# EVALUATION OF THE ENERGY AND RESOURCES FUND

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TABLE OF CONTENTS

## INTRODUCTION

Chapter 899, Statutes of 1980, created the Energy and Resources Fund (ERF) and designated it as one of eight special funds to receive allocations from tidelands oil revenues. Under the provisions of Ch 899/80, the ERF will terminate on June 30, 1984. This measure requires the Legislative Analyst to review the programs and projects funded from the ERF and submit an evaluation to the Legislature, including any recommendations for changes in the statutory funding criteria or priorities. This report is submitted pursuant to that requirement.

Chapter 899 established within the ERF an Energy Account and a Resources Account. It also included criteria for the use of funds from each of the two accounts and provided that the annual Budget Bill would allocate money in the fund between the two accounts.

In reviewing the programs and projects funded from the ERF, we did not conduct a performance evaluation of programs or projects. Instead, our review examines how the ERF was used in terms of the funding criteria and priorities established by Ch 899/80.

For purposes of this report, "appropriations" include transfers from the ERF to other funds to support projects that meet the funding criteria of the ERF, and "expenditures" include funds encumbered but not yet expended.

During most of the time since the creation of the ERF in 1980, the state was faced with serious fiscal constraints. Revenues failed to keep pace with the cost of maintaining existing state services. Among the

Legislature's actions in response to these constraints were numerous revisions in the allocation of tidelands oil revenues among various funds (including the ERF) in order to shift some of this revenue to the General Fund. We examined the impact of these fiscal constraints on the ERF by comparing the total amount appropriated from the ERF with the minimum amounts that would have been available under the original mechanism established by Ch 899/80.

The basic sources used for appropriation and expenditure data were various schedules included within the Governor's Budget for 1980-81 through 1984-85. Additional data were collected through questionnaires sent to those departments that received appropriations from the ERF (see Appendix C).

This report was prepared by Dale Claypoole, Craig Breedlove, Jeffrey Shellito, and Philip Dyer under the supervision of Daniel Rabovsky.

## EXECUTIVE SUMMARY

Chapter 899, Statutes of 1980, created the Energy and Resources Fund (ERF) and designated it as one of eight special funds to receive allocations from state tidelands oil revenues. Under the provisions of Ch 899/80, the ERF will terminate on June 30, 1984.

Chapter 899 also required the Legislative Analyst to review the programs and projects funded from the ERF and submit an evaluation of them to the Legislature. The Analyst's report is required to include recommendations for changes in the funding criteria or priorities established by the legislation.

This report was prepared in response to the requirements contained in Ch 899/80. It examines how the Legislature used funds in the ERF and how it applied the statutory criteria governing the ERF. The report is based on appropriation and expenditure data for the four-year life of the ERF (1980-81 through 1983-84). Appropriation and expenditure data were categorized and analyzed in terms of (1) the departments or programs that received appropriations from the ERF, (2) the statutory funding criteria set forth in Ch 899/80, and (3) whether supported programs or projects were short-term or ongoing.

### ANALYSIS OF APPROPRIATIONS FROM THE ERF

1. Total ERF Funding. Under the funding mechanism contained in Ch 899/80, a total of $337.1 million of tidelands oil revenue would have been available to the ERF between 1980-81 and 1983-84. During this period, approximately $259.5 million was appropriated from the ERF for various

energy and resources projects and purposes. This amount consists of $182.6 million in direct appropriations and $76.9 million in transfers to other funds in order to support projects that met the statutory criteria of the ERF.

a. Resources projects received 58.5 percent of the funding; the balance--41.5 percent-- was appropriated for energy-related purposes.

b. Three-fourths of the amount appropriated was used to fund state operations and local assistance projects; one-fourth was provided for capital outlay projects.

2. Appropriations by Department. Funds from the ERF were allocated to 25 state agencies. Additionally, funds were allocated from the ERF to the General Fund for energy tax credits and exemptions, as well as for Medfly eradication.

a. Five agencies (the Departments of Parks and Recreation, Water Resources, Food and Agriculture, Fish and Game, and the Energy Resources Conservation and Development Commission [Energy Commission]) received almost one-half of the total direct ERF appropriations, with the Department of Parks and Recreation receiving the largest share ($47.6 million).

b. The primary recipient of funds from the ERF was the General Fund, which received $59.4 million as reimbursement for revenue losses resulting from energy tax incentives.

3. Appropriations for Energy Projects. More than one-half of the funds appropriated from the ERF for energy projects was used to finance the cost of tax incentives.

a. Six agencies (the Energy Commission, the California State University, the University of California, and the Departments of Water Resources, General Services, and Food and Agriculture) received 94 percent of the support and local assistance direct appropriations for energy projects. Of these, the Energy Commission received the largest amount ($20 million).

b. Four agencies received 74 percent of the total appropriations from the ERF for capital outlay projects.

c. Approximately 60 percent of the capital outlay appropriations for energy projects was not expended and has been reverted.

4. Appropriations for Resources Projects. Almost three-fourths of the amount appropriated from the ERF for resources purposes went to projects in 3 of the 18 statutory categories. The category receiving the largest amount of funding ($59.9 million) was the one with the least specific description--"other programs which enhance and conserve renewable and nonrenewable resources." Five of the 18 categories received less than 1 percent of the total amount appropriated for resources projects.

5. New versus Ongoing Programs. Chapter 899 requires that ERF funds be used "only for short-term projects and not for any ongoing programs."

a. Approximately 47 percent of the total amount appropriated from the ERF was made available for short-term projects of a new or unique nature.

b. Short-term projects that are part of ongoing programs accounted for approximately 48 percent of total appropriations.

c. Ongoing programs received a little less than 6 percent of the amount appropriated from the ERF.

6. Effectiveness of the ERF During a Time of Severe Fiscal Constraints. State fiscal constraints forced the General Fund to compete with the ERF for tidelands oil revenues.

a. During 1981-82, $53.8 million was transferred from the ERF to the General Fund.

b. Numerous interfund transfers resulted in complexities and resulted in the overcommitment of the ERF in 1981-82.

CONCLUSIONS AND RECOMMENDATIONS

1. Use of Tidelands Oil Revenues. Tidelands oil revenues may be used for any public purpose and therefore are indistinguishable from General Fund revenues. Earmarking of these funds for specific types of projects in advance tends to limit the Legislature's options in allocating funds among programs according to its priorities. For these reasons, we have in the past recommended that all tidelands revenues be deposited in the state's General Fund. In this report, however, our conclusions and recommendations address the funding criteria governing the ERF in the event the Legislature wishes to continue it as a special fund.

2. Effectiveness in Protecting Funds. The ERF was reasonably effective as a means of earmarking funds for special purposes during a period of fiscal constraint. Of the $337 million of tidelands oil revenue that would have been available to the ERF under Ch 899/80, 77 percent ($259.5 million) was appropriated and 62 percent was spent.

3. Use for Existing Programs. One half of the total amount appropriated from the ERF was for existing programs, primarily for short-term projects within ongoing resources programs, such as parks acquisition and development. Some of these ERF funds may have replaced other funds, rather than increased the total amount provided for these programs.

4. Criteria for Energy Projects. At the time they were being considered for funding, energy projects were not formally evaluated in terms of the criteria established by Ch 899/80 (feasibility, transferability, and potential to reduce the use of oil and natural gas). The Legislature, therefore, had no assurance that the projects which were funded were those that best fulfilled these criteria.

5. Criteria for Resources Projects. Of the 18 categories of resources projects established by Ch 899/80, the least specific category ("other programs") received by far the most money (39 percent of the total amount appropriated). Fifteen of the 18 categories, together, received only 28 percent of the amount appropriated. The current funding categories are so numerous and broad that funding easily becomes diluted.

6. Recommendations.

a. If the Legislature wishes to use the ERF as a means to increase funding for existing programs, it may wish to require that a specified minimum amount be provided to each program from traditional funding sources before any funds from the ERF may be used. Such a minimum funding level would ensure that the ERF is used to increase funding, rather than replace existing support.

b. If legislation is enacted to earmark additional funds for energy-related purposes, it should either (a) designate specific types of projects to be funded or (b) establish an explicit mechanism for rating or ranking projects. This would focus these earmarked funds on those specific programs with the highest priority.

c. In setting aside funds for resources projects, the Legislature should establish a more limited number of specific funding categories in order to focus attention and funds on high-priority programs, and thereby prevent a dilution of the funds' effectiveness.

