li>• Labor costs are generally lower.</li> </ul>	<ul style="list-style-type: none"> <li>• Contract management costs can be high.</li> <li>• In large-scale privatization efforts, there can be significant costs to revert back to publicly provided services.</li> <li>• Can result in low morale among remaining public sector employees.</li> <li>• Quality of maintenance work may be reduced.</li> </ul>

Park jurisdictions reported several different kinds of advantages from the expanded use of the private sector in their operations. For example, those jurisdictions that use concessions to deliver certain park services reported that the use of concessions eliminated cash flow difficulties because the concessionaire assumes the operational costs of the park. Park jurisdictions also reported that as the private sector assumed certain responsibilities, they were able to redirect public resources to other activities such as resource management. However, some park jurisdictions also

reported concerns with the provision of services by the private sector. These concerns included observations that the quality of maintenance provided by the private sector may be reduced by efforts of the private sector to contain costs. Other jurisdictions also noted that when privatization results in a significant loss of public staff and equipment, it limits the flexibility of the public agency to resume providing the services if the private sector provider proves to be unsuccessful.

**Key Factors for Success in Increasing the Involvement of the Private Sector.** Our survey found that there are several factors that tend to increase the likelihood of achieving successful outcomes from private sector involvement in park operations. These factors include:

- **Bidding Includes the Park Jurisdiction.** Park jurisdictions should have an opportunity to bid on services they are seeking to privatize. In many cases, the public sector may offer a proposal that delivers the service most efficiently and at least cost. In addition, for the public jurisdiction, the process of competitive bidding may provide it with the incentive to carefully analyze the costs to deliver the services, thereby identifying efficiencies in the way it can deliver the services.
- **Competitive Market Should Exist.** Involving the private sector tends to work best when there is a well-developed and competitive private sector market for the activity under consideration. In order to attract private sector involvement, the activity which is being considered for privatization should have characteristics that will allow it to generate a fair return on investment for the private party. These include:
  - **Economies of Scale.** Using the private sector for park operational activities seems to work best when economies of scale can be achieved. For example, USFS bundles all of its campgrounds in the Lake Tahoe basin into one concession contract in order that the less profitable campgrounds are balanced with the larger, more profitable campgrounds and to maximize economies of scale.
  - **Activities With Reasonable Revenue Potential.** Those park activities that can generate reasonable revenues, such as the operation of popular campgrounds, are likely to generate the greatest interest from the private sector. Other campgrounds with less revenue potential may be more difficult for the private sector to operate without subsidies.
- **Contract Performance Requirements and Good Contract Management and Oversight Are Essential.** It is important that any

service contract specify clear performance requirements for the delivery of the service. Good contract management and oversight are essential to ensure that the specific performance requirements for the delivery of services are being met.

- ***Cost and Revenue Information for the Activity Must Be Available.*** In order to evaluate the benefits of the private delivery of a service, the park jurisdiction will need to have accurate information on its costs to deliver the service and the amount of any revenues it has generated. This information is essential in determining any cost savings from the effort to involve the private sector.
- ***Decisions to Involve the Private Sector Should Be Park Specific.*** The decision to increase private sector involvement in a particular park jurisdiction should be based upon a careful analysis considering the factors discussed above. Because each park has a unique set of circumstances, privatization efforts may not be appropriate at all parks.

***Recommend Pilot Program to Increase Private Sector Involvement in State Parks.*** As discussed earlier, the private sector is already significantly involved in DPR's state park operations. In light of this, and our survey results, we recommend a pilot program to selectively expand private sector involvement in state parks into activities that currently are not being partnered with the private sector. We think a pilot is appropriate because our research shows that there is a potential for increased private sector involvement to benefit state park operations if such an effort is carefully designed and managed and includes key factors necessary for its success. The lack of conclusive studies of success in other park jurisdictions makes moving beyond a pilot effort premature at this time. The pilot program—if structured appropriately—can be used to provide much needed information on the pros and cons as well as the costs and benefits of greater private sector involvement. Under current law, contracting on a temporary basis also faces fewer restraints than permanent changes.

As discussed below, we have identified three areas for consideration for increasing private sector involvement through a pilot. Based on our survey results, we have focused the pilot on maintenance and visitor service activities. We have excluded any public safety activities for consideration in this pilot. Within each component of the pilot program, we anticipate the department will also participate in the competitive bidding process by reviewing its own costs to provide the services and compare its costs with those of any other contract bids. While we think it is important that the department structure the pilot strategically, we defer

to the department on the selection of the specific parks to use in the pilot. We recommend the following three components for the pilot program:

- ***Expand Concessions Operations to Include Selected Campgrounds.*** We think expanding the concession program to include carefully selected campgrounds should be included in the pilot for several reasons. First, the large presence of private sector operators of campgrounds suggests there will be competitive forces at work which are essential to achieving the most beneficial results from increasing private sector involvement. We think campground operations are also a good fit with the existing concessions program because campgrounds are similar to other concession activities in that they are a type of lodging, they generate revenue, and they offer an important visitor service. In addition, many other state and federal agencies have shown that campground operations can be successfully included in the group of visitor services provided by concessionaires. Lastly, because the existing state concessions program has extensive experience in negotiating contracts, determining rents to be paid to the state, and overall contract management, we think the program can be an effective manager of contracts with minimal additional oversight costs.

In selecting campgrounds for the pilot, the department should consider the experience of other states and federal agencies that suggests that not all state campgrounds are well suited for concession operations. In general, low-use remote campgrounds have not proven successful in other jurisdictions because they are not financially profitable for the concessionaire. The most successful campgrounds operated by concessionaires have been those that are in high-use areas, with high visitor numbers. The department may also wish to consider bundling several low revenue producing campgrounds with large revenue producing campgrounds.

- ***Expand Existing Concessions That Provide Visitor Services to Include Light Maintenance and Fee Collection Duties.*** Most concessionaires are responsible for light maintenance and revenue collection related to their own businesses operated on state parks. We recommend the pilot include expanding concession agreements to include some maintenance and fee collection duties in the park in which they operate. Such an expansion would enable an assessment of the potential for economies of scale when existing operations are expanded to include new activities.
- ***Contract on a Temporary Basis to Accomplish Seasonal Maintenance Activities.*** We recommend that individual state park

districts be given the option of selecting a private operator to deliver some of the basic seasonal maintenance and fee collection activities. This is because basic maintenance and fee collection services are widely available in the private sector and may therefore be more efficiently delivered by the private sector.

***Pilot Should Include Report on Results.*** As discussed above, there are limited data on actual results of increasing the involvement of the private sector in park operations. In order for the pilot to be valuable in informing the analysis of the costs and benefits of increasing the role of the private sector, we recommend the pilot program include a report to the Legislature that provides the following information. We recommend that the pilot program be conducted over a multiyear period in order to provide a sufficient amount of data to evaluate outcomes.

- ***Baseline Information on State Costs and Level of Services Provided.*** The report should include baseline information for each service contracted out in the pilot, including the department's costs to provide the services and any revenues generated by it. The report should also include some qualitative measures on the provision of those services, such as visitor feedback.
- ***Outcomes.*** The report should compare the results of the pilot with baseline information (and/or the department's projected costs to provide the service), and identify if there are any direct cost savings, expansion of services, or improvements in service delivery that were achieved as a result of the effort. The report should also note any changes in qualitative measures, such as visitor satisfaction and park cleanliness.
- ***Recommendations on Expansion of Pilot.*** Based on the results of the pilot, the department should report on the merits or disadvantages of expanding the pilot program.

***Fiscal Impact of Pilot on Department.*** The pilot activities and the recommended reporting requirement will result in some additional workload to the department's existing concession and contracting activities. However, we think that the costs to set up and administer the pilot (for example, to review contract proposals and manage contracts) should not significantly increase departmental costs. This is because of the relatively small scale of the pilot and the department's existing expertise in partnering with the private sector. We further find that much of the information required for the report is information that should already be gathered as part of the carrying out of the department's operations and should therefore require minimal additional costs to gather.

**Figure 5****Concession and Operating Agreement Proposals**

	Activity	Term (In Years)	Minimum Rent To State	Minimum Capital Investment
<b>State Park Concession Proposals</b>				
Oceano Dunes State Vehicular Recreation Area (SVRA)	Rental of all terrain vehicles	Up to 10	\$100,000 or 10% of sales	\$1.5 million
Oceano Dunes SVRA	All terrain vehicle tour	Up to 10	\$50,000 or 10% of sales	\$895,000
Doheny State Beach	Food and equipment rental	5 to 10	\$55,000 or 11% of sales	\$210,000
Old Town San Diego State Historic Park	Theater	Up to 10	\$40,000 or 3% of sales	\$370,000
Santa Monica State Beach	Beach stands and café	Up to 5	— <sup>a</sup>	—
Lake Perris State Recreation Area (SRA)	Marina	30	\$60,000 or 7% of sales	\$2.7 million
Lake Oroville SRA	Marina	Up to 30	\$140,500 or 7.5% of sales	\$3 million
Carnegie SVRA	Park store	Up to 10	\$150,000 or 10% of sales	\$400,000
<b>State Park Operating Agreements</b>				
Dockweiler State Beach	Operate beach	Up to 50	—	—
Drum Barracks	Operate park	Up to 50	—	—
Placerita Canyon State Park	Operate park	Up to 50	—	—
Santa Monica State Beach	Operate beach	Up to 50	—	—
Will Rogers State Beach	Operate beach	Up to 50	—	—
<sup>a</sup> Operated by City of Santa Monica, which receives all rent.				

## Concession and Operating Agreement Proposals

***The budget includes 13 concession-related proposals requiring legislative approval. We find all proposals to be warranted.***

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.

As shown in Figure 5, the department has included eight concession proposals and five proposed operating agreements in its budget that require legislative approval. We find all of the proposals to be warranted.



## SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION (3820)

The San Francisco Bay Conservation and Development Commission (BCDC) implements and updates the San Francisco Bay Plan and the Suisun Marsh Protection Plan. Under these plans, BCDC regulates and issues permits for (1) all filling and dredging activities in the San Francisco, San Pablo, and Suisun Bays including specified sloughs, creeks, and tributaries; (2) changes in the use of salt ponds and other “managed wetlands” adjacent to the bay; and (3) significant changes in land use within the 100-foot strip inland from the bay. The commission’s main objectives are to minimize fill in San Francisco Bay and maximize public access to the shoreline.

The budget requests a total of \$3.9 million for support of BCDC in 2004-05. This is a decrease of \$958,000, or about 20 percent, below current-year estimated expenditures. The decrease mainly reflects a reduction in projected reimbursements from other state agencies for work performed on their behalf or as a pass-through of federal grant funds.

### **Recommend Revised Fee Structure, Creating General Fund Savings**

*We recommend the enactment of legislation to direct the San Francisco Bay Conservation and Development Commission (BCDC) to modify its permit fee schedule so that its permitting and enforcement costs are fully recovered from fees and other non-General Fund sources (penalties and reimbursements). This would result in savings of close to \$2 million to the General Fund. We further recommend the enactment of legislation to establish a special fund for the deposit of all of BCDC’s fee revenues. (Reduce Item 3820-001-0001 by \$2,089,000 and increase new special fund item by a like amount.)*

**Fees Support Very Little of BCDC's Permitting and Enforcement Activities.** The core program activities of BCDC include issuing and enforcing permits for specified development within its area of geographic jurisdiction. As shown in Figure 1, the budget proposes to fund these activities from various sources, but mainly from the General Fund. Permit fees (which are currently deposited in the General Fund) are proposed to support only about 5 percent of BCDC's permitting and enforcement activities.

**Figure 1****Permitting and Enforcement Expenditures<sup>a</sup>**

2004-05  
(In Thousands)

Fund Source	Amount
General Fund <sup>b</sup>	\$1,954.2
Reimbursements	344.0
Bay Fill Clean-Up and Abatement Fund <sup>c</sup>	171.0
Permit fees	135.0
<b>Total</b>	<b>\$2,604.2</b>

<sup>a</sup> Includes both direct costs and indirect costs (executive management, legal support, and administrative services).

<sup>b</sup> Excludes permit-fee revenues that are currently deposited in the General Fund.

<sup>c</sup> Fine and penalty revenues.

**BCDC's Permit Fees—Set Administratively—Have Not Been Revised in 13 Years.** Under current law, BCDC is provided broad authority to assess reasonable permit fees. Our review finds that BCDC has not revised its permit fee schedule since 1991. In addition, we find that BCDC's current permit fees are set at levels far below the permit fees assessed by many local agencies for comparable development projects. For example, while BCDC assesses a \$10,000 permit fee for a large project, many counties and cities in the Bay Area assess permit fees up to a few million dollars for comparable projects.

**Fees Should Fully Cover Permitting and Enforcement Costs.** We think that fees levied on permittees/developers should, along with penalties and reimbursements, fully cover BCDC's costs to issue and enforce permits. This is because there is a direct link between these activities carried out by BCDC and those who directly benefit from them through their development actions. Doing so would be consistent with the Legislature's

actions in requiring the costs of most other environmental regulatory programs, such as those protecting air and water quality, to be largely if not totally reimbursed through industry fees and assessments.

***Recommend Legislation to Direct Revision of Fee Schedule and to Create New Special Fund.*** We therefore recommend the enactment of legislation to direct BCDC to modify its fee schedule in order that permit fees, combined with any other reimbursement or fee/penalty-based funding, fully cover BCDC's permitting and enforcement costs.

The implementation of this recommendation would result in General Fund savings of \$1,954,000 in the budget year, as this is the amount of General Fund (net of the \$135,000 of fee revenues that are currently deposited in the General Fund) that would be replaced by additional fee revenues. To put this close to \$2 million shift in funding to fees in context, we note that in 2003, BCDC processed 149 regulatory actions (major permits, permit amendments, minor actions) that authorized construction totaling \$471 million (an average value of slightly more than \$3 million per development).

We also recommend that the legislation create a special fund into which the fee revenues would be deposited, with expenditures from the fund subject to appropriation by the Legislature. We think that by depositing the fees into a special fund, rather than into the General Fund as is done currently, the Legislature's oversight of, and accountability for, the use of the fees would be increased. We therefore recommend that BCDC's General Fund appropriation be reduced by \$2,089,000 (the \$1,954,000 funding shift to fees combined with the \$135,000 of fee revenues that are currently deposited in the General Fund) and that a new special fund item be increased by \$2,089,000.

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## DELTA PROTECTION COMMISSION (3840)

The Delta Protection Commission (DPC) was created by statute in 1992 to develop a long-term resources management plan for land uses within the Sacramento-San Joaquin Delta. This plan is implemented by local governments in their land use planning processes. Broadly speaking, the main goal of the commission is to protect and enhance the overall quality of the Delta environment for agriculture, wildlife habitat, and recreational activities.

The budget proposes expenditures of \$301,000 for DPC in 2004-05, of which \$163,000 is from the Harbors and Watercraft Revolving Fund (HWRF) and \$138,000 is from the Environmental License Plate Fund (ELPF). This expenditure level is the same as estimated expenditures in the current year.

### THE FUTURE OF THE COMMISSION

At legislative hearings on the current-year budget, concerns were raised about the potential for overlap and duplication between activities carried out by DPC and other state agencies, particularly the California Bay-Delta Authority (CBDA). In addition, the Legislature expressed interest in examining the future role for the commission, in light of findings that the commission has fulfilled many of its statutory mandates. As a result, the Legislature, in the *Supplemental Report of the 2003-04 Budget Act*, directed the Resources Agency to report to the Legislature on various issues, including the commission's accomplishments to date, suggestions regarding its future mission, membership, funding, and ways to facilitate coordination between DPC and other state and local agencies with resources-related responsibilities in the Delta region.

The Legislature also considered the commission's future at a hearing of the Senate Select Committee on Delta Resources and Development in

November 2003. In developing this analysis, we reviewed the Resources Agency's supplemental report response as well as the testimony presented at the November policy hearing, among various other sources of information.

## **Creation, Program Responsibilities, and Budget of the Commission**

***The Delta Protection Commission oversees the local implementation of a regional land use plan for a large part of the Sacramento-San Joaquin Delta. The budget proposes \$301,000 for the commission in 2004-05, all from special funds.***

***Creation of Commission.*** The DPC was created by the Johnston-Baker-Andal-Boatwright Delta Protection Act of 1992 (Chapter 898, Statutes of 1992), and was made permanent in 2000 (Chapter 505, Statutes of 2000 [AB 2930, Torlakson]). The commission's jurisdiction includes portions of five counties—Solano, Yolo, Sacramento, San Joaquin, and Contra Costa—and is referred to as the “Primary Zone” of the Sacramento-San Joaquin Delta. The commission consists of 19 members including six state agency representatives, five local county supervisors, three city representatives, and five reclamation district representatives. The commission meets once per month and commissioners are not paid per diem. Policy subcommittees meet at least once per month between regular monthly meetings.

The commission employs three full-time staff—an Executive Director, an environmental scientist, and a staff services analyst.

***Statutory Role of Commission.*** The Delta Protection Act of 1992 established as state priorities the protection and preservation of the resources of the Delta. The goals of the legislation were: (1) to protect, maintain, enhance, and restore the overall quality of the Delta environment for agriculture, wildlife habitat, and recreational activities; (2) to balance conservation and development of Delta land resources; and (3) to improve flood protection to increase public health and safety.

To further these goals, the act required DPC to take several actions. First, DPC was required to complete a regional land use plan for the Delta. The purpose of the regional plan is to provide local planners with guidelines to use in considering the cumulative impacts of individual land-use decisions on resources (such as agricultural viability, fisheries, and water quality) in the Delta region. Second, the DPC was given a review and appeal authority should local decisions contradict the adopted plan. During an appeal (which must be made by a party other than the commission), the commission may halt a project while it reviews the individual appeal. The commission then works with the local land use agency

to either amend the existing project or propose an alternative plan for the project.

**Commission Wholly Funded by Special Funds.** Historically, three special funds have supported DPC. These are ELPF, HWRF, and the Delta Flood Protection Fund. In the last several years, the ELPF and HWRF have been the sole source of support for the commission, with the latter fund providing the larger share of support.

The commission's funding has increased over the past 11 years from \$250,000 to its current level of \$301,000. This is an average annual increase of roughly 2 percent.

### The Commission's Current Roles, Focus, and Benefits

***We find that the Delta Protection Commission has achieved much of its original statutory mandate and that many of its broad goals have been assumed by, or are also being carried out by, other state agencies. Currently, the commission's activities are focused largely on monitoring both local compliance with the regional land use plan and meetings and actions of the CALFED Bay-Delta Program. Delta constituents consider the commission's role as a public forum to protect and balance land uses in the Delta as one of its benefits.***

In the sections that follow, we discuss the extent to which the commission has fulfilled its statutory requirements and met its statutory goals. We also discuss the current focus of the commission's activities as well as some of the benefits of the commission from the perspective of Delta constituents.

**Delta Regional Planning Document Completed.** In 1995, the DPC completed the statutorily required planning document entitled *Land Use and Resource Management Plan for the Primary Zone of the Delta*. This document was subsequently incorporated into the general plans of all affected local planning agencies as well as state regulations. With this requirement completed, the DPC turned its focus to monitoring the activities of the local planning agencies, as well as state and federal compliance with the plan.

Since the completion of the regional resource management plan, only one local planning decision has been appealed to the commission on the basis that it contradicted the regional plan.

**Overlap With Other State Agencies.** Our review finds a number of examples of overlap between the activities of DPC and those of other state agencies, particularly CBDA and the CALFED Bay-Delta Program (CALFED).

The CALFED program was established in 1994 with the signing of a state-federal accord to coordinate resource management activities in the Bay-Delta region among local, federal, and state agencies. Subsequently, the Legislature enacted Chapter 812, Statutes of 2002 (SB 1653, Costa), that created CBDA as the state oversight agency for the CALFED program and adopted a framework for the program. Although DPC is a CALFED member agency, it does not have a seat on CBDA. While the Delta region has been represented in part by DPC during this process, other Delta interests have also been at the table, as well as varied interests from other regions. (For an in-depth analysis of the CALFED program, please see our write-up in the “Crosscutting Issues” section of this chapter.)

Though the scope of the CALFED program and the new CBDA are broader than that of the commission, we have found a number of examples of overlap between the activities of DPC and those of CBDA and the CALFED program. For example, both the commission and CALFED/CBDA review plans for Delta levees and monitor major changes in land use in the Delta. Both DPC and the CALFED entities participate in multiagency groups to support protection and enhancement of Delta ecological areas, including the Delta In-Channel Islands.

For the most part, the commission’s goal related to the protection of wildlife habitat in the Delta is being carried out by CBDA and the CALFED Bay-Delta Program’s ecosystem restoration program, as well as by other Resources Agency departments, including the Wildlife Conservation Board and the Department of Fish and Game. The commission’s goal related to Delta recreation is also being carried out by CBDA and the CALFED Bay-Delta Program, as well as by several departments under the Resources Agency, including the Department of Parks and Recreation and the Department of Boating and Waterways. Finally, the commission’s goal related to flood protection is largely being carried out by CBDA and the CALFED program, as well as by the Department of Water Resources and the State Board of Reclamation.

***Focus of Commission’s Current Efforts.*** Given the completion of the regional plan, we find that the commission’s current activities are focused on two sets of activities: (1) monitoring local planning processes for consistency with the regional plan and (2) monitoring CALFED/CBDA planning and implementation activities. In fact, commission staff reported that about one-half of staff time (for nonadministrative functions) in recent years has been spent monitoring CALFED program activities.

However, our review also finds that one of DPC’s current major roles—that of representing Delta interests in the CALFED process—has also been at least partially assumed by a statutorily approved public ad-

visory committee. Specifically, the Bay-Delta Public Advisory Committee provides a forum for various local and industry-based stakeholders to communicate their perspectives to the CALFED policymakers. For example, this public advisory committee includes a subcommittee on agriculture that focuses on the needs of farmers in the Delta and those downstream.

***Benefits of the Commission.*** A number of witnesses at the November policy hearing on DPC were of the view that DPC continues to serve an important function as a “public forum” to speak for, and help balance, the interests of a broad range of Delta constituencies, including agriculture, wildlife habitat, and recreational interests. The DPC is seen as the entity that knows “what is going on” (development wise) in the Delta’s Primary Zone and surrounding areas. The commission’s existence was considered a motivating factor for local governments to take an appropriately regional perspective in their planning decisions. Many parties testified that it was uncertain whether another entity would assume the commission’s regional planning function if DPC were eliminated. This was stated to be the case given the failure of a voluntary planning council formed in the 1970s to create and maintain a comprehensive land use plan for the Delta. Finally, a number of parties testified that DPC provides an important link between CBDA and the Delta region’s local governments and landowners.