# CHAPTER I

# BACKGROUND

## HISTORY OF TIDELANDS REVENUES

This chapter provides an historical perspective on the allocation of tidelands oil and gas revenues. The statutory allocation mechanism was last revised in 1980 by Ch 899/80. That measure also created the Energy and Resources Fund (ERF) and the funding criteria for qualifying projects and programs.

The state has received revenues from its tidelands oil and gas properties since 1929. Currently most of these revenues are derived from oil production at Long Beach and Huntington Beach and from sites offshore Santa Barbara and Ventura Counties.

Prior to 1960, these revenues were allocated to the Investment Fund, the General Fund, and to the Beach and Park Fund. As the magnitude of these revenues increased, funds were allocated for other purposes such as financing a portion of the State Water Project. The bulk of these revenues, however, were used to fund capital outlay projects at institutions of higher education, primarily the University of California and the California State University.

In the late 1960s, state tidelands revenues averaged about $47 million annually. During most of the 1970s, these revenues were somewhat more than $100 million per year. Since 1979-80, they have increased to an average of more than $400 million per year primarily due to higher oil prices.

## CURRENT ALLOCATION MECHANISM

Chapter 981, Statutes of 1968, initiated the present system of allocating tidelands oil revenues. This system was substantially revised, however, by Ch 899/80. These laws established a priority sequence for the distribution of the revenues. Under this arrangement, those allocations at the top of the priority list receive their full amount before any revenues are available to allocations with a lower priority. Put another way, a shortfall in revenues is not apportioned among all allocations, but instead is borne by the funds at the bottom of the list.

The priority sequence and the amount of the allocation for each fund as specified by Ch 899/80 are shown in Table 1.

Table 1

Annual Distribution of Tidelands Oil Revenue
Pursuant to Ch 899/80
1981-82 through 1983-84
(in thousands)

| | | |
|---|---|---|
| 1. | General Fund, cost of State Lands Commission and statutory distributions to local governments | As necessary[a] |
| 2. | California Water Fund | $25,000 |
| 3. | Central Valley Water Project Construction Fund | 5,000 |
| 4. | Sea Grant (General Fund) | 500[b] |
| 5. | Capital Outlay Fund for Public Higher Education (COFPHE) | 125,000[c] |
| 6. | State School Building Lease/Purchase Fund | 200,000 |
| 7. | Energy and Resources Fund (ERF) | 120,000[c] |
| 8. | State Parks and Recreation Fund (SPRF) | 35,000 |
| 9. | Transportation Planning and Development Account, State Transportation Fund | 25,000 |
| 10. | Special Account for Capital Outlay (SAFCO), General Fund | Remaining Balance |

a. Transfer to General Fund for support of State Lands Commission ($8,760,000 in 1983-84) and statutory distributions totaling approximately $400,000 to local governments.
b. Transfer to General Fund for support of the Sea Grant Program by the Resources Agency.
c. Target balance. Allocation would be reduced by the amount of any unappropriated balance carried over from the prior year.

NOTE: The distribution of revenues established by Ch 899/80 for 1980-81 was the same as in this table with the following exceptions: State School Building Lease/Purchase Fund, $100,000,000; Transportation Planning and Development Account, nothing.

In the case of the COFPHE and the ERF, the full allocations are the amounts necessary to achieve a balance available for appropriation of $125 million and $120 million respectively. Any unappropriated balances remaining in these funds from the prior year are deducted from the allocation. In the case of the other funds, however, no such deductions are made. Thus, for example, the State School Building/Lease Purchase Fund receives $200 million each year, regardless of any balance carried over from the previous year.

Since enactment of Ch 899/80, every Governor's Budget has proposed substantial deviations from the allocations set forth in that act. In 1981-82 and 1982-83, both the Legislature and the administration also made other adjustments in midyear to use some tidelands oil revenue to replace declining General Fund revenues.

The allocations established by Ch 899/80 change substantially on July 1, 1984. Starting in 1984-85, the current provisions of Ch 899/80 allocate tidelands oil revenues through the first five existing priorities, State Lands Commission through the COFPHE, with any residual deposited in the SAFCO. Priorities six through nine (including the ERF) will not receive any funds. The Governor's Budget for 1984-85, however, proposes to continue allocations to the State School Building Lease/Purchase Fund at a level of $100,000,000 in 1984-85, and $125,000,000 per year thereafter through 1988-89.

ESTABLISHMENT OF THE ENERGY AND RESOURCES FUND

Chapter 899 established the ERF. It also created within the fund an Energy Account and a Resources Account. The statute did not require any specific funding split between these two accounts.

1. Criteria for Projects Funded from the ERF. Funds from either account are to be used only for short term projects, not for ongoing programs. The criteria established by Ch 899/80 for use of funds from each of the accounts are described below.

a. Energy Criteria. In funding projects or programs from the Energy Account, Ch 899/80 provided that priority is to be given to those projects or programs that fulfill all of the following three criteria:

(1) Have the greatest potential for reducing the use of oil and natural gas to produce energy.

(2) Have the greatest potential for transferability and widespread use throughout the state by the year 1990.

(3) Have the highest degree of feasibility.

b. Resources Criteria. Programs and projects eligible for funding from the Resources Account are to be limited to those in any of the following 18 categories:

(1) Projects under the Roberti-Z'berg Urban Open-Space and Recreation Program Act (Chapter 3.2, commencing with Section 5620, Division 5 of the Public Resources Code).

(2) Appropriations to the State Coastal Conservancy for grants to public and private agencies for acquisition, development, rehabilitation, restoration, operation, and maintenance of real property and facilities which provide public access ways to, or along the coast or the shoreline of, San Francisco Bay.

(3) Wetland protection, preservation, restoration, and enhancement projects in accordance with the Keene-Nejedly California Wetlands Preservation Act (Chapter 7, commencing with Section 5810, Division 5 of the Public Resources Code), or, in accordance with provisions governing the State Coastal Conservancy (Division 21, commencing with Section 31000 of the Public Resources Code).

(4) Restoration, enhancement, and preservation of wildlife habitat on federal lands pursuant to the Sikes Act (16 U.S.C. Sec. 760a, et seq.).

(5) Acquisition and development of real property for wildlife management in accordance with the purposes of the Wildlife Conservation Law of 1947 (Chapter 4, commencing with Section 1300, Division 2 of the Fish and Game Code).

(6) Reforestation, urban forestry, and forest improvement projects in accordance with the provisions of Part 2.5, commencing with Section 4790, Division 4 of the Public Resources Code.

(7) Water reclamation, watershed management, water conservation, instream use, and drainage management programs approved by the Director of Water Resources or the State Water Resources Control Board.

(8) Watershed restoration, erosion control, fire hazard reduction, land conservation, and fish and wildlife habitat improvement projects.

(9) Acquisition, restoration, and preservation of habitat for rare and endangered species.

(10) Programs for the prevention of soil loss and soil degradation.

(11) Programs for the preservation and protection of prime agricultural lands.

(12) Shoreline erosion control projects.

(13) Mitigation of environmental damage resulting from gas or oil production on state lands.

(14) Programs to develop a computer-based mapping system to store, refine, analyze, and display resource data.

(15) Programs for development and enhancement of renewable agricultural resources.

(16) Programs to safeguard public and environmental health from hazardous materials.

(17) Programs for geothermal resources assessment.

(18) Programs which enhance and conserve renewable and nonrenewable resources.

2. No Funding Criteria for 1980-81. Our review of the programs and projects funded from ERF covers the period from 1980-81 through 1983-84. As part of that review, we categorized appropriations and expenditures for all four years based on the statutory criteria. Pursuant to Ch 899/80,

those criteria did not take effect until 1981-82, thereby excluding 1980-81. We included 1980-81 in our categorization because (a) appropriations and expenditures from 1980-81 generally fell within the statutorily approved categories, and (b) appropriations from the ERF in 1980-81 were a significant portion (29 percent) of total appropriations through 1983-84.