## Recommendations and Issues for Legislative Consideration

***We recommend the adoption of budget bill language to shift the Delta Protection Commission’s funding support from state funds to locally funded reimbursements. In addition, given development pressures near, but outside of, the area of the Primary Zone of the Delta, the Legislature may wish to reevaluate the scope of the commission’s geographic jurisdiction.***

We find that there are two issues regarding DPC that the Legislature should consider. These relate to how the commission is funded and its area of geographic jurisdiction. We discuss these issues in the sections that follow.

***Funding of the Commission.*** Our findings indicate that DPC has completed its required regional planning document, and several of its functions and goals are currently carried out by CBDA and other Resources Agency departments. The current focus of the commission—monitoring local planning and CALFED activities and serving as a local public forum to speak for and balance Delta interests—appears to be more appropriately funded by the local interests that the commission serves, rather than by state funds. Therefore, we recommend that the Legislature shift

the commission's funding support from state funds to reimbursements from Delta local governments, including cities, counties, and regional reclamation districts. In order to facilitate this, we recommend that the Legislature direct the commission to submit a plan for assessing local governments to fully cover its budgeted expenditures. We also recommend that the Legislature adopt the following budget bill language under Items 3840-001-0140 and 3840-001-0516 to require reimbursement of the special funds proposed to support DPC from the assessments on local governments:

It is the intent of the Legislature that funds appropriated in this item will be fully reimbursed by revenues from an assessment levied by the Delta Protection Commission on local governments benefiting from its activities.

For the 2005-06 and future budget years, we recommend that DPC be funded fully from these reimbursements.

***Jurisdiction of the Commission.*** Finally, a number of witnesses at the November policy hearing noted the significant development pressures occurring in the Delta's "Secondary Zone"—that is, the portion of the Delta that surrounds, but is beyond DPC's area of geographic jurisdiction. The concern is that while these development pressures will, over time, cumulatively affect the resources of the Primary Zone, DPC currently has no authority to take action with respect to land use issues in the Secondary Zone. We think that the scope of the commission's geographic jurisdiction raises important policy issues that would warrant an in-depth analysis by the legislative policy committees before enacting changes. Should the Legislature choose to expand the commission's geographic scope, we would recommend that any accompanying program expenditure augmentations be funded fully by reimbursements from local beneficiaries of DPC's efforts as described above.

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## DEPARTMENT OF WATER RESOURCES (3860)

The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department maintains the State Water Resources Development System, including the State Water Project. The department also maintains public safety and prevents damage through flood control operations, supervision of dams, and water projects. The department is also a major implementing agency for the CALFED Bay-Delta Program, which is putting in place 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's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

The budget proposes total expenditures of about \$6.3 billion in 2004-05, a reduction of about \$1.9 billion, or 23 percent, below estimated expenditures in the current year. This reduction is partly a result of the administration's decision to defer its submittal of most of its resources bond proposals to later in the spring. (Please see the discussion on "Resources Bonds" in the "Crosscutting Issues" section of this chapter.) It also reflects a decrease of \$1.4 billion for the energy contracts entered into on behalf of the IOUs during the energy crisis. This reflects a reduction in the amount of electricity purchased under contract for the budget year, as well as lower prices on the electricity currently under contract.

Major budget proposals include \$16.1 million from the General Fund for transfer to the Colorado River Management Account to fund the lining of the All American Canal project. The budget also proposes a reduction of \$1.6 million from the General Fund for various water management activities.

## **STATE'S APPROACH TO FLOOD MANAGEMENT SHOULD BE MORE STRATEGIC**

*In the sections that follow, we find that the state's investments in flood management activities should be more strategic, including an increased focus on critical floodplain management activities. We recommend the enactment of legislation that would reduce the state's share of funding for federally authorized flood control projects. This would create future savings that would provide an opportunity for the state to make more strategic investments in flood management, while at the same time benefiting the state's General Fund.*

### **Responsibilities and Funding for Flood Management**

*The state shares responsibility for flood management with federal and local governments. Its role in flood management varies depending on geographic area and it generally has a relatively small role in floodplain management outside of the Central Valley.*

**What Is Flood Management?** Flood management is a term that encompasses both structural flood control projects and floodplain management.

Structural flood control projects are projects that modify the natural flow of floodwaters to reduce losses to human resources and/or protect natural resources during floods. Structural flood control projects include conveying flows via levees and managing flows through reservoir operations.

Floodplain management includes activities in and around the state's floodplains that reduce losses to human resources within the floodplain and/or protect natural resources associated with floodplains during floods. Floodplain management includes minimizing the impacts of flows through flood proofing (raising structures in the floodplain so they are at levels less likely to be flooded), implementation of the federal flood insurance program, and relocation of at-risk structures in the floodplain. It also encompasses actions that restrict development in the floodplain through mapping and land-use decisions.

**Who Is Responsible for Flood Management?** Multiple agencies at every level of government have some responsibility for flood management. Figure 1 (see next page) provides a summary of the many agencies involved in flood management and their responsibilities.

Several *federal* agencies are involved in flood management activities. The U.S. Army Corps of Engineers (Corps) is generally the lead agency on the construction of federally authorized flood control projects. (Local agencies typically seek federal authorization of major flood control projects, making them eligible for funding from the federal and state governments. However, there are a large number of smaller flood control projects that do not gain this designation and are largely constructed and maintained by local reclamation districts.) The Federal Emergency Management Agency (FEMA) plays an important role in floodplain management through its administration of the National Flood Insurance Program (NFIP), which limits new development in the 100-year floodplain (areas that have a one in four chance of flooding over the life of a 30-year mortgage).

The DWR is the primary *state* agency responsible for flood management, with the State Reclamation Board (SRB) specifically responsible for the management in the Central Valley (along the Sacramento and San Joaquin rivers). The Central Valley has the most extensive flood management system in the state since the entire valley floor regularly flooded before its development. Although SRB is technically independent from DWR and has an appointed board, DWR employees carry out its activities. These activities include maintaining a portion of the levees in the Central Valley that are located in designated state maintenance areas. Both DWR and SRB have responsibility for implementing the state's floodplain management laws. In this regard, DWR mainly assists communities in complying with NFIP standards and mapping flood-prone areas outside of FEMA's 100-year floodplain, while the SRB administers a permit and enforcement program for development within the Central Valley's floodplains.

*Local* entities are also critical to flood management since they provide day-to-day maintenance and operation of the majority of the flood control facilities in the state. They also have considerable control over land-use decisions in and around flood prone areas of the state.

**Costs of Federally Authorized Flood Control Projects Are Shared.** The costs of federally authorized flood control projects are shared among federal, state, and local governments. Under federal law, the federal government contributes 65 percent of the planning and construction costs of federally authorized flood control projects. (The federal government does

**Figure 1****Federal, State, and Local Agencies Responsible for Flood Management**

Agency	Responsibilities
<b>Federal</b>	
U.S. Army Corps of Engineers	<ul style="list-style-type: none"> <li>• Constructs and shares in funding federally authorized flood control projects.</li> <li>• Develops guidelines for operating federally funded reservoirs during floods.</li> <li>• Provides equipment and personnel for emergency flood response.</li> </ul>
Federal Emergency Management Agency	<ul style="list-style-type: none"> <li>• Administers the National Flood Insurance Program (NFIP).</li> <li>• Provides maps and technical assistance to local communities to better manage floodplains.</li> <li>• Implements flood disaster planning and recovery programs.</li> </ul>
U.S. Bureau of Reclamation	<ul style="list-style-type: none"> <li>• Operates several reservoirs, including the Central Valley Project.</li> </ul>
National Weather Service	<ul style="list-style-type: none"> <li>• Issues weather forecasts and flood warnings.</li> <li>• Assists communities in establishing flood warning systems.</li> </ul>
<b>State</b>	
Department of Water Resources	<ul style="list-style-type: none"> <li>• Shares in funding federally authorized flood control projects, with state as sponsor (capital outlay) or a local sponsor (subventions program).</li> <li>• Operates the state-federal Flood Operations Center.</li> <li>• Operates the State Water Project.</li> <li>• Operates and maintains the Sacramento and San Joaquin flood control projects.</li> <li>• Assists the National Weather Service in flood forecasting.</li> <li>• Provides technical assistance to communities on complying with NFIP and expands mapped areas that are prone to flooding.</li> </ul>
State Reclamation Board	<ul style="list-style-type: none"> <li>• Oversees the planning, construction, operation, and maintenance of flood management projects in the Central Valley.</li> <li>• Oversees development in floodplains with a permit and enforcement program.</li> </ul>
Office of Emergency Services	<ul style="list-style-type: none"> <li>• Administers federal disaster assistance.</li> <li>• Coordinates operations during flood emergencies.</li> </ul>
<b>Local</b>	
Local Flood Control Agencies	<ul style="list-style-type: none"> <li>• Share in funding federally authorized flood control projects.</li> <li>• Perform day-to-day operations and maintenance of flood control facilities.</li> <li>• Develop/implement flood management plans (outside the Central Valley).</li> </ul>
Local Land-Use Agencies	<ul style="list-style-type: none"> <li>• Make decisions about development in and around floodplains.</li> </ul>

not typically pay for land acquisition costs associated with a flood control project, unless they exceed 50 percent of the total cost of the project.)

Historically, the state has contributed 70 percent of the nonfederal share of the costs, with local governments contributing the remaining 30 percent. However, Chapter 1071, Statutes of 2000 (AB 1147, Honda), modified the state-local cost-sharing formula for participation in federally authorized flood control projects. Specifically, the state's funding share was reduced to 50 percent of the nonfederal share of the total costs, but this share can rise to 70 percent if DWR finds that a project provides multiple benefits, including habitat, open space, and/or recreation. Accordingly, local governments are responsible for at most 50 percent of the nonfederal share of the total project costs.

Given SRB's responsibility, the state has considerably more involvement in the development of the flood management projects in the Central Valley. However, Chapter 1071 improves state oversight of the locally sponsored, federally authorized flood control projects it helps to fund outside the Central Valley by requiring the projects to meet various criteria in order to receive the maximum state contribution.

***State's Role in Floodplain Management Is Relatively Modest Outside the Central Valley.*** Under current law, the state's role in floodplain management is relatively modest and varies considerably depending on the geographic area of the state. Specifically, the state has a greater role in the Central Valley where the SRB has the authority to designate floodways. This authority can significantly reduce allowable development within designated areas since any development within the designated floodways requires a permit from the board. Outside of the Central Valley, the state's role in floodplain management is relatively modest, consisting mainly of a small program in DWR focused on promoting good floodplain management throughout the state. This program provides technical assistance to communities to improve compliance with NFIP standards and expands the mapped areas prone to flooding that are outside of the 100-year floodplain. These activities are focused on providing local land-use managers with more information to promote good floodplain management.

***Funding Levels for Flood Management Have Varied Significantly.*** As shown in Figure 2 (see next page), state funding for flood management has varied considerably on a year-by-year basis over the past five years. Expenditures peaked in 2000-01, reflecting the availability of General Fund monies to make one-time appropriations to pay for the state's share of federally authorized flood control projects, including past arrearages. After that year, General Fund expenditures for flood management programs have been reduced considerably, resulting in contin-

ued increases in the amounts owed locals for the state's share of flood control projects.

**Governor's Budget Proposal.** The budget proposes \$33.6 million for flood management programs for 2004-05. This is a slight increase from the current year due to the redirection of unallocated capital outlay funds to perform needed maintenance on a Central Valley flood control project. (The budgeted amount for flood management is a reduction of over 70 percent from the 2000-01 level.)

**Figure 2**

**DWR's Flood Management Expenditures**

(In Millions)

Fund Source	1999-00	2000-01	2001-02	2002-03	2003-04 Estimated	2004-05 Proposed
General Fund	\$60.4	\$101.6	\$31.3	\$27.2	\$13.6	\$13.6
Proposition 13 bond funds	—	12.7	27.1	29.3	14.0	17.0
Other funds	2.4	2.0	3.1	2.6	3.0	3.0
<b>Totals</b>	<b>\$62.8</b>	<b>\$116.3</b>	<b>\$61.5</b>	<b>\$59.1</b>	<b>\$30.6</b>	<b>\$33.6</b>

**Risk of Flood-Related Losses Increasing  
But State's Efforts Reduced**

*Development in and around floodplains has contributed to increased losses due to floods. This is largely a result of inadequacies with the primary floodplain management tool, the federal National Flood Insurance Program. California's current pattern of development is likely to result in an increased risk of flood losses if good floodplain management is not exercised. Despite the increased risk of flood losses, the state's efforts to improve floodplain management have been reduced significantly.*

**Flood Losses Continue Despite Flood Management Efforts.** Historical data on flood damage collected by the National Weather Service show that average annual flood damages in California (adjusted for inflation) have increased over the last three decades. These damages have continued despite significant efforts to reduce them. The costliest flood in California since 1955, occurred early in 1997 when flood waters caused 120,000 people to be evacuated from their homes in the Central Valley and resulted in approximately \$2 billion in property damage. This flood was

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the result of unprecedented water flows from rainfall and melting snow pack that resulted in numerous breached levees.

There are many reasons why flood losses continue to increase despite the array of federal, state, and local agencies responsible for flood management. These include the fundamental fact that there are simply more people living in and around the state's rivers and coastal areas subject to flooding.

***Deficiencies in Federal Efforts Increase Importance of State Role in Floodplain Management.*** At present, the major floodplain management tool is FEMA's NFIP program. The NFIP program prohibits new development in areas it designates as special flood hazard areas (more commonly referred to as the 100-year floodplain) and requires owners of existing structures in such areas to purchase federally subsidized flood insurance. To support the NFIP, FEMA is involved in mapping the nation's floodplains. However, FEMA's mapping activities have not kept pace with changing conditions, which is of critical concern in areas such as the Central Valley where development is occurring relatively fast. The department estimates that at least 50,000 of the state's 200,000 miles of streams will likely see development over the next 20 years. However, only 15,000 miles of the state's streams have been mapped by FEMA during the past 30 years, leaving considerable gaps in information on potential flood prone areas of the state. Although FEMA plans to update and expand its mapping efforts, it will likely be a considerable time before FEMA fills in the current gaps.

To address this problem, the state created the Awareness Floodplain Mapping Program with support from Proposition 13 bond funds and the General Fund. This program performs less detailed studies (as compared to FEMA mapping) and maps areas outside the 100-year floodplain that nevertheless may be at considerable risk of flood losses. These maps are especially important for advising local governments about the risks of development in flood prone areas that are outside of FEMA maps.

Although floodplain mapping provides useful information for local planners, we find that there are significant risks in relying too heavily on the 100-year floodplain designations made under the NFIP program. First, the boundaries of a 100-year floodplain are based on estimates and are relatively arbitrary since flood events do not have a natural break at the boundary of the 100-year floodplain. That is, people living ten feet outside of the 100-year floodplain are not necessarily any safer than people living ten feet inside of the floodplain. In addition, California has a relatively short historical record of flooding events, which means that the data used to draw the boundaries for the 100-year floodplain are based on statistical best guesses that often have large margins of error. Given

these factors, it is very unlikely that the federal maps drawn for NFIP correctly represent the actual 100-year floodplain boundaries.

Despite these problems, NFIP standards are the basis for most local land-use decisions in and around the state's floodplains. As a consequence, the inaccuracies in the standards may allow development to occur in areas that may have a relatively high likelihood of flooding. The deficiencies in FEMA's NFIP program therefore increase the importance of the state's role in providing local governments with accurate information and maps on flood-prone areas that are being considered for development by local governments.

***Population Increases in California's Flood Prone Areas Raises the Importance of Floodplain Management.*** Floodplain management is becoming increasingly more important in California because of the increased population pressures along the state's rivers and coastal areas. For example, population growth in the Central Valley along the Sacramento and San Joaquin River systems has been consistently higher than in California as a whole over the past two decades. The growth in the Central Valley is projected to continue so that by 2010 one in four Californians will be living in the Central Valley (only one in five persons lived in the Central Valley in 2000). This is likely to result in pressures for more development on the fringe of the 100-year floodplain, thereby potentially increasing the risk of losses from future flood events. Given this, land-use decisions being made could have significant impacts on flood management costs, including the need to build additional structural flood control projects.

***State Funding for Floodplain Management Has Been Reduced.*** As mentioned previously, the state's role in floodplain management is relatively modest—mainly limited to providing technical information and mapping. However, for reasons discussed above, the value of state efforts in floodplain management have become increasingly important. However, at the same time, DWR's budget for floodplain management has been reduced significantly—to \$1.2 million, which is a 70 percent reduction from funding levels in 2000-01. This reduction is a result of fewer available bond funds and significant reductions in General Fund support, which have been the primary funding source for these programs. These reductions have reduced the rate at which the department can complete its mapping of flood-prone areas slated for development and jeopardizes opportunities to partner with FEMA in modernizing federal floodplain maps. The overall effect of these reductions is to reduce the state's ability to promote good floodplain management by local entities.

## State's Flood Management Expenditures Should Be More Strategic

***The state currently owes approximately \$404 million to local governments for its share of the costs for federally authorized, locally sponsored flood control projects. The Governor's budget provides no funding for these subventions in 2004-05. We recommend the enactment of legislation that reduces the state's share of the nonfederal costs for federally authorized flood control projects, saving the state between \$115 million and \$230 million in future budget years. Furthermore, we find that the future-year savings created by this recommendation would provide an opportunity for the state to be more strategic in its approach to funding its flood management programs, while at the same time saving General Fund monies.***

***State Unable to Pay Locals Its Full Share of Costs.*** The state owes approximately \$404 million to local governments for its share of federally authorized, locally sponsored projects. In past years, the General Fund has contributed the majority of support for these subventions. However, some bond funds have also been used. The *2003-04 Budget Act* included \$116 million from the General Fund to fund the state's share of federally authorized, locally sponsored flood control projects. However, the administration has proposed to revert \$105 million of this amount back to the General Fund, as part of its mid-year expenditure savings proposals. In addition, the *2004-05 Governor's Budget* does not provide an appropriation for these flood subventions. Despite the inability of the state to pay locals its share of the costs associated with these flood control projects, construction of these projects will generally not be affected. This is because the state funds are generally used to reimburse locals for costs they have already incurred in constructing a flood control project.

***Local Beneficiaries of Flood Control Projects Should Share Costs More Equitably.*** As mentioned previously, up until recently, the state has generally contributed 70 percent of the nonfederal share of the costs of federally authorized flood control projects. This resulted in local governments funding 30 percent of the nonfederal share of the total project costs which likely understated the benefits derived by localities. We find that flood control projects provide direct benefits to local communities. For example, in addition to the direct public safety benefits, the projects often allow for new development and/or exemption from NFIP requirements which provide significant economic benefits to local communities. Given the benefits to local communities, we think that it would be more equitable if local governments paid a greater share of the costs to build federally authorized flood control projects. We believe that this is consistent with recent legislative direction to fund resources programs under the "beneficiary pays" principle. For example, recent legislation initiated

a fee for certain landowners to defray some of the state's costs for providing fire protection to their land.

**Recommend Legislation to Reduce State's Funding Share.** As mentioned previously, Chapter 1071 provides that the state will fund between 50 percent and 70 percent of the nonfederal costs of a federally authorized flood control project. As discussed above, we think that local governments should assume more of the cost burden for flood control projects based on the application of the beneficiary pays principle. Given this, we recommend the enactment of legislation that reduces the state's share of the nonfederal costs of federally authorized flood control projects to 30 percent. However, the state would reimburse up to 50 percent if the project satisfies existing statutory criteria for a higher level of reimbursement for projects with multiple benefits. We also recommend, consistent with current law, that the cost sharing provisions apply equally to state sponsored and locally sponsored projects. We further recommend that the new cost sharing be applied to all future flood control projects as well as those projects that have been authorized, but have not yet received payment from the state.

We estimate that the state could save between \$115 million (50 percent state share of costs) and \$230 million (30 percent state share of costs) by applying the new cost-sharing provisions to authorized projects where a state share of costs is currently owing. (The range of savings depends on the level of state funding the projects would qualify for based on multiobjective criteria established in Chapter 1071.) As there is no funding for local flood control subventions in the budget, these savings would accrue in *future* years as the state would appropriate funds at the lower share of project cost.

We find that the new cost-sharing arrangement can be applied to projects that have already been authorized by the state, but have not been funded. This is because the authorization process (by which a local project becomes eligible for state funding) is separate and distinct from the process that funds these locally sponsored projects, generally the annual budget appropriation process. Therefore, savings could be achieved by reducing the state's cost share of projects already authorized by the state. As mentioned previously, the state's funding share is typically used to reimburse locals for costs already incurred. Therefore, reducing the state's funding share should not affect the delivery of these projects.

**Savings Present Opportunity for State to Fund Flood Management Programs More Strategically.** We think that the future savings created by the funding change recommended above provides an opportunity for the state to be more strategic in how it funds flood management. Specifically, we think the state's flood management activities would be more

effective if investments were made for (1) increased oversight and review of local flood control projects outside of the Central Valley and (2) floodplain management. We think it would take a relatively small amount of future savings—less than \$10 million annually—to improve the state’s current approach to flood management activities. We discuss below the particular investments that we recommend be made using some of these future savings. The balance of the future savings—which would be potentially over \$200 million—could be used for other legislative priorities.

As mentioned previously, DWR’s oversight and review of flood management projects outside the Central Valley is limited. Chapter 1071 did improve the state’s oversight over the flood control projects funded outside of the Central Valley by making full funding contingent on the project satisfying certain multipurpose criteria. However, DWR currently has no staff budgeted to review these projects. Therefore, we recommend that when savings accrue in the future associated with reducing the state’s share of costs for federally authorized flood control projects, the Legislature consider using a portion of these savings to improve oversight and analysis of flood management projects outside of the Central Valley. An investment of \$1 million to \$2 million would allow DWR to have input into the development of local flood projects, thereby enabling the department to assess whether projects meet the criteria set forward in Chapter 1071. This will allow for more strategic investment of state funds in local flood management projects.

As mentioned previously, floodplain management is a cost-effective way to avoid flood damages. The state’s current investments in floodplain management are minimal and we think improvement in this area would be a strategic investment, especially given the rapid development of flood prone areas of the state. Therefore, we recommend that the Legislature consider allocating some of the future savings—\$2 million to \$3 million annually—to leverage federal funds over the next several years by participating in FEMA’s forthcoming nationwide map modernization program. Without a funding commitment by the state, California could lose tens of millions of dollars in federal funds over several years to improve the state’s floodplain maps. Also, the Legislature should consider using some of the future savings—\$3 million to \$4 million annually—to provide ongoing funding to the state’s floodplain management programs, including the department’s Awareness Floodplain Mapping Program and its Proactive Floodplain Management Program (formerly funded by Proposition 13) that maps potentially flood prone areas and provides training and workshops for local communities on complying with NFIP requirements.