# CHAPTER II

## ANALYSIS OF APPROPRIATIONS FROM THE ENERGY AND RESOURCES FUND

This chapter discusses how funds from the ERF were used in terms of appropriations and expenditures. In identifying uses, appropriations and expenditures were categorized by (1) the department or program to which funds were appropriated, (2) the statutory criteria set forth in Ch 899/80, and (3) the duration of the program or project (short-term or ongoing).

### TOTAL ERF FUNDING

From 1980-81 through 1983-84, approximately $259.5 million was appropriated from the ERF for various energy and resource projects. This amount consists of $182.6 million in direct appropriations and $76.9 million in transfers to other funds to support programs that met the funding criteria of the ERF. The most significant of these "programmatic transfers" was $42 million transferred to the General Fund pursuant to Ch 904/80 in 1981-82 as a reimbursement for revenue lost due to the energy conservation tax credits. (A complete listing of transfers from the ERF is provided in Appendix A.)

Of the total $259.5 million appropriated from the ERF, approximately $208.5 million, or 80 percent, has been expended (or encumbered). Table 2 summarizes total appropriations and expenditures for resources projects and energy projects. Generally, our discussion throughout this report is based on appropriation data because we found it to be more reliable than the expenditure data. In any case, the appropriation data and the expenditure data generally show the same trends.

Table 2

Total Appropriations and Expenditures[a]
of the Energy and Resources Fund
1980-81 through 1983-84
(in thousands)

| | State Operations & Local Assistance | | Capital Outlay | | Totals | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Appropriations | | Expenditures | |
| | Appropriations | Expenditures | Appropriations | Expenditures | Amount | Percentage | Amount | Percentage |
| Resources Projects | $99,903 | $88,873 | $51,970 | $24,450 | $151,873 | 58.5 | $113,323 | 54.4 |
| Energy Projects | 93,764 | 89,445 | 13,842 | 5,707 | 107,606 | 41.5 | 95,152 | 45.6 |
| Totals | $193,667 | $178,318 | $65,812 | $30,157 | $259,479 | | $208,475 | |

a. Includes programmatic transfers to various other funds to support projects that meet the funding criteria of the ERF.

1. Resources Projects Received the Majority of Funding. As Table 2 indicates, resources projects received 58 percent of the total amount appropriated and energy projects received 42 percent of the appropriations. Most of the funding for energy programs was provided by programmatic transfers to other funds, primarily to the General Fund to replace revenue lost due to energy tax incentives. Of the total $107.6 million appropriated for energy-related purposes, $69.4 million, or 64 percent, was provided through programmatic transfers.

After adjusting for transfers, resources projects received 79 percent ($143.9 million) of total direct appropriations while energy projects received 21 percent ($38.2 million).

2. One-fourth of the Amounts Appropriated was for Capital Outlay Projects. As Table 2 indicates, appropriations for state operations and local assistance received $193.7 million, or 75 percent of total appropriations, and capital outlay projects received $65.8 million, or 25 percent.

This difference is somewhat reduced, however, if programmatic transfers are ignored and only direct appropriations are considered. State operations and local assistance projects received 68 percent ($124.3 million) and capital outlay projects received 32 percent ($58.3 million) of total direct appropriations.

APPROPRIATIONS BY DEPARTMENT

The appropriations and programmatic transfers from the ERF were distributed to 25 state agencies in addition to (1) amounts transferred to the General Fund for energy tax credits and exemptions and (2) an amount for Medfly eradication that was not allocated directly to any agency. Table 3 lists appropriations and expenditures by agency, and identifies amounts for capital outlay and for state operations/local assistance.

Table 3

Appropriations and Expenditures by Agency
Energy and Resources Fund
1980-81 through 1983-84
(in thousands)

| Agency | State Operations & Local Assistance: Appropriations | State Operations & Local Assistance: Expenditures | Capital Outlay: Appropriations | Capital Outlay: Expenditures | Totals: Appropriations Amount | Totals: Appropriations Percentage | Totals: Expenditures Amount | Totals: Expenditures Percentage |
|---|---|---|---|---|---|---|---|---|
| Boating and Waterways | $7,999 | $7,249 | -- | -- | $7,999 | 3.1% | $7,249 | 3.5% |
| California State University | 1,327 | 1,170 | 2,185 | 2,119 | 3,512 | 1.4 | 3,289 | 1.6 |
| Caltrans | 3,280 | 3,280 | -- | -- | 3,280 | 1.2 | 3,280 | 1.6 |
| Coastal Conservancy | 2,500 | 1,450 | -- | -- | 2,500 | 1.0 | 1,450 | 0.7 |
| Conservation | 3,265 | 3,111 | -- | -- | 3,265 | 1.3 | 3,111 | 1.5 |
| Conservation Corps | 4,495 | 4,429 | 1,038 | 758 | 5,533 | 2.1 | 5,187 | 2.5 |
| Corrections | -- | -- | 2,495 | 1,862 | 2,495 | 1.0 | 1,862 | 0.9 |
| Developmental Services | 80 | 80 | 4,316 | 287 | 4,396 | 1.7 | 367 | 0.2 |
| Emergency Services | 425 | 425 | -- | -- | 425 | 0.2 | 425 | 0.2 |
| Energy Commission | 20,009 | 17,082 | -- | -- | 20,009 | 7.7 | 17,082 | 8.2 |
| Fish and Game | 11,281 | 8,985 | 5,018 | 497 | 16,299 | 6.3 | 9,482 | 4.5 |
| Food and Agriculture | 18,649 | 16,736 | -- | -- | 18,649 | 7.2 | 16,736 | 8.0 |
| Forestry | 11,831 | 10,299 | 70 | 62 | 11,901 | 4.6 | 10,361 | 5.0 |
| General Services | 3,759 | 3,625 | -- | -- | 3,759 | 1.4 | 3,625 | 1.7 |
| Health Services | 2,961 | 2,615 | 314 | 140 | 3,275 | 1.3 | 2,755 | 1.3 |
| Housing and Community Development | 610 | 596 | -- | -- | 610 | 0.2 | 596 | 0.3 |
| Mediterranean Fruit Fly[a] (unallocated) | 2,219 | 477 | -- | -- | 2,219 | 0.9 | 477 | 0.7 |
| Mental Health | -- | -- | 24 | 24 | 24 | -- | 24 | -- |
| Military Department | 303 | 303 | -- | -- | 303 | 0.1 | 303 | 0.1 |
| Parks and Recreation | 23,000 | 22,562 | 24,646 | 9,080 | 47,646 | 18.4 | 31,642 | 15.2 |
| Public Utilities Commission | 221 | 221 | -- | -- | 221 | 0.1 | 221 | 0.1 |
| Santa Monica Mountains Conservancy | -- | -- | 6,092 | 6,089 | 6,092 | 2.3 | 6,089 | 2.9 |
| University of California | 2,592 | 2,592 | 1,229 | 102 | 3,821 | 1.5 | 2,694 | 1.3 |
| State Water Resources Control Board | 1,472 | 1,459 | -- | -- | 1,472 | 0.6 | 1,459 | 0.7 |
| Water Resources, Dept. of | 12,003 | 10,186 | 13,872 | 5,405 | 25,875 | 10.0 | 15,591 | 7.5 |
| Wildlife Conservation Board | -- | -- | 4,513 | 3,732 | 4,513 | 1.7 | 3,732 | 1.8 |
| Transfer to other funds for Tax Credits and Exemptions | 59,386 | 59,386 | -- | -- | 59,386 | 22.9 | 59,386 | 28.5 |
| Totals | $193,667 | $178,318 | $65,812 | $30,157 | $259,479 | | $208,475 | |

a. This table includes an additional $12.7 million in appropriations for the Medfly eradication project allocated among five agencies, of which $11.9 million was expended. The unallocated portion ($2,219,000) consists of $477,000 to local agencies and a current unexpended balance of $1,742,000.

1. <u>More Money Was Used for Energy Tax Incentives Than Was Appropriated to Any Single Agency</u>. Approximately $59.4 million, or 23 percent of the total, was transferred to the General Fund for energy tax credits and exemptions.