## State's Ability to Recover Maintenance Costs From Locals Needs Improvement

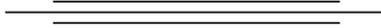
***The state maintains a portion of levees and other flood control projects in the Central Valley. Current law does not allow the Department of Water Resources to recover all of its costs when it takes over the maintenance of a flood control project from the locals. We recommend the enactment of legislation to allow the state to recover all of its costs associated with establishing and operating a state maintenance area.***

***Maintenance Versus Improvements: Who Is Responsible?*** While the SRB oversees the *maintenance* of the over 1,600 miles of levees as well as other flood control projects in the Central Valley, these projects are for the most part directly maintained by local reclamation districts. (Numerous additional levees are built and maintained by individual landowners but are not overseen by the SRB.) However, the state is directly responsible for maintenance of around 150 miles of levees in ten "state maintenance areas" located in the Central Valley and significant portions of the Sacramento River Flood Control Project. In the former case, the local reclamation districts are responsible for the costs of maintaining the projects, while in the latter case the state is responsible for maintenance and operation. Project *improvements* or upgrades, however, are cost-shared among federal, state, and local governments. Improvement and upgrades to these projects in the Central Valley are prioritized according to plans developed jointly by the Corps and SRB.

***Costs Incurred in Forming New State Maintenance Areas Are Not Reimbursable.*** Current law allows DWR to take over maintenance of a flood control project (such as levees) from a local reclamation district if the local district is not maintaining the structure in accordance with federal regulations. The law also allows a local reclamation district to voluntarily transfer its obligation to maintain any flood control structure to the state if the local district declares that it no longer desires to operate and maintain the structure. In either case, DWR is authorized to collect assessments from the local reclamation district to cover the costs associated with maintaining the local flood control structures. However, the law does not allow the department's start-up costs associated with forming a new maintenance area to be reimbursed from the local district.

***Recommend Legislation Authorizing the State to Recover Start-Up Costs of Maintaining Local Flood Control Projects.*** We think the state should be reimbursed for all of its costs associated with maintaining local flood control projects, including the start-up cost associated with forming a new maintenance area. Without this authority, the state bears the entire costs of establishing new maintenance areas. We do not think that these costs should be treated differently than the ongoing maintenance

costs which are cost-recoverable under current law. Therefore, we recommend the enactment of legislation that authorizes the state to recover all the costs of maintaining local flood control projects from the local reclamation districts, including the start-up costs associated with setting up a new state maintenance area. This will allocate costs more appropriately to the local districts.



## OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT (3980)

The Office of Environmental Health Hazard Assessment (OEHHA) identifies and quantifies the health risks of chemicals in the environment. It provides these assessments, along with its recommendations for pollutant standards and health and safety regulations, to the boards and departments in the California Environmental Protection Agency (Cal-EPA) and to other state and local agencies. The OEHHA also provides scientific support to environmental regulatory agencies.

The budget requests total funding of \$12.5 million for support of OEHHA in 2004-05. This is a decrease of about \$1.1 million, or 8 percent, below estimated current-year expenditures. Most of this decrease reflects the elimination of a one-time General Fund appropriation of \$1 million in the current year used to backfill reductions initially proposed in the *Governor's 2003-04 Budget*. This funding is being used currently to fund a significant portion of OEHHA's children's health program.

### More Stability Needed in OEHHA's Funding Base

***The Office of Environmental Health Hazard Assessment (OEHHA) has largely relied on the General Fund to support its operations, and has therefore been subject to significant program reductions in recent years. We find that there are potential alternative funding sources for many of OEHHA's activities. While these create opportunities for additional General Fund savings in the budget year (\$3.6 million), they also present an opportunity to provide more stability in OEHHA's funding base and address OEHHA's unmet funding requirements to meet its statutory mandates.***

***The General Fund Supports a Majority of OEHHA's Activities.*** Most of OEHHA's activities are required by statute and are supported largely

by the General Fund. Using General Fund money, OEHHA identifies cancer-causing chemicals for annual updates of the state list of chemicals in drinking water, provides health risk assessments of “toxic air contaminants,” reviews health risk assessments of pesticides, and jointly regulates pesticide worker health and safety with the Department of Pesticide Regulation (DPR).

Of the \$12.5 million of expenditures proposed for OEHHA in 2004-05, about \$8.1 million (65 percent) is from the General Fund. The balance of OEHHA’s support is from various special funds and reimbursements. In past years, OEHHA’s reliance on the General Fund was even greater. For example, in 2002-03, about 80 percent of OEHHA’s funding came from the General Fund. In the current year, declining General Fund support has been mitigated by increased support from special funds.

***Budget Reflects Significant Program Reductions Over Last Few Years.***

The OEHHA’s proposed budget reflects cumulative reductions of close to \$3 million in the current and budget years, a reduction of about 20 percent. Most of these reductions are for activities funded from the General Fund. These reductions are a clear reflection of OEHHA’s reliance on the General Fund as its primary funding source and the consequences on OEHHA’s budget when the General Fund condition is weakened. These reductions affect almost all of OEHHA’s programs, including its children’s health, pesticide use and safety, and air toxicology and epidemiology programs.

***Legislative Direction Regarding OEHHA’s Funding.*** At legislative hearings on the current-year budget, concerns were raised about the instability in OEHHA’s funding base (reflecting declining General Fund support) and whether OEHHA’s funding level was adequate to meet its statutory mandates. There was a recognition that during the time that OEHHA’s total budget has been in a period of decline, a number of statutory mandates have been added to its responsibilities. These include mandates related to children’s health and an assessment of fuel-related risks.

As a result, the Legislature, in the *Supplemental Report of the 2003-04 Budget Act*, directed OEHHA to report to the Legislature by January 10 of this year on various issues, including its long-term baseline funding requirements to meet its statutory mandates, recommendations regarding the appropriate mix of general and fee-based special funds, and potential efficiency improvements. The overall purpose of this report was to assist the Legislature in determining the appropriate level of funding and allocation of funding sources to support OEHHA and to provide greater stability in OEHHA’s budget. At the time this analysis was prepared, the required report had not been submitted to the Legislature. Despite this

lack of input, in the sections that follow, we (1) present our findings about alternatives to General Fund support of OEHHA's programs and (2) identify opportunities to provide OEHHA with more stability in its funding base.

***OEHHA's Activities Often Directly Support Regulatory Programs.*** Our review finds that OEHHA provides support to various *regulatory* programs in its sister Cal-EPA departments, as well as to the safe drinking water program in the Department of Health Services (DHS). For example, OEHHA's statutory mandate to evaluate how well the state's air quality standards protect children and other populations particularly susceptible to air pollution serves to guide the Air Resources Board's regulatory activities.

In those cases where OEHHA's activities can be directly and reasonably connected with a regulatory program, the Legislature is presented with an opportunity to consider potential fund source alternatives to the General Fund—namely fee-based special funds—to support the activities. Using fee-based revenues instead of the General Fund is appropriate because many of OEHHA's activities provide a scientific basis for environmental permit requirements, thereby preventing the permit requirements from being arbitrary or unduly burdensome. As such, OEHHA's activities provide a benefit to the permit holder and therefore are appropriately funded through regulatory program fees.

On the other hand, some of OEHHA's activities—such as its Proposition 65 program—have more of a broad-based public health focus and cannot be reasonably connected with discrete regulatory programs. For activities such as these, we think that the General Fund continues to be the appropriate funding source.

***Alternative Funding Sources for Legislative Consideration.*** The fee-based alternative funding sources referred to above could be used to support a portion of OEHHA's budget. The use of these alternative funding sources would provide greater funding stability in OEHHA's budget, consistent with recent legislative direction discussed above.

First, these alternative fund sources are potentially available to replace a portion of General Fund support proposed for OEHHA in 2004-05, thereby creating General Fund savings. Our review finds that of OEHHA's activities proposed to be funded from the General Fund, those with the most direct connection with regulatory programs are focused in three program areas. These are pesticide use and safety, drinking water, and air toxicology and epidemiology (including children's health). We think that about \$3.6 million of costs in these program areas could be shifted from the General Fund to existing fee-based special funds. Specifically,

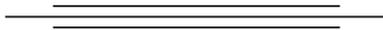
we think that the Legislature should consider the following funding shifts from the General Fund:

- \$1.5 million of OEHHA activities that support DHS' safe drinking water program could be shifted to the Safe Drinking Water Account (SDWA).
- \$1.5 million of OEHHA activities that support various air quality regulatory programs could be shifted evenly to the Air Pollution Control Fund (APCF) and the Motor Vehicle Account (MVA).
- \$600,000 of OEHHA activities that support DPR could be shifted to the DPR Fund.

Second, there are also alternative fund sources that could be used to partially backfill General Fund reductions made in recent years (mainly to create General Fund savings) or to address some of OEHHA's unmet funding requirements to meet its statutory mandates. For example:

- \$1.3 million, split evenly between APCF and MVA, to restore funding for various air regulatory-related activities, including children's health.
- \$443,000 from the DPR Fund to restore funding for activities related to pesticide use and safety.

We note that the projected fund balances in SDWA, APCF, and MVA would be able to support the level of appropriations suggested above to support OEHHA activities in 2004-05, without a need to increase fees. However, the DPR Fund is projected to end 2004-05 with a balance of just \$818,000, thereby limiting the amount of additional appropriations to support OEHHA, unless pesticide fees were increased or monies in the DPR Fund were redirected from other activities for this purpose.



## CALIFORNIA PUBLIC UTILITIES COMMISSION (8660)

The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned “public utilities,” such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission’s primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

**Proposed Funding.** The budget proposes CPUC expenditures of \$1.2 billion in 2004-05 from various special funds and federal funds. This is a \$74 million reduction from the current year due to lower expenditures in funds that support various universal service telecommunications programs. The Governor’s budget also proposes to permanently establish 18 positions to administer the commission’s universal service telephone programs.

### THE CALIFORNIA TELECONNECT FUND PROGRAM

At legislative hearings this past session, concerns were raised about the operations of CPUC’s California Teleconnect Fund (CTF) program which attempts to improve access to telecommunications services in the state. As a result, the Legislature, in the *Supplemental Report of the 2003-04 Budget Act*, directed CPUC to report to the Legislature on various issues, including ways in which the program could better achieve its goals. The CPUC submitted the report as required and we considered its findings in the process of developing our analysis. In the sections that follow, we make recommendations on how to improve program effectiveness, maximize the receipt of federal funds, ensure that legislative direction is followed, and enhance legislative oversight of the program.

## Increasing Access to Telecommunication Services

**State Programs.** The CPUC administers six universal service telephone programs that seek to expand access to telecommunications services. It does so by subsidizing the cost of telephone services for certain people through surcharges applied to telephone customers' monthly bills for in-state services. One of these programs is the CTF program. This program provides discounts on telephone service, and other advanced telecommunication services that provide access to the Internet (such as digital subscriber line [commonly referred to as DSL] services) to schools, libraries, and qualifying hospitals and community-based organizations. Currently, the CTF program provides a 50 percent discount regardless of the particular qualifying service or recipient. This discount is applied to the qualifying entity's telecommunications bill by the service carrier. The service carrier then submits claims to CPUC to be reimbursed for the discounts provided. Chapter 820, Statutes of 2003 (AB 855, Firebaugh), established the program in statute, although CPUC has been managing a similar program that it established administratively in 1996.

**The Federal E-Rate Program.** The federal government's E-Rate program is similar to the CTF program in that it also provides discounts on telecommunications services to schools and libraries. The federal program also provides discounts on wiring and hardware needed to expand data access within a school or library. The E-Rate program provides a 20 percent discount on eligible services to libraries and a discount of 20 percent to 90 percent on services to schools. (Higher discounts are awarded to schools in rural locations and to schools with a higher percentage of students that qualify for the National School Lunch Program.) Although schools and libraries are able to participate in both the federal and state programs, the federal discount is applied first to the cost of the services, then the state discount is applied to the remaining costs.