2. <u>Five Agencies Received One-Half of Total ERF Appropriations</u>. Approximately $128.5 million, or 50 percent of the direct appropriations from the ERF, were made to five state agencies. The Department of Parks and Recreation received the largest amount of appropriations, $47.6 million (18 percent) for a variety of purposes including parks acquisition and development ($24.6 million), urban open space grants ($11.5 million) and urban fishing grants ($9.0 million). The four agencies receiving the next largest amounts were (a) the Department of Water Resources ($25.9 million), primarily for flood control work, (b) the Energy Commission ($20.0 million) for a variety of energy projects including energy conservation loan programs and an automobile fleet fueled with methanol, (c) the Department of Food and Agriculture ($18.6 million) primarily for Medfly eradication and plant and animal pest prevention, and (d) the Department of Fish and Game ($16.3 million) for a variety of projects including stream restoration and land acquisition for rare and endangered species.

APPROPRIATIONS FOR ENERGY PROJECTS

As Table 2 shows, approximately $107.6 million, or 42 percent of total appropriations, was for "energy" projects. Chapter 899 provided that in selecting energy projects for ERF funding, priority be given to projects that best fulfill all of the following three criteria cited earlier:

1. Have the greatest potential to reduce use of oil and natural gas.

2. Have the greatest potential for transferability and widespread use throughout the state by 1990.

3. Have the highest degree of feasibility.

Evaluating or categorizing the ERF-funded energy projects in terms of these criteria is difficult for two reasons. First, no formal or comprehensive process was established whereby the comparative merits of competing energy projects were explicitly evaluated in order to determine those with the "greatest potential" and "highest degree of feasibility." Such a process would have resulted in a relative ranking of all energy projects competing for ERF funds based on the three criteria. Secondly, the three criteria emphasize the ultimate potential for a project rather than its immediate performance. Consequently, evaluating projects would require a determination of their ultimate effect on energy use in California. A comprehensive evaluation of each project has not been done to date. For these reasons, we did not attempt a performance evaluation of the energy projects. We have provided, however, an overview of energy projects funded from the ERF.

1. <u>More Than One-Half of the Funds for Energy Projects Was Used for Tax Incentives</u>. Approximately $59.4 million, or 55 percent of total appropriations and programmatic transfers for energy projects, consisted of transfers from the ERF to the General Fund to offset lost revenues from tax credits and exemptions for various private energy-related conservation expenditures. These transfers consisted of (a) $57 million to offset revenue losses from tax credits for solar and wind energy and for energy

conservation investments (Ch 903/80 and Ch 904/80) and (b) $2.4 million to offset sales tax exemptions for gasohol (Ch 1077/80).

In addition, Ch 733/80 transferred $2 million from the ERF to the Renewable Resource Energy Agricultural Account to provide loans for agricultural energy projects.

2. Six Agencies Received Most of the Support and Local Assistance Direct Appropriations for Energy Projects. Approximately $34.4 million, or 71 percent of total appropriations for energy projects, excluding transfers from ERF for energy tax credits and exemptions, was for state operations or local assistance. Six agencies account for 94 percent of these appropriations.

The Energy Commission received $20.0 million of this amount, consisting of the following:

a. $3.9 million for a 496 vehicle fleet of methanol-powered autos and associated refueling facilities, all of which has been expended.

b. $2.9 million for loans to local governments and special districts for energy conservation measures, $1.5 million of which has been expended. (This appropriation augmented an existing $20 million loan program.)

c. $9.9 million for loans to local agencies to replace existing streetlights with energy-efficient sodium vapor. This amount includes $8 million transferred from the ERF to the State Energy Conservation and Assistance Account by Ch 902/80. All but $100,000 has been expended.

d. $2.0 million for assistance to the Sacramento Municipal Utility District for a solar photovoltaic facility. All funds were expended.

e. $1.3 million for various other projects, including the Salton Sea Solar Pond and a lignite cogeneration facility at Ione, neither of which went forward.

Of the remaining $14.4 million, approximately $3.8 million was appropriated to the Department of General Services for energy conservation projects in state buildings. The Department of Food and Agriculture received $3.8 million for an agriculture-based energy loan program ($2.0 million) and to establish a farm energy center at California State University, Fresno ($1.8 million). The Department of Water Resources received $2.0 million as a state contribution to San Diego Gas and Electric Company's Heber Project to demonstrate binary geothermal technology. The California State University received $1.3 million and the University of California received $1.0 million for energy conservation programs on their campuses.

3. Four Agencies Received 74 Percent of the Appropriations for Capital Outlay Projects. As Table 2 shows, $13.8 million, or 13 percent of the total appropriations for energy projects, was for energy-related capital outlay projects. Approximately $10.2 million, or 74 percent of the total, was appropriated to four agencies. The Department of Developmental Services received $4.3 million for four cogeneration and five energy conservation projects. Only $287,000 was expended. As noted below, most of these funds were reverted.

The Department of Corrections received approximately $2.5 million for nine energy-related capital outlay projects. It expended $1.9 million of this amount.

The California State University received approximately $2.2 million for six cogeneration and four energy management projects. It expended all but approximately $67,000 of the amounts appropriated.

The University of California received approximately $1.2 million for four cogeneration and two conservation projects. It expended only $102,000 of this amount, however. Three cogeneration projects for which appropriations were made in 1981-82 were never undertaken.

Approximately $1.6 million went to five agencies for various energy-related capital outlay projects. Of this amount, approximately $1.3 million was expended.

4. Most of the Capital Outlay Appropriations for Energy Projects Have Been Reverted. Of the $13.8 million appropriated, only $5.7 million, or 41 percent, has been expended. The remaining $8.1 million, or 59 percent, has been reverted.

Approximately $7.5 million of the amount reverted was from appropriations that were made in 1981-82. In response to General Fund fiscal difficulties in November 1981, the Governor froze capital outlay expenditures from all funds, except for projects related to life safety. This action accounted for the majority of the reversions. At least 10 energy-related capital outlay projects that received appropriations from the ERF in 1981-82 were never undertaken. The Department of Developmental Disabilities alone accounted for about one-half, $4.0 million, of the appropriations that were reverted. The reversions were from appropriations for one energy conservation and three cogeneration projects at three state hospitals.

## APPROPRIATIONS FOR RESOURCES PROJECTS

Approximately $151.9 million, or 58 percent of the total amount appropriated from the ERF, was for "resources" projects. Chapter 899 provided that funding from the Resources Account of ERF was to be limited to those programs and projects that met any of the 18 statutory categories that we cite earlier in this report. Based on information provided from department questionnaires and our own knowledge of programs and projects, we classified each of the appropriations in one of the 18 categories. Table 4 summarizes that information.

Table 4

Appropriations and Expenditures for Resources Category
Energy and Resources Fund
1980-81 through 1983-84
(in thousands)

| Resource Category[a] | State Operations & Local Assistance | | Capital Outlay | | Totals | | | |
|---|---|---|---|---|---|---|---|---|
| | Appropriations | Expenditures | Appropriations | Expenditures | Appropriations | | Expenditures | |
| | | | | | Amount | Percentage | Amount | Percentage |
| 1. Roberti-Z'Berg Open Space and Recreation Act | $11,500 | $11,062 | -- | -- | $11,500 | 7.6% | $11,062 | 9.8% |
| 2. Coastal Conservancy grants for public accessways | 2,000 | 1,300 | -- | -- | 2,000 | 1.3 | 1,300 | 1.1 |
| 3. Wetland protection, restoration and enhancement | 500 | 150 | -- | -- | 500 | 0.3 | 150 | 0.1 |
| 4. Wildlife habitat on federal lands | 2,000 | 1,999 | -- | -- | 2,000 | 1.3 | 1,999 | 1.8 |
| 5. Property for wildlife management | -- | -- | $4,713 | $3,732 | 4,713 | 3.1 | 3,732 | 3.3 |
| 6. Forest projects | 3,802 | 3,052 | -- | -- | 3,802 | 2.5 | 3,052 | 2.6 |
| 7. Water resources management | 11,320 | 9,012 | 11,872 | 5,405 | 23,192 | 15.3 | 14,417 | 12.7 |
| 8. Watershed restoration, erosion control, fire hazard reduction, land conservation, wildlife habitat | 26,332 | 23,749 | -- | -- | 26,332 | 17.3 | 23,749 | 20.9 |
| 9. Habitats for rare and endangered species | -- | -- | 3,500 | 367 | 3,500 | 2.3 | 367 | 0.3 |
| 10. Preservation of soil loss and degradation | 516 | 486 | -- | -- | 516 | 0.3 | 486 | 0.4 |
| 11. Preservation of prime agricultural lands | 1,060 | 1,060 | -- | -- | 1,060 | 0.7 | 1,060 | 0.9 |
| 12. Shoreline erosion control | 7,999 | 7,249 | 689 | 689 | 8,688 | 5.7 | 7,938 | 7.0 |
| 13. Environmental cleanup from oil and gas production on state lands | -- | -- | -- | -- | -- | - | -- | - |
| 14. Computer-based mapping system | 1,019 | 926 | -- | -- | 1,019 | 0.7 | 926 | 0.8 |
| 15. Develop and enhance agricultural resources | 50 | 471 | -- | -- | 50 | - | 47 | - |
| 16. Hazardous materials control | 3,129 | 2,770 | -- | -- | 3,129 | 2.1 | 2,770 | 2.4 |
| 17. Geothermal resources assessment | -- | -- | -- | -- | -- | - | -- | - |
| 18. Other programs that enhance and conserve renewable resources | 28,676 | 26,011 | 31,196 | 14,257 | 59,872 | 39.4 | 40,268 | 35.5 |
| Total | $99,903 | $88,873 | $51,970 | $24,450 | $151,873 | | $113,323 | |

a. For complete description of project criteria, see page 5.

1. <u>Almost Three-Fourths of the Amount Appropriated for Resources Purposes Went to Projects in Only 3 of the 18 Statutory Categories</u>. Approximately \$109.4 million, or 72 percent of the total amount appropriated for resources projects, went for projects in the following three categories (the numbers in parentheses are the category numbers used in the list on page 5):

a. <u>"Other Programs" (18)</u>. The largest amount, \$59.9 million, or 39 percent of the total, was for projects in the last and broadest category, "other programs which enhance and conserve renewable and nonrenewable resources." This is the category in which we placed those projects and programs that could not be placed in any of the 17 more specific categories. For example, this amount includes (i) \$3.75 million to the California Conservation Corps for base center support, (ii) \$15.5 million to the Department of Parks and Recreation for state park acquisition, planning and development, (iii) \$6.1 million for the activities of the Santa Monica Mountains Conservancy, (iv) \$14.9 million for costs associated with the eradication of the Mediterranean Fruit Fly, and (v) \$6.7 million to the Department of Food and Agriculture for a variety of projects including a program to prevent or eradicate plant and animal pests and diseases.

b. <u>"Watershed Restoration, Erosion Control, Fire Hazard Reduction, etc." (8)</u>. This category received \$26.3 million, or 17 percent, of the total for resources projects, including $7.8 million to the Department of Forestry for chaparral management, $5.0 million to the Department of Fish and Game for stream restoration, and $9.0 million to the Department of Parks and Recreation for various urban fishing projects.

c. "Water Reclamation, Watershed Management, Water Conservation, etc." (7). Approximately $23.2 million, or 15 percent of the total, was for projects in this category. Most of these funds, $21.8 million, were appropriated to the Department of Water Resources (DWR), primarily for agricultural water conservation ($3.0 million), levee maintenance in the Sacramento-San Joaquin Delta ($5.1 million), a pilot project to desalt agricultural wastewater ($5.5 million), and various flood control projects ($7.8 million).

2. Five Categories Received Less Than 1 Percent of the Appropriations for Resources Projects. Only $1.3 million, or less than 1 percent of the total appropriations for resources purposes, was for projects in five categories. No funds were appropriated for either environmental cleanup from oil and gas production on state lands (13), or programs for geothermal resources assessment (17), because there were no significant oil or gas problems requiring cleanup, and the availability of other funding sources, such as the Geothermal Resources Development Account, made funding for geothermal resources assessment unnecessary.

Of the $1.3 million actually appropriated, $500,000 went to the Coastal Conservancy for restoration of San Dieguito Lagoon (3), $516,000 to the Department of Conservation for a soils data base study and an evaluation of windbreak plantings on soil erosion (10), and $304,000 for a variety of studies in several agencies (15).

FUNDING OF NEW VERSUS ONGOING PROGRAMS

Chapter 899 states the Legislature's intent that funds from the ERF be used "only for short-term projects and not for any ongoing programs." Our review of appropriations from the ERF indicates that the funded projects generally fall into one of three categories: (1) short-term projects that involve a unique activity with a definite end, (2) projects that individually are short-term with a definite end but are part of an ongoing program of similar projects, and (3) ongoing programs that are included within the "base" budget of state agencies. We have assigned each of the programs and projects receiving appropriations from the ERF to one of these three categories based on our best judgment and knowledge of the affected programs.

1. <u>Approximately 47 Percent of the Total Amount Appropriated from the ERF was for Short-Term and Unique Purposes</u>. Approximately $121.3 million, or 47 percent of the total amount appropriated from the ERF, was for projects or purposes that we characterized as short term and of a unique or novel nature at the time they were made. Almost universally, the ERF appropriation was the genesis for projects in Category 1 and these projects were intended to have a termination date. In some cases, however, intended short-term projects have become ongoing because of their demonstrated success or replicability. Nevertheless, we included these projects in Category 1. The largest amount is $59.4 million transferred to the General Fund to offset revenue losses from energy tax credits,

primarily the energy conservation and the solar energy tax credits. We have included these tax credit transfers in Category 1 because (a) they all have sunset provisions and terminate on a specific date and (b) the availability of the ERF to reduce the revenue loss to the General Fund was an important factor in their enactment. The amount directly appropriated for expenditure in Category 1 was $61.9 million, or 24 percent of the total amount appropriated from the ERF. Examples of other short-term projects include:

a. Sacramento Municipal Utility District solar photovoltaic project ($2 million, Energy Commission)
b. Methanol vehicle fleet demonstration ($3.9 million, Energy Commission)
c. Solar water heaters for migrant workers' housing ($610,000, Department of Housing and Community Development)
d. Abalone stocking ($200,000, Department of Fish and Game)
e. Buena Vista Lagoon restoration ($969,000, Department of Fish and Game)
f. Upper Newport Bay sediment removal ($1.3 million, state Water Resources Control Board)
g. Urban fishing grants ($7.2 million, Department of Parks and Recreation)
h. Hazardous waste control grants ($3.0 million, Department of Health Services)
i. Reverse osmosis water desalter ($3.9 million, Department of Water Resources)

j. Energy conservation at state hospitals ($4.3 million, Department of Developmental Disabilities)

k. Geothermal heating of Susanville Correctional Center ($1.5 million, Department of Corrections)

l. Greenwood Solar Center ($284,000, California Conservation Corps).

2. Short-Term Projects in Ongoing Programs Received Approximately 48 Percent of the Amount Appropriated from the ERF. Approximately $123.4 million, or 48 percent of the amount appropriated from the ERF, was for short-term projects in existing ongoing programs containing similar projects. In these cases, the ERF has not been the only source of funding for the program. The ERF typically was used to increase the number of projects that were funded.

Many of the projects in this category, are within programs that were specifically authorized for funding from the ERF by Ch 899/80. For example, $11.5 million was appropriated from the ERF to the Department of Parks and Recreation for grants to local governments under the Roberti-Z'berg Urban Open-Space and Recreation program. Chapter 899 specifically included Roberti-Z'berg grants as an eligible funding category. The Roberti-Z'berg program, however, had been in existence and received other funds prior to the enactment of Ch 899/80. Specifically, the California Parklands Bond Act of 1980 provided $30 million for this program.

The appropriation for the Roberti-Z'berg grants was the largest allocation for projects in this second category. The second largest was

$14.9 million provided for eradication of the Mediterranean Fruit Fly. The project was completed in 1982. We placed Medfly eradication in Category 2 because, although it was an unusual project, it was one among many individual pest eradication projects undertaken by the Department of Food and Agriculture. Other short-term projects in ongoing programs include:

a. State parks acquisition and development ($16.2 million, Department of Parks and Recreation)

b. Chaparral management ($7.8 million, Department of Forestry)

c. Beach erosion control grants ($8.0 million, Department of Boating and Waterways)

d. Delta levee maintenance ($5.1 million, Department of Water Resources)

e. Energy conservation loans to schools and hospitals ($2.9 million, Energy Commission)

f. Regional geological mapping ($144,000, Department of Conservation).