## Budget Proposal Contrary to Legislative Direction

***The Governor's budget proposes a significant reduction in expenditures for the California Teleconnect Fund (CTF) program, reflecting the administration's decision not to repay any of the \$150 million loan from the CTF to the General Fund made in the current year. Given this, the proposed CTF budget is unlikely to be sufficient to cover projected program costs in 2004-05. While we have concerns regarding the operation of the current program, we find this underfunding to be contrary to legislative direction. To address this, we recommend the California Public Utilities Commission report at budget hearings on the projected funding requirements of the program in the budget year. Furthermore, if the CTF program requires additional funding in 2004-05, we identify options for the Legislature to consider to provide additional funding for the program.***

**Budget Proposal.** The *2004-05 Governor's Budget* proposes expenditure of \$5.3 million for the CTF program in the budget year. This is a reduction of \$21.1 million, or 75 percent, from the expenditure level in the current year. The proposed expenditure level reflects the administration's decision not to repay any of the \$150 million loan made from the CTF to the General Fund in the *2003-04 Budget Act*. The surcharge that supports this program was suspended in 2003 following the accumulation of a significant surplus in the fund. The surcharge remains suspended, even though the surplus was essentially eliminated by making the loan to the General Fund in the current year.

**Projected Program Funding Requirements Exceed Budget Proposal.** Although the budget proposes \$5.3 million in expenditures, CPUC has projected that the CTF program would require approximately \$39 million to cover program expenditures in the budget year based on its projections of demand for the subsidies that the program provides. This is approximately \$12 million more than estimated current-year expenditures.

Although demand for the subsidies has typically failed to meet CPUC's budgeted projections, we note that claims have increased significantly in the current year, with over \$45 million in claims made so far in the current year. While there is evidence that utilization of the program has increased, the majority of the current-year claims are the result of delays by the telecommunications carriers in submitting claims from prior years (mainly due to delays in the federal E-Rate program that caused carriers to postpone filing their claims until they were sure how much E-Rate funding they would get).

The increased utilization is partly due to recently enacted legislation (Chapter 308, Statutes of 2002 [SB 1863, Bowen]) that expanded the services and discounts available under the program to include qualified community-based organizations. Since this law change, there has been a 90 percent increase in the number of community-based organizations participating in the program. Given these factors, we find that the funding requirements of the program will likely exceed the appropriation proposed in the budget.

**Budget Proposal Contrary to Legislative Direction.** Chapter 820 requires that the \$150 million loan made from the CTF to the General Fund be repaid when the CTF program needs the funds to meet program requirements. Although CPUC notified the Director of Finance (DOF) that it would need a portion of the loan repaid in the budget year, this request was denied. While Chapter 820 prohibits CPUC from raising its surcharge level until the loan is repaid, it does allow CPUC to raise its surcharge level after notification to DOF and the Joint Legislative Budget Committee in cases where DOF has denied CPUC's request for the loan repay-

ment based on program needs. Since it is likely that the CTF funding requirements will exceed the appropriation proposed in the Governor's budget, we find that the budget proposal is contrary to legislative direction.

Given this, we recommend that CPUC report prior to the May Revision on the projected funding requirements of the CTF program for 2004-05. Since the CPUC has had difficulty projecting its budgetary requirements for this program, we think it would be appropriate to make a determination on budget-year funding requirements at the May Revision after the commission has received a greater number of its current-year claims.

We have concerns with the operation of the CTF program as it is currently configured and make several recommendations on how to improve the oversight and effectiveness of this program in the sections that follow. Should the Legislature wish to provide additional funding for the program in the budget year, it can do so by directing CPUC to raise the CTF surcharge (currently suspended) in order to support the augmentation. For example, a 0.1 percent surcharge applied to telephone charges would yield approximately \$20 million, which would generate enough revenues to cover the same level of expenditures in the budget year as are estimated in the current year. Another option for the Legislature is to repay a portion of the General Fund loan. However, due to the weakened state of the General Fund, the Legislature would have to balance this priority against other General Fund legislative priorities.

## **Changes Have Improved Teleconnect Fund Program**

***We find that recent administrative changes to the California Teleconnect Fund program have improved the program's service and accountability.***

***Recent Administrative Changes Have Improved Program Service.*** We find that the commission has made a number of administrative changes to the CTF program in the past six months. In May 2003, our review of the program found that the then current application process was overly complex. Applicants had to apply for the discount with several different service providers depending on what services they were seeking and the geographic area of coverage. This was often a time-consuming and frustrating process for applicants that was exacerbated by the program being managed by different telecommunications service providers. However, the commission has since streamlined its application process by allowing applicants to file directly with the commission. This has eliminated the long delays common under the prior system and streamlined the process for adding new discount-eligible services for participating entities.

**Recent Administrative Changes Have Also Improved Fiscal Accountability.** As mentioned previously, the CTF program in past years regularly overestimated its program funding requirements, in part reflecting delays in the submittal of claims by the carriers. To address this problem, the commission has implemented a new carrier claim forecasting procedure that requires the carriers to submit annual claims forecasts that are based on the preceding year's claims, rather than rough estimates of program participation by CPUC staff. It is still too early to determine the extent to which this practice will improve the commission's ability to forecast budget expenditures. However, we do think it should improve the fiscal accountability of the program by providing a relatively more credible basis—past year's actual claims—from which to set the surcharge level.

### **Teleconnect Fund Program Does Not Maximize Available Federal Funds**

***The California Public Utilities Commission does not require schools and libraries to participate in the federal E-Rate program as a condition of eligibility for the California Teleconnect Fund (CTF) program. This results in increased costs to the state's program and a loss of available federal funds. We recommend enactment of legislation to require eligible schools and libraries to participate in the federal E-Rate program as a condition for participating in the CTF program.***

**Program Does Not Maximize Federal Funds.** As mentioned previously, the federal government administers the federal E-Rate program that provides discounts on telecommunications services to schools and libraries. Schools and libraries are allowed to participate in both the E-Rate program and the CTF program and receive cumulative discounts from the two programs. The CTF discount is applied to the cost of the telecommunications service after the E-Rate discount is applied, thereby reducing the amount of the discount paid by the state. Despite this, current commission policy does not require participation in the E-Rate program as a condition of eligibility for the CTF program. Furthermore, lack of participation in the E-Rate program reduces federal funds available to schools and libraries in the state.

***Recommend Legislation Requiring Participation in E-Rate Program to Be Eligible for CTF Program.*** We recommend the enactment of legislation that requires schools and libraries to participate in the federal E-Rate program as a condition of eligibility for the CTF program. This change will encourage schools and libraries to maximize available federal funds. In addition, because the CTF discount is applied to the cost of the telecommunications service after the E-Rate discount has been applied,

greater participation in the E-Rate Program will lower payments from the CTF for the same level of telecommunications service. This will allow CPUC to stretch the state's funds to provide more discounts with the same level of funds.

### **Teleconnect Fund Program Could Be More Effective If Discounts Were Targeted**

***Recent legislation has expressed legislative intent that a priority for the state's telecommunications policy is to assist in bridging the "digital divide." The current California Teleconnect Fund (CTF) program does not target its discounts to reach those individuals affected by the digital divide because of their lack of sufficient access to advanced telecommunications services. Given this, we recommend enactment of legislation to direct the California Public Utilities Commission to adopt criteria for targeting discounts in the CTF program to help address the digital divide.***

***What Is the Digital Divide?*** Not all people have access to or the capability to use advanced telecommunications (for example, modern information technology such as the Internet). This circumstance is referred to as the "digital divide." The digital divide exists between those in cities and those in inner cities and rural areas, as well as between the educated and less well educated, and between economic classes. Recent legislation has expressed as a priority for the state's telecommunications policy that the state assist in bridging the digital divide (Chapter 674, Statutes of 2002 [SB 1563, Polanco], Chapter 308, Statutes of 2002 [SB 1863, Bowen], and Chapter 820).

***Current Discounts Do Not Target Those Most in Need.*** Currently, the CTF program does not target its discounts to reach those that do not have sufficient access to advanced telecommunications services. Instead, the commission provides the same discount to all qualifying entities (current discount is 50 percent). This contrasts with the federal E-Rate program that determines the level of subsidy for schools based on the number of students at the school eligible for the National School Lunch Program. It uses the lunch program as a benchmark to indicate the poverty level at the school, thereby targeting schools with a higher level of students from low-income households. We find that the commission's current practice of applying a flat discount rate to all eligible program participants is not an effective way to allocate the CTF funds if the state's goal is to expand telecommunication service to people that do not already have access to such service.

**Recommend Legislation Directing CPUC to Target Discounts.** Given that we find that the current process for allocating discounts does not target populations that are most likely to need expanded telecommunications services, we recommend the enactment of legislation directing CPUC to target CTF discounts based on a criteria that will target the populations that currently have limited access to advanced telecommunications services. These criteria should target the discounts to those in inner cities and rural areas, as well as persons in low-income communities, since these populations have been found to have the lowest level of access to advanced telecommunications services. In addition, we think the Legislature should consider how this program is coordinated with other state and local investments made in advanced telecommunications technologies for K-12 education.

### **Program Funding Parameters Needed To Ensure Legislative Oversight**

**Under current law, the California Teleconnect Fund (CTF) Program has limited parameters guiding its funding level. Given this, we recommend the enactment of legislation that sets a statutory cap on annual CTF program expenditures.**

**Current Program Has Limited Parameters.** Under current law, there are no limits on the number of participants or level of subsidies awarded in the CTF program. Instead, CPUC is given broad authority to administer the CTF program, including the authority to raise the surcharge that supports this program (with approval by DOF) to cover increased program costs.

**Potential for Significant Program Growth.** While in past years the CTF program has had difficulty in spending its budgeted appropriation, we think recent administrative and legislative changes could result in significant program growth. The CPUC's recent improvements to the application process are likely to contribute to program growth as participants are only required to sign up once and can easily add new services that qualify for the discount. In addition, Chapter 308 increased the discount available to community-based organizations, resulting in a significant increase in participation by these organizations. There are a large number of other community-based organizations that could potentially qualify for this discount, which also could result in further growth in the CTF program.

Chapter 677, Statutes of 1999 (SB 669, Polanco), did increase legislative oversight by bringing the CTF program on budget and requiring that the expenditures be annually appropriated in the budget act. How-

ever, given the program's potential for significant future growth, we think that legislative oversight of the CTF program would be further enhanced if the Legislature established parameters to guide the funding level of the program.

**Recommend Legislation Setting a Funding Cap on Program.** We therefore recommend the enactment of legislation that sets a statutory cap on annual CTF program expenditures. We think that this would increase legislative oversight over the size of the CTF program and assist the Legislature when it evaluates the CTF program budget. A similar practice has been employed with programs funded by the public goods surcharge (an assessment on energy bills), including CPUC's energy efficiency program and the California Energy Commission's Renewable Energy and Public Interest Energy Research Development and Demonstration programs. In these programs, the Legislature enacted caps on revenues generated for these activities. In addition, legislation was also enacted that provided guidelines for how these funds should be spent. We think a similar approach would be effective for the CTF program. The program funding limit should not hinder the availability of discounts to entities that are most in need if criteria are adopted that target the discounts to those that currently have limited access to advanced telecommunications services.