3. Ongoing Programs Received 6 Percent of the Amount Appropriated from the ERF. Approximately $14.8 million, or 6 percent of the amount appropriated from the ERF, was to augment or to replace other funds for existing ongoing programs. Often these appropriations were used to support permanent state staff. We have identified five appropriations that fit into this third category.

The largest appropriation for an ongoing program was $4.8 million to the Department of Food and Agriculture to permanently increase the size of its animal pest and disease prevention program. This is an ongoing General

Fund program. The second largest was $3.8 million for the general costs of the California Conservation Corps. This appropriation was not made for any specific project, but to offset a reduction in federal funds used for general support of the corps. The other ongoing programs receiving appropriations from the ERF were:

a. State Energy Assessment Office and other related functions ($2.8 million, Department of General Services)

b. Instream flow analyses ($1.4 million, Department of Fish and Game)

c. Ongoing energy conservation ($1.0 million, University of California)

d. California Appropriate Technology Institute ($941,000, University of California)

Although the purposes of these programs were consistent with the funding criteria and categories of Ch 899/80, these appropriations were, in our judgment, inconsistent with the requirement that the ERF be used only for short-term projects.

## CHAPTER III

## EFFECTIVENESS OF THE ERF DURING A TIME OF FISCAL CONSTRAINTS

During much of the time since the ERF was created, the state faced serious fiscal constraints. This chapter discuses the impact on the ERF of the actions taken by the Legislature to meet these constraints and examines the success of the ERF as a special fund.

### IMPACT OF STATE FISCAL CONSTRAINTS ON THE ENERGY AND RESOURCES FUND

In response to General Fund revenue shortfalls which began in 1981-82, the Legislature transferred significant amounts of tidelands oil revenues to the General Fund. This was accomplished in two ways. First, some tidelands oil revenue was deposited directly in the General Fund, rather than in the funds specified in Ch 899/80. Secondly, some of the money already in the funds specified in Ch 899/80 was transferred to the General Fund. Concurrently, the Legislature made or authorized transfers between the funds that received allocations of tidelands oil revenue in order to spread the effect of the funding shortage and to provide funding for the highest priority projects. Finally, funding transfers and adjustments also were made due to changing estimates of the amount of tidelands oil revenue.

Any attempt to track and evaluate appropriations and expenditures from the ERF is complicated by the various transfers and adjustments made during this time of fiscal crisis. These transfers not only reduced the revenues available for appropriation within the ERF but, in some cases, they also reduced the fund balance below the amount already appropriated. These funding shortfalls meant that some projects which had received appropriations could not go forward. The Legislature left many of the decisions to the administration as to which projects to proceed with and which appropriations to revert.

The most significant transfers occurred in 1981-82 when four separate acts were passed that resulted in the transfer of $53.8 million from the ERF to the General Fund. Additional legislation, Ch 207/82, authorized the Director of Finance to transfer money among four of the funds supported from tidelands oil revenues (including the ERF) in order to maintain positive balances in those funds. These transfers and the authorizing legislation are summarized in Table 5 (a complete list of all transfers is included in Appendix A).

Table 5

Transfers from the ERF for Fiscal Relief
1981-82
(in thousands)

| | | |
|---|---|---|
| 1. | To General Fund (1981 Budget Act, Control Section 19.91 as amended by Ch 169/81, Sec. 30.5) | $23,366 |
| 2. | To General Fund (Ch 4x/82) | 9,000 |
| 3. | To General Fund (Ch 115/82) | 21,400 |
| 4. | To Special Account for Capital Outlay to maintain a positive fund balance (Ch 207/82) | 5,200 |
| 5. | To Capital Outlay Fund for Public Higher Education to maintain a positive fund balance (Ch 207/82) | 2,300 |
| | Total | $61,266 |

In addition, Ch 998/81 transferred a total of $7,748,000 to the ERF from three funds and authorized the Director of Finance to reduce expenditures from the ERF by up to $2,000,000.

ERF Overcommitted in 1981-82

Implementation of Ch 207/82 illustrates some of the complexities that resulted from these transfers and adjustments. Chapter 115, Statutes of 1982, transferred a total of $128.15 million to the General Fund from six special funds, including the ERF, the Capital Outlay Fund for Public Higher Education (COFPHE), the State Parks and Recreation Fund (SPRF), and the Special Account for Capital Outlay (SAFCO). Chapter 115, an urgency statute, became effective on March 12, 1982.

Chapter 207, also an urgency statute, was signed into law on May 20, 1982, to ensure that subsequent to the transfers to the General Fund required by Ch 115/82, there was sufficient cash in the COFPHE, the ERF, the SPRF, and the SAFCO to maintain a positive balance in each fund. Chapter 207 authorized the Director of Finance to make transfers between those funds as necessary. Subsequently, a total of $7.5 million was transferred from the ERF to the COFPHE and the SAFCO in June 1982. Based on discussions with staff from the Department of Finance, it appears that the amount transferred by the Director of Finance was too large because it ignored outstanding claims to the ERF for 1981-82. As a result, the ERF was overcommitted by approximately $6.5 million, requiring program reductions of that amount in 1982-83.

Final Implementation of Chapter 10x Remains Uncertain

Chapter 10, Statutes of 1983, First Extraordinary Session, (Ch 10x/83) was enacted in February 1983 to alleviate the 1982-83 General

Fund fiscal crisis. Section 43 of Ch 10x/83 required the transfer of $37.0 million to the General Fund from the uncommitted balances of appropriation for local assistance or capital outlay projects from COFPHE, ERF, SPRF, and SAFCO. The legislation left to the Director of Finance the selection of the projects to be affected. Chapter 10x required 30 days notice to the chairperson of the Joint Legislative Budget Committee of the proposed transfer and the affected projects prior to any transfer.

On March 8, 1983, the Director of Finance submitted the required notice which, among other things, proposed 21 separate reversions totaling $9,325,000 from the ERF in 1982-83 and the subsequent transfer of that amount to the General Fund. The proposed reversions included $6.5 million to correct for the overcommitment of funds by the Director of Finance in implementing Ch 207/82 (discussed above).

In order to provide detailed information on the projects and amounts actually reverted, Control Section 11.00 was added to the 1983 Budget Act requiring the Controller to report by October 1, 1983, on the amounts transferred from each appropriation for all of the affected funds. That report, submitted April 24, 1984, indicates that the total amounts reverted from appropriations made in 1982-83 from the ERF was $9.8 million, an increase of $0.5 million over the March 8, 1983, estimate.

THE ERF AS A SPECIAL FUND

One of the primary purposes of establishing a special fund is to earmark a designated source of revenue for specific purposes. In these terms, the success of a special fund can be judged by comparing the amount of money appropriated or spent for the designated purposes with the amount of revenue available to the fund. The method of allocating revenue established by Ch 899/80 sought to provide the ERF with sufficient tidelands oil revenues to have a balance available for appropriation of $120 million at the beginning of each fiscal year, a total of up to $480 million for the four-year period since 1980-81. The allocation mechanism, however, did not guarantee that this target balance would be achieved. The actual balance available for appropriation each year depended on (1) the carryover unappropriated balance in the ERF from the prior fiscal year, (2) the amount of revenue needed to satisfy higher priority allocations, and (3) the total amount of tidelands oil revenue available for allocation. In fact, tidelands oil revenues were not adequate to fully fund the ERF. As Table 6 shows, only $337.1 million was available to the ERF over the four-year period, or $142.9 million less than the maximum cumulative allocation of $480 million.

Table 6 compares the amounts appropriated from the ERF each year, with the minimum amounts that would have been available for appropriation in the fund had the allocation mechanism in Ch 899/80 been allowed to operate. In fact, the Legislature substantially revised the allocation of tidelands oil revenues each year since 1980-81. The purpose of Table 6, however, is to compare the appropriations with the minimum amounts that would have been available under the legislation that created the ERF and established its funding mechanism.

Table 6

Comparison of Amounts Appropriated with Minimum Amount of Revenue Available to the ERF Under Chapter 899, Statutes of 1980 (in millions)

| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | Total |
|---|---|---|---|---|---|
| Tidelands oil revenue | $476.9 | $465.6 | $460.6 | $382.0 | $1,785.1 |
| Less statutory allocations to higher-priority funds[a] | -263.0 | -363.2 | -363.2 | -364.7 | -1,354.1 |
| Remaining revenue | 213.9 | 102.4 | 97.4 | 17.3 | 431.0 |
| Amount available to the ERF[b] | 120.0 | 102.4 | 97.4 | 17.3 | 337.1 |
| Amount appropriated[c] | 75.3 | 101.9 | 63.2 | 19.2 | 259.5 |
| Amount unappropriated or diverted to other funds for fiscal relief | $44.7 | $0.5 | $34.1 | -$1.9 | $77.6 |

a. Amount of tidelands oil revenue that would have been allocated to the six funds with higher priorities than the ERF under the funding mechanism established by Ch 899/80, based on actual tidelands oil revenues reported by the State Lands Commission and assuming that the Capital Outlay Fund for Public Higher Education has an unappropriated balance of zero at the start of each fiscal year.
b. Assumes that the ERF has an unappropriated balance of zero at the start of each fiscal year.
c. Includes transfers to other funds for programs consistent with the purposes of the ERF.

The figures shown as amounts available in the table were calculated using actual tidelands oil revenue for each year, as reported by the State Lands Commission, and under the assumption that both the Capital Outlay Fund for Public Higher Education (COFPHE) and the ERF have an unappropriated balance of zero at the beginning of each year. Chapter 899 also allocates revenue to the COFPHE through a target balance mechanism (the target is $125 million). Therefore, the amounts shown as available revenue are minimum amounts assured by Ch 899/80. Any unappropriated balance remaining in the COFPHE reduces the amount of revenue allocated to it in any year and the amount remaining for allocation to the ERF (and any funds with lower priorities) would be greater.

<u>Success in Providing an Assured Source of Revenue</u>

The comparison in Table 6 shows that $259.5 million, or 77 percent of the total $337.1 million available under the original funding mechanism of Ch 899/80, was appropriated from the ERF or transferred to other funds for programs or projects consistent with the purposes of the ERF. The remaining $77.6 million, or 23 percent of the amount available, was transferred to other funds, either directly or indirectly, in order to make more funds available for other purposes during the last three fiscal years. In terms of providing a protected source of funds for the designated purposes, the ERF was moderately successful, especially when viewed in the context of the fiscal constraints that faced the state during this period. In fact, during 1981-82, essentially all of the available revenue under the original funding mechanism, was appropriated for the purposes of the ERF, and in 1983-84, the Legislature revised the allocation mechanism to provide an additional $2 million to the ERF beyond the minimum amount that Ch 899/80 would have provided.

<u>Annual Funding Highly Variable</u>

Not all of the funds appropriated were spent, however. As discussed above, there have been significant reversions of ERF appropriations in order to reduce expenditures and transfer the savings to the General Fund. Savings also have occurred for projects that have not been feasible to complete, were delayed, or were less expensive to carry out than was anticipated.

As Table 2 on page 10 shows, expenditures to date (including encumbrances) from the ERF total \$208.5 million, or \$51.0 million less than total appropriations (\$259.5 million). On the basis of expenditures, then, 61.9 percent of the \$337.1 million available under the original funding mechanism has been used to support projects or programs funded from the ERF.

The table also shows, however, that the ERF did not provide a stable level of funding. Appropriations varied from a high of \$101.9 million in 1981-82 to a low of \$19.2 million in 1983-84. The primary reason for this fluctuation was the variability of tidelands oil revenues themselves. The decrease in the amount of revenue available to the ERF, from \$97.4 million in 1982-83 to \$17.3 million in 1983-84, was due almost entirely to a decline in oil revenues. Other factors also tended to increase the variability of appropriations from the ERF. Among these were (1) the need to transfer revenue from the ERF to fund higher priority needs in the General Fund and elsewhere, (2) the amount of money available from other funds for projects that met the funding criteria for the ERF, and (3) the number, cost, and quality of projects proposed for funding from the ERF. The funding variability from year to year did not present a major problem because appropriations from the ERF were used primarily to fund short-term programs or projects which could be completed without additional appropriations.

# CHAPTER IV

## CONCLUSIONS AND RECOMMENDATIONS

This chapter contains our conclusions and recommendations regarding the ERF, based on the findings from our review and evaluation of the projects funded from the ERF during the 1980-81/1983-84 period.

From an analytical standpoint, tidelands oil revenues are indistinguishable from General Fund revenues. They are not raised for a particular function of state government, and may be used by the state for <u>any</u> public purpose. Consequently, earmarking these funds for special purposes in advance tends to limit the Legislature's options in allocating available state resources among programs according to its priorities when the funds become available. For this reason, we have in the past recommended that all tidelands revenues be deposited in the state's General Fund. The recommendations in this chapter, however, address the funding criteria governing the ERF, should the Legislature wish to continue it as a special fund.

### EFFECTIVENESS OF ERF IN PROVIDING A PROTECTED SOURCE OF FUNDS

Viewed in the context of the fiscal constraints that prevailed during the past few years, the ERF was reasonably effective as a means of earmarking funds for special purposes. Given actual tidelands oil revenue received by the state and the allocation mechanism established by Ch 899/80, the ERF should have received \$337.1 million of revenue during the four years of its existence (Table 6, page 33). Actual appropriations from the fund totaled \$259.5 million and expenditures totaled \$208.5

million. These amounts represent 77 percent and 62 percent, respectively, of the $337.1 million revenue base. Thus, although the ERF was not immune from transfers and reversions that were made to help balance the state's General Fund budget, more than one-half of the revenue base was spent.

USE OF THE ERF FOR EXISTING PROGRAMS

Approximately one-half (50.4 percent) of the total amount appropriated from the ERF was used to support existing projects or programs. They consisted of short-term projects within ongoing programs (45 percent) and regular support for ongoing functions (6 percent). Projects in the resources categories received the bulk (84 percent) of the appropriations for existing programs.

The extent to which ERF money was used to support existing programs is not surprising because many of the funding categories established by Ch 899/80 for resources projects corresponded to existing programs. There is no data available that would allow us to determine to what extent these ERF funds were used to replace, rather than augment, the funds that otherwise would have been available for these programs.

Recommendation

If the Legislature wishes to use the ERF as a means for increasing the amount of funding available for existing programs, it may wish to require that a specified minimum amount be provided to each program from its traditional funding sources before the program can receive any funds from the ERF. Such a minimum funding level would ensure that the ERF is used to increase funding, rather than replace existing support.

CRITERIA FOR ENERGY PROJECTS

No formal process was established by either the Governor's office or the Legislature to evaluate energy projects proposed for funding from the

ERF in terms of the criteria set forth in Ch 899/80--the project's feasibility, transferability, and potential to reduce the use of oil and natural gas. The Legislature, therefore, had no assurance that the projects which were funded were those that best fulfilled these criteria.

Recommendation

If the Legislature wishes to earmark in advance additional funds for energy-related purposes, the legislation setting aside this money should either (1) designate specific types of projects as eligible for funding or (2) establish an explicit mechanism for rating or ranking projects for which funding is requested. This would focus the earmarked funds on those specific programs with the highest priority.

CRITERIA FOR RESOURCES PROJECTS

Chapter 899 established 18 categories of projects as eligible for funding from the Resources Account of the ERF. Of the total amount appropriated, however, 72 percent was provided for programs and projects in the following three categories.

1. Other programs that enhance renewable and nonrenewable resources (39 percent);

2. Watershed restoration, erosion control, and fire hazard reduction (17 percent); and

3. Water reclamation and conservation and watershed management (15 percent).

Recommendation

If the Legislature wishes to set aside in advance funds for resources projects, we recommend that it (1) limit the number of funding categories and (2) exclude any "catch-all" categories. The existing 18 funding categories are so numerous and broad that funding easily becomes diluted among the eligible programs. For example, the largest amount--$59.9 million--was appropriated for projects in the least specific category ("other"). Conversely, five categories received little or no funds and the level of funding that any category will receive is very uncertain. By limiting the number of funding categories and making them specific, the Legislature would focus funds on those programs to which it wishes to give the highest priority.