## CALIFORNIA CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY (8665)

The California Consumer Power and Conservation Financing Authority (California Power Authority, or CPA) was created by Chapter 10x, Statutes of 2001 (SB 6x, Burton), to assure a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. The CPA was also created to encourage energy efficiency, conservation, and the use of renewable resources. The CPA is authorized to issue up to \$5 billion in revenue bonds to finance these activities. Chapter 10x also directs that the operation of the authority sunset on January 1, 2007.

### POTENTIAL ROLE OF CALIFORNIA POWER AUTHORITY

*The budget proposes eliminating the California Consumer Power and Conservation Financing Authority (CPA). In the sections that follow, we find CPA has been unable to finance any new power plants. However, we find that this is largely due to market conditions affecting the entire market for new power plant development and that there continue to be significant uncertainties regarding the adequacy of the state's energy supply to meet future energy demand. Given this, we find the elimination of some of CPA's functions to be premature. We provide options for keeping some of these functions intact until future policy decisions are made that assure sufficient supply will be available to meet the state's energy demands. These options include either retaining these functions in CPA or eliminating CPA and transferring its functions to other existing state agencies.*

## Budget Proposes Elimination of Authority

***The budget proposes elimination of the California Consumer Power and Conservation Financing Authority (CPA). The CPA was created to assure a reliable energy supply was available to meet the state's electricity demands. However, due to market conditions, it has not financed any electricity generation. Nevertheless, we find that CPA has contributed to the state's energy conservation and planning efforts.***

***Budget Proposes Elimination of Authority.*** The budget proposes to eliminate CPA in the budget year. The administration has indicated that the decision to eliminate CPA was based on a number of factors. These include findings that CPA has had limited success in fulfilling its statutory objectives and that CPA has not achieved financial self-sufficiency as intended when it was created. In addition, the administration is of the view that other state energy agencies and private entities already perform activities similar to that performed by CPA.

Specifically, the proposal would eliminate three positions and five contract positions and an administrative budget of \$3.4 million (special funds). The budget provides \$424,000 to CPA through September 30, 2004 for purposes of winding down the agency, including finishing remaining work and terminating existing contracts.

The budget proposes to eliminate CPA's bonding authority (almost \$5 billion remaining). Furthermore, the budget proposes terminating all of CPA's current work in progress. This work includes an initiative to install solar energy on state buildings and background work on financing several peak electricity generation projects and a base load power plant in the San Diego area. Finally, the budget proposal terminates CPA's Demand Reserves Partnership Program that provided 250 megawatts of energy conservation during the summer of 2003.

***What Was the Intended Role of CPA?*** The CPA was established during the height of the energy crisis that started in 2000. The crisis was partially the result of electricity supply that did not keep pace with growing demand, which caused energy prices to reach historically high levels and some areas of the state to experience power blackouts. The CPA was created in statute with the broad charge of assuring a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. In order to meet these goals, CPA was authorized to purchase, lease, or build new power plants using its revenue bonding authority to supplement private and public sector power supplies, and was granted eminent domain powers. These significant powers reach beyond those of other state energy agencies. It was intended that CPA would be able to exercise these powers in the event that the market did not produce enough electricity to serve all of the state's needs.

In addition to these core powers, CPA was also charged with encouraging energy conservation and the use of renewable energy sources. It was also given the authority to finance natural gas transportation and storage projects recommended by the California Public Utilities Commission (CPUC), as well as to provide financing to retrofit old and inefficient power plants. Finally, CPA was also required to develop an energy resource investment plan for California.

***The CPA Has Not Financed New Power Plants.*** Since CPA was established in 2001, it has been unsuccessful in financing any new power plants, although it has been in discussions with power plant developers regarding potential financing. This has been the result of the lack of a market for new long-term power contracts in California since the Department of Water Resources' authority to sign long-term contracts on behalf of the utilities terminated at the end of 2002. Without the ability to acquire long-term contracts to finance projects, CPA has not been able to assure the revenue stream required for bond financing. This has been compounded by the uncertainty in the financial markets regarding energy-related investments, caused by the bankruptcy of Pacific Gas and Electric Company and a handful of other energy companies, including Enron. These factors—outside of CPA's control—have affected the entire market for new power plant development.

***The CPA Has Implemented Energy Conservation Programs.*** Despite a lack of success in financing new power plants, CPA has had success in implementing projects that encourage energy conservation. First, CPA established the Demand Reserves Partnership Program that contracts with commercial and industrial customers to conserve energy during peak energy usage periods (typically the summer). This program contributed about 250 megawatts of energy conservation during the summer of 2003 at relatively cost-competitive prices. Second, CPA issued \$28 million of its revenue bond authority in April of 2003 to support the California Energy Commission's (CEC's) Energy Efficiency and Conservation Loan Program. This program provides loans to schools, cities, counties, non-profit hospitals, and public care institutions to make energy conservation improvements on their facilities. The CEC has already awarded approximately 70 percent of the bond sale in the form of loans to qualified recipients.

***The CPA Has Contributed to State Planning Efforts.*** The CPA has also been a significant contributor to the state's Energy Action Plan. The Energy Action Plan is a blueprint developed in conjunction with CPUC and CEC for ensuring adequate, reliable, and reasonably priced electricity and natural gas for California's consumers. The plan includes specific actions the state should take to optimize energy conservation, provide for a reliable and affordable electricity supply, promote renewable en-

ergy resources, upgrade the transmission system, promote distributed generation, and ensure a reliable supply of natural gas. This effort represents a significant improvement in the coordination of activities among the state's main energy agencies. The CPA had a significant role in developing a target for the level of reserves to use when planning for the state's future electricity demand.

## **Adequacy of Long-Term Energy Supply Remains Uncertain**

***Construction has been suspended or delayed for several new power plants in California that have been approved for construction. It is also not clear whether the utilities' plans to procure energy that have been approved by the California Public Utilities Commission provide sufficient incentives for new power plants to be built to meet future power demands.***

***Several New Approved Power Plants Are Not Being Built.*** Since the onset of the energy crisis in 2000, over 8,000 megawatts of additional electricity supply from new power plants has come on-line. Projects supplying another 2,600 megawatts are currently under construction and scheduled to come on-line over the next few years. Despite this, 13 projects (supplying 7,000 megawatts) that are already permitted by CEC have either delayed or suspended construction activities and it is unknown when many of these projects will resume construction. Many of these delays are caused by the inability of companies to obtain long-term contracts for the power to be generated by the plants they plan to build. Therefore, without an assured revenue stream, these plants have had a difficult time acquiring financing resulting in construction suspension or delays.

Also contributing negatively to the amount of power generation available in the state is the fact that many of the state's natural gas-fired power plants are old. Nearly 50 percent of the state's gas-fired generation is from plants that are over 30 years old. These plants are less efficient and more expensive to run than newer power plants. Given this, it is likely that many of these plants will be retired for economic reasons by their owners. If new generation or conservation efforts are not planned to supplant these old plants as they retire, this could also have a negative impact on the power supply available to meet future energy demand.

***Unclear Whether Current Energy Procurement Plans of the Utilities Adequately Address Long-Term Demand.*** The CPUC recently approved interim procurement plans for each of the utilities as directed by Chapter 835, Statutes of 2002 (AB 57, Wright). These procurement plans are intended to ensure the utilities have enough resources to provide a reliable supply of energy for their customers at just and reasonable rates.

The utilities can meet their projected demand by various means, including increasing energy conservation, signing additional contracts for electricity, and/or building new power plants. While these interim plans address how the utilities will meet their needs in the short term, it is not clear whether they provide sufficient assurances for meeting long-term electricity demand. For example, CPUC has only approved procurement plans for demand projected through 2005, meaning that the utilities have no assurances that they will be compensated for long-term contracts or construction costs for new plants that provide power beyond 2005. Since it takes several years to plan and construct an average sized base load power plant, it is not clear that the incentives to build new generation will be sent to the market in time to deliver energy supply when needed.

### **Elimination of Some of CPA's Functions Premature**

***We find the elimination of some of the California Consumer Power and Conservation Financing Authority's (CPA's) functions premature given the uncertainty that still exists regarding the adequacy of the state's long-term energy supply. Given this, we provide the Legislature with two options for retaining certain of CPA's functions, either retaining these functions in CPA provided it is self-supported or eliminating CPA and transferring these functions to other existing state agencies.***

***Elimination of Some of CPA's Functions Premature.*** Until greater assurances are provided that sufficient generation will be available to meet future energy demand, we think CPA's broad authority to finance power plants to supplement private and public sector power supplies, if needed using its revenue bonding authority, remains valuable. This authority is unique to CPA. On the other hand, there are other state agencies in addition to CPA involved in promoting energy conservation and renewable energy, including CEC and CPUC.

In spite of the uncertainty surrounding the adequacy of the state's long-term energy supply, we find that the budget proposal to eliminate CPA is not accompanied by a plan that provides adequate assurances that electricity generation will be built to meet future energy demands. Given the incompleteness of the budget proposal in addressing the availability of adequate supply and/or conservation to meet the state's future energy demand, we think the Legislature may wish to retain some of CPA's functions. We offer two options for the Legislature to consider as alternatives to the Governor's proposal to eliminate the authority.

***Option One: Retain CPA, But Only as a Self-Supporting Entity.*** The CPA has been criticized over the past year for failing to reach financial self-sufficiency in supporting its operations. This has been largely a result of CPA's inability to finance any significant electricity generation

projects due to market conditions. (The CPA receives an administration fee when financings are successful.) Nevertheless, CPA estimates that it will generate approximately \$1.2 million in revenues from its administration of its Demand Reserves Partnership Program in the current year.

We think that CPA could continue to provide a useful role at a level where its operations are supported solely by revenues it generates. This option would allow the state to continue to retain the authority to augment energy supplies if needed, until adequate incentives are in place to assure a sufficient energy supply to meet future demand. We think the role of CPA should be evaluated as policy changes continue to be made in the future.

***Option Two: Transfer Certain Functions to Other Existing Agencies.***

As an alternative to retaining CPA as mentioned above, the Legislature could eliminate CPA as proposed by the Governor. However, if CPA were eliminated, we would recommend transferring some of its functions to other existing agencies.

Specifically, we would recommend transferring the bonding authority so that the state could retain its ability to finance power plants if needed. The CPA's bonding authority could be transferred to an existing financing authority which has a consistent mission with CPA's bond financing authority (for example, the California Infrastructure Bank). We do not think that it would be appropriate for either CEC or CPUC to assume this function given their responsibilities for approving power plants and regulating the investor owned utilities, respectively.

Furthermore, if CPA were eliminated, we would also recommend transferring CPA's Demand Reserve Partnership Program to another entity so that it may continue to provide energy savings over the next several years (CPA's program currently has a contract to deliver energy savings that does not expire until 2007). This program could be transferred to another existing state agency involved in promoting energy conservation, such as CEC.





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### Crosscutting Issues

#### *CALFED Bay-Delta Program: At a Funding Crossroads*

- B-18     ■     **Financing of CALFED Bay-Delta Program (CALFED) Guided by Various Sources.** CALFED's financing is guided by funding principles found in the CALFED Record of Decision, statements of legislative intent, cost-sharing provisions in state and federal law, and state bond matching requirements.
  
- B-22     ■     **State Funds Have Contributed Most to CALFED.** The state has provided the majority of CALFED's funding support (about \$1.5 billion) since 2000-01. There has been little direct application of the beneficiary pays principle to date.
  
- B-24     ■     **CALFED Has An Enormous Future Funding Gap.** A funding source has not been identified for about \$6.1 billion, or 67 percent, of CALFED's estimated costs through 2006-07.
  