## APPENDIX A

### Transfers from the Energy and Resources Fund (in thousands)

| 1980-81 | For Programs Related to ERF Criteria | For Fiscal Relief[b] | Total |
|---|---|---|---|
| 1. To General Fund for solar energy tax credit (Ch 903/80 and gasohol (Ch 1077/80) | $17,386 | -- | $17,386 |
| 2. To State Energy Conservation Assistance Account for streetlight loans by Energy Commission (Ch 909/80) | 8,000 | -- | 8,000 |
| 3. To Renewable Resource Energy Agricultural Account for agricultural energy loans (Ch 733/80) | 2,000 | -- | 2,000 |
| 4. Transfer to State Parks and Recreation Fund for Baldwin Hills acquisition (Ch 372/80) | 7,500[a] | -- | 7,500 |
| Total, 1980-81 | $34,886 | -- | $34,886 |
| **1981-82** | | | |
| 1. To General Fund for energy conservation tax credits (Ch 904/80) | $42,000 | -- | $42,000 |
| 2. To General Fund for fiscal relief (1981 Budget Act, Control Section 19.91) | -- | $23,366 | 23,366 |
| 3. To legislative contingency fund (1981 Budget Act, Control Sections 12.52, 12.53, and 12.54) | -- | 3,370 | 3,370 |
| 4. To contingent funds of the Assembly and Senate | -- | 4 | 4 |
| 5. To General Fund for fiscal relief (Ch 4x/82) | -- | 9,000 | 9,000 |
| 6. To General Fund for fiscal relief (Ch 115/82) | -- | 21,400 | 21,400 |
| 7. To Special Account for Capital Outlay to maintain a positive fund balance (Ch 207/82) | -- | 5,200 | 5,200 |
| 8. To Capital Outlay Fund for Public Higher Education to maintain a positive fund balance (Ch 207/82 | -- | 2,300 | 2,300 |
| Total, 1981-82 | $42,000 | $64,640 | $106,640 |
| **1982-83** | | | |
| 1. To General Fund for fiscal relief (Ch 10x/83) | -- | $2,910 | $2,910 |
| Total, 1982-83 | -- | $2,910 | $2,910 |
| Totals, 1980-81 through 1982-83 | $76,886 | $67,550 | $144,436 |

a. Pursuant to Ch 10x/83, $7,350,000 was subsequently reverted to the General Fund.

b. Transfers for fiscal relief, as used in this report, refers to transfers made to provide additional resources to the General Fund rather than for programmatic purposes.

APPENDIX B

# ENERGY AND RESOURCES FUND

**26400.**

**There is in the State Treasury the Energy and Resources Fund, which fund is hereby created.**

**26401.**

**(a) Within the Energy and Resources Fund there is hereby created the Energy Account and the Resources Account. The annual budget document shall propose and the annual Budget Bill shall allocate and divide the money in the fund between such accounts.**

(b) It is the intent of the Legislature that funds from the Energy and Resources Fund be used only for short-term projects and not for any ongoing programs.

(c) Moneys in the Energy Account may be appropriated by the Legislature solely for energy projects and programs deemed appropriate by the Legislature.

(d) All appropriations from the Energy Account or the Resources Account shall be made by the annual Budget Bill.

(e) In applying the provisions of this section to the selection of individual energy programs and projects for funding, priority shall be given to those programs and projects which best fulfill all of the following criteria:

(1) Have the greatest potential for reducing the use of oil and natural gas to produce energy.

(2) Have the greatest potential for transferability and widespread use throughout the state by the year 1990.

(3) Have the highest degree of feasibility.

**26403.**

Programs and projects eligible for funding from the Resources Account shall be limited to any of the following:

(1) Projects under the Roberti-Z'berg Urban Open-Space and Recreation Program Act (Chapter 3.2 (commencing with Section 5620) of Division 5 of the Public Resources Code).

(2) Appropriations to the State Coastal Conservancy for grants to public and private agencies for acquisition, development, rehabilitation, restoration, operation, and maintenance of real property and facilities which provide public access ways to or along the coast or the shoreline of San Francisco Bay.

(3) Wetland protection, preservation, restoration, and enhancement projects in accordance with the Keene-Nejedly California Wetlands Preservation Act (Chapter 7 (commencing with Section 5810) of Division 5 of the Public Resources Code), or, in accordance with provisions governing the State Coastal Conservancy (Division 21 (commencing with Section 31000) of the Public Resources Code).

(4) Restoration, enhancement, and preservation of wildlife habitat on federal lands pursuant to the Sikes Act (16 U.S.C. Sec. 670a, et seq.).

(5) Acquisition and development of real property for wildlife management in accordance with the purposes of the Wildlife Conservation Law of 1947 (Chapter 4 (commencing with Section 1300) of Division 2 of the Fish and Game Code).

(6) Reforestation, urban forestry, and forest improvement projects in accordance with the provisions of Part 2.5 (commencing with Section 4790) of Division 4 of the Public Resources Code.

(7) Water reclamation, watershed management, water conservation, instream use, and drainage management programs approved by the Director of Water Resources or the State Water Resources Control Board.

(8) Watershed restoration, erosion control, fire hazard reduction, land conservation, and fish and wildlife habitat improvement projects.

(9) Acquisition, restoration, and preservation of habitat for rare and endangered species.

(10) Programs for the prevention of soil loss and soil degradation.

(11) Programs for the preservation and protection of prime agricultural lands.

(12) Shoreline erosion control projects.

(13) Mitigation of environmental damage resulting from gas or oil production on state lands.

(14) Programs to develop a computer-based mapping system to store, refine, analyze, and display resource data.

(15) Programs for development and enhancement of renewable agricultural resources.

(16) Programs to safeguard public and environmental health from hazardous materials.

(17) Programs for geothermal resources assessment.

(18) Other programs which enhance and conserve renewable and nonrenewable resources.

**26404.**

The provisions of Sections 26401 to 26403, inclusive, shall not apply to appropriations and expenditures from the Energy and Resources Fund for fiscal year 1980–81. Such provisions shall apply beginning with fiscal year 1981–82 and for each fiscal year thereafter.

**26405.**

The Legislative Analyst shall review the programs and projects funded from the Energy and Resources Fund and shall submit his or her evaluation thereof to the Legislature, including any recommendations for changes in the criteria and priorities established by this division, on or before January 1, 1984, and in January of each calendar year thereafter.

**26406.**

The Director of Finance shall cause all moneys in the Energy and Resources Fund which are in excess of current requirements to be invested and reinvested from time to time in securities described in Section 16430 of the Government Code, and such securities may be sold or exchanged if in his opinion such sale or exchange is in the best interests of the state in effectuating the purposes of this chapter. All income derived from such investment, reinvestment, sale, or exchange shall be credited to the Energy and Resources Fund.

**26407.**

This division shall remain in effect only until the later of the following dates, and on that date is repealed, unless a later enacted statute changes the requirements of this section:

(a) The operative date of the Budget Act for the 1984–85 fiscal year.

(b) The operative date of the Budget Act for a fiscal year after 1983–84 which Budget Act does not contain a section authorizing the operation of this section for that fiscal year.

## APPENDIX C

### Questionnaire Used to Prepare This Report

Program and Project Expenditures
Energy and Resources Fund
1980-81 through 1983-84

Department/Agency ______________________________

Project/Program Description:[a]

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ERF Funds
(in thousands)

| | 1980-81 | 1981-82 | 1982-83 | 1983-84 |
|---|---|---|---|---|
| Amount appropriated (cite Budget Act or statute making appropriation) | ______ | ______ | ______ | ______ |
| Minus reversions/unallotments | ______ | ______ | ______ | ______ |
| Actual/estimated expenditures | ______ | ______ | ______ | ______ |

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Has the ERF been the sole source of funds for this program or project?
_____Yes _____No

a. Brief summary of the project or program as described in the Governor's Budget, Budget Change Proposal (BCP), or enabling statute.

Is this program or project proposed for continued funding in 1984-85?
_____Yes     _____No

If yes, please indicate for 1984-85: Proposed amount $______ (thousands)
Funding source ____________ Fund

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Comments (accomplishments, for example):