- B-24     ■     **Budget Proposal Reflects Deferral of Bond Expenditure Decisions.** The budget proposes \$68.6 million in state funds for CALFED-related programs in 2004-05, a reduction of 87 percent below estimated current-year state expenditures. This substantial reduction largely reflects the administration's decision to submit most of the

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Governor's 2004-05 resources bond expenditure proposals later in the spring.

- B-28 ■ **Statutory Adoption of the Beneficiary Pays Principle.** Recommend the enactment of legislation that adopts the beneficiary pays principle as a policy for funding CALFED. Also recommend the legislation require that the General Fund be reimbursed for planning costs of surface storage projects that proceed to construction. Further recommend that the legislation provide parameters for when it is appropriate to use state general-purpose funds to support CALFED activities.
- B-31 ■ **Enact a User Fee on Bay-Delta Water Diverters.** Recommend the enactment of legislation imposing a fee on Bay-Delta water diverters to pay an appropriate share of costs of CALFED activities that benefit them. In order to implement this new fee, it may be necessary to amend existing reporting requirements related to water rights.
- B-32 ■ **Reevaluate Existing Statutory Cost-Sharing Provisions.** Recommend that the Legislature reevaluate existing statutory cost-sharing provisions for water projects for their consistency with the beneficiary pays principle.
- B-33 ■ **Establish Financial Planning Requirements for California Bay-Delta Authority (CBDA).** Recommend enactment of legislation to amend CBDA's governance statute to add financial planning requirements to the authority's responsibilities.

### **Resources Bond Funds**

- B-34 ■ **Resources Bond Fund Conditions.** The budget proposes \$107 million of program expenditures from the five resources bonds approved by the voters since 1996. Most of the bond funds for park projects have been appropriated.

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- B-37     ■     **Governor’s Resources Bond Expenditure Proposal.** The Governor has deferred submittal of most of his resources bond expenditure proposals to later in the spring.
- B-39     ■     **Substantial Prior Bond Fund Appropriations Remain.** Recommend that the administration report at budget hearings on the status of the expenditure of resources bond funds appropriated in the current and prior years and its plans to improve the timeliness of implementing bond-funded programs.
- B-40     ■     **State Land Acquisition Activities Should Be Coordinated.** Recommend that the Secretary for Resources report at budget hearings on the administration’s plans to coordinate the state’s land acquisition activities and its plan to ensure development and operational costs that arise from land acquisitions are adequately funded.
- B-41     ■     **Additional Issues to Consider When Evaluating Bond Proposals.** We find additional issues for the Legislature to consider as they evaluate the forthcoming proposals to expend resources bond funds, including whether the bond fund expenditures are consistent with the bond measure and current law governing expenditures funded by bonds, ensuring that administrative costs are reasonable, and ensuring that prior legislative direction and legislative priorities are followed.

***Timber Harvest Fee Proposal Should Go Further***

- B-43     ■     **Timber Harvest Fee Should Go Further. Reduce Item 3480-001-0001 by \$1.3 Million, Item 3540-001-0001 by \$2.9 Million, Item 3540-001-0235 by \$386,000, Item 3600-001-0001 by \$1.7 Million, Item 3600-001-0140 by \$422,000, and Item 3940-001-0001 by \$3.1 Million; Increase Item 3540-001-3032 by \$3.3 Million, and New Items 3480-001-3032 by \$1.3 Million, 3600-001-3032 by \$2.1 Million, and 3940-001-3032 by \$3.1 Million.** Recommend the Legisla-

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ture shift all funding for timber harvest review and enforcement to fees levied on timber owners. Further recommend reduction of \$5 million from the General Fund in the California Department of Forestry and Fire Protection's current-year budget due to double budgeting.

## **Secretary for Resources**

- B-48 ■ **Withhold Recommendation on Support Budget Pending Receipt of Restructuring Plan.** Withhold recommendation on the support budget for the Secretary for Resources pending the receipt and review of the Governor's plan to restructure the Secretary.

## **Department of Forestry and Fire Protection**

- B-51 ■ **Fire Protection Fees Should Go Further. Reduce Item 3540-001-0001 by \$150 Million; Increase Item 3540-001-3063 by \$150 Million.** Recommend the enactment of legislation so that the state's costs to provide fire protection on state responsibility areas are shared evenly between private landowners and the General Fund. This would result in budget-year savings of about \$150 million to the General Fund.
- B-52 ■ **Minimal Revenues Projected for the Forest Resources Improvement Fund.** Because of ongoing litigation, the budget assumes that timber harvesting will not occur on Jackson State Demonstration Forest (JSDF) in the budget year. Therefore, the budget proposes to eliminate the resource management activities previously funded from revenues from timber harvesting on JSDF.

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**Department of Fish and Game**

- B-54     ■     **Federal Funds for Fisheries Restoration Require State Match. Increase Item 3600-001-6029 by \$2,275,000.** The proposed budget falls short of the matching requirement for the receipt of federal funds for salmon restoration by \$2,275,000. Recommend increase of \$2,275,000 from Proposition 40 bond funds to maximize the receipt of available federal funds.

**California Coastal Commission**

- B-57     ■     **Recommend Revised Fee Structure, Providing Greater Funding Stability. Reduce Item 3720-001-0001 by \$5.8 Million; Item 3760-001-0565 by \$150,000; Item 3760-301-0593 by \$500,000; and Increase New Special Fund Item by Like Amounts.** Recommend enactment of legislation to increase permit fees to fully cover (along with other non-General Fund sources) the commission's costs to issue and enforce permits. Recommend enactment of legislation (1) deleting current-law requirement that commission's permit fee and penalty revenues be transferred to the State Coastal Conservancy and (2) creating special fund in the commission for the deposit of the commission's fee and penalty revenues. Further recommend that commission report to budget subcommittees prior to budget hearings on its projected permitting and enforcement workload for the budget year.

**Department of Parks and Recreation**

- B-62     ■     **Governor's Fee Proposal.** The budget proposes to increase revenues from park fees by \$18 million and shift \$15 million of funding from the General Fund to fees. Recommend (1) approval of the fund shift, (2) department be directed to report prior to budget hearings on revenue

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projections, and (3) enactment of legislation to set parameters for the structure of park fees.

- B-65 ■ **Evaluating the Potential for Increased Private Sector Involvement in State Park Operations.** Our review of private sector involvement in other park jurisdictions finds that there are additional opportunities for state parks to use the private sector in park operations. Recommend a pilot program to further explore these opportunities, with reporting requirements.
- B-75 ■ **Budget Includes Concession and Operating Agreement Proposals.** The budget includes eight concession proposals and five operating agreement proposals that require legislative approval. We find all proposals to be warranted.

## San Francisco Bay Conservation and Development Commission

- B-76 ■ **Recommend Revised Fee Structure, Creating General Fund Savings. Reduce Item 3820-001-0001 by \$2,089,000 and Increase New Special Fund Item by a Like Amount.** Recommend enactment of legislation to increase permit fees to fully cover (along with penalty and reimbursement revenues) the commission's costs to issue and enforce permits. Recommend enactment of legislation to create special fund for deposit of commission's fee revenues.

## Delta Protection Commission

- B-80 ■ **Commission's Creation, Roles, and Budget.** The Delta Protection Commission (DPC) oversees the local implementation of a regional land use plan for a large part of the Sacramento-San Joaquin Delta. The budget proposes \$301,000 for the commission in 2004-05, all from special funds.

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- B-81 ■ **Commission’s Current Roles, Focus, and Benefits.** We find that DPC has achieved much of its statutory mandate and that many of its broad goals are also being carried out by other state agencies. Currently, DPC is focused largely on monitoring (1) local compliance with the regional land use plan and (2) the CALFED Bay-Delta Program meetings and actions. Delta constituents place value on the commission’s role in balancing land uses in the region.
- B-83 ■ **Recommendations and Issues for Legislative Consideration.** Recommend adoption of budget bill language to shift DPC’s funding from state funds to locally funded reimbursements. Legislature should consider reevaluating the scope of DPC’s geographic jurisdiction.

**Department of Water Resources**

- B-86 ■ **Responsibilities and Funding for Flood Management.** The state shares responsibility for flood management with federal and local governments. Its role in flood management varies depending on geographic area and it generally has a relatively small role in floodplain management, particularly outside the Central Valley.
- B-90 ■ **Risk of Flood-Related Losses Increasing but State’s Efforts Reduced.** Development in and around floodplains has contributed to increased losses due to floods. California’s current pattern of development is likely to result in more people living in flood-prone areas of the state. Despite this, we find that the state’s efforts to improve floodplain management have been reduced significantly.
- B-93 ■ **State’s Flood Management Expenditures Should Be More Strategic.** Recommend enactment of legislation that reduces the state’s share of federally authorized flood control projects and find that future savings created by this recommendation would provide an opportunity for the

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state to be more strategic in its approach to funding flood management, including increasing support for floodplain management programs.

- B-96 ■ **State's Ability to Recover Maintenance Costs From Locals Needs Improvement.** Recommend enactment of legislation to allow the state to recover start-up costs associated with taking over the maintenance of local flood control projects.

### **Office of Environmental Health Hazard Assessment**

- B-98 ■ **More Stability Needed in Office of Environmental Health Hazard Assessment's (OEHHA's) Funding Base.** There are several potential fund source alternatives to the General Fund to support many of OEHHA's activities. Use of these fund sources would provide more stability in OEHHA's budget and present opportunities for General Fund savings and to address unmet funding requirements to meet OEHHA's statutory mandates.

### **California Public Utilities Commission**

- B-103 ■ **Budget Proposal Contrary to Legislative Direction.** The budget does not provide sufficient funds to cover the projected budget-year costs of the California Teleconnect Fund (CTF) program due to a decision to not repay a loan made to the General Fund in 2003-04. This action is contrary to legislative direction. We therefore recommend the California Public Utilities Commission report at budget hearings on updated program needs for the budget year and we provide options for the Legislature if it wishes to provide additional funding for the CTF program in the budget year.

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- B-105 ■ **Changes Have Improved CTF Program.** Recent administrative changes to the CTF program have improved the program's service and accountability.
  
- B-106 ■ **The CTF Program Does Not Maximize Available Federal Funds.** Recommend legislation that requires eligible schools and libraries to participate in the federal E-Rate program as a condition for participating in the CTF program.
  
- B-107 ■ **The CTF Program Could Be More Effective if Discounts Were Targeted.** Recommend legislation that directs CPUC to adopt criteria for targeting discounts from the CTF program to help bridge the digital divide.
  
- B-108 ■ **Program Funding Parameters Needed to Ensure Legislative Oversight.** Recommend legislation that sets a statutory cap on annual CTF program expenditures to improve legislative oversight of program.

**California Consumer Power and  
Conservation Financing Authority**

- B-111 ■ **Budget Proposes Elimination of Authority.** The budget proposes elimination of the California Consumer Power and Conservation Financing Authority (CPA), which was created to assure a reliable energy supply by financing electricity generation. However, due to market conditions, it has not financed any electricity generation projects, although it has had some success in promoting energy conservation.
  
- B-113 ■ **Adequacy of Long-Term Energy Supply Remains Uncertain.** Construction has been suspended or delayed for several new power plants that have been approved for construction. It is also not clear whether the utilities' plans to procure energy that have been approved by the

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California Public Utilities Commission provide sufficient incentives for new power plants to be built to meet future power demands.

- B-114 ■ **Elimination of Some of CPA's Functions Premature.** We find the elimination of some of CPA's functions to be premature and provide options for the Legislature to retain these functions.

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