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March 5, 2003

2003-04 Budget Overview: Resources and Environmental Protection

LEGISLATIVE ANALYST'S OFFICE

Presented To:

Assembly Budget Subcommittee No. 3

On Resources

Hon. Fran Pavley, Chair

March 5, 2003

Resources Agency Organization

☑ **The Resources Agency consists of a number of departments, commissions, conservancies, and other agencies:**

Departments:

- Department of Conservation
- Department of Forestry and Fire Protection
- Department of Fish and Game
- Department of Parks and Recreation
- Department of Water Resources
- Department of Boating and Waterways

Commissions:

- State Lands Commission; California Coastal Commission; San Francisco Bay Conservation and Development Commission; Delta Protection Commission; Energy Resources Conservation and Development Commission.

Conservancies:

- California Tahoe Conservancy; State Coastal Conservancy; Santa Monica Mountains Conservancy; San Joaquin River Conservancy; Coachella Valley Mountains Conservancy; San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy; Baldwin Hills Conservancy; San Diego River Conservancy.

Other Agencies and Boards:

- California Conservation Corps; Special Resources Program (Tahoe Regional Planning Agency and Sea Grant); Colorado River Board; State Reclamation Board; Wildlife Conservation Board; California Bay-Delta Authority.

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Resources Agency—Proposed Expenditures

☑ **Total 2003-04 proposed expenditures for Resources Agency departments are $4.3 billion,[a] with funding as follows:**

• Federal funds	$182 million	(4 percent)
• General Fund	$959 million	(22 percent)
• Other funds (special funds)	$1.3 billion	(30 percent)
• Selected bond funds	$1.9 billion	(44 percent)
	$4.3 billion	

[a] Does not include expenditures for (1) DWR's energy purchases on behalf of the investor owned utilities or (2) the off-budget State Water Project.

☑ **Proposed 2003-04 expenditures are about $1.1 billion (20 percent) below 2002-03 estimated expenditures. This largely reflects:**

- A $923 million *net* decrease in bond expenditures for park and water projects. (As discussed later, the budget proposes substantial new expenditures from Proposition 50 bond funds.)
- A $65 million decrease in estimated General Fund expenditures for emergency fire suppression.
- A $34 million decrease in the General Fund for state flood control projects.

☑ **The Governor's budget proposes some shifting of funding from the General Fund to either fee-based special funds or bond funds. These proposals include:**

- A $20 million increase in state park fees.
- A fund shift of $37.3 million to Proposition 50 bond funds under the CALFED Bay-Delta Program.

Resources Agency—Proposed Expenditures

(Continued)

Other significant proposed program reductions include:

- A $15.6 million reduction in General Fund support for the Department of Fish and Game ($4 million shifted to other fund sources), including a $2.7 million reduction due to the elimination of 45.6 vacant enforcement positions.
- The Governor proposes $9 million of General Fund savings by reorganizing the Department of Parks and Recreation's administrative structure.

California Environmental Protection Agency (Cal-EPA)— Organization and Proposed Expenditures

☑ **The Secretary for Environmental Protection oversees six boards and departments:**

- Air Resources Board
- California Integrated Waste Management Board
- Department of Pesticide Regulation
- Department of Toxic Substances Control
- Office of Environmental Health Hazard Assessment
- State Water Resources Control Board

☑ **Total 2003-04 proposed expenditures for Cal-EPA departments are about $1.2 billion, with funding as follows:**

General Fund	$100 million	8 percent
Federal funds	$167 million	14 percent
Bonds	$272 million	22 percent
Other funds (mainly regulatory fees)	$686 million	56 percent
	$1.2 billion	

☑ **Proposed 2003-04 expenditures are about $350 million (22 percent) below 2002-03 estimated expenditures.** This largely reflects a $305 million *net* decrease in bond expenditures for water projects. (As discussed later, the budget proposes substantial new expenditures from Proposition 50 bond funds.)

☑ **The Governor's budget proposes some shifting of funding from the General Fund to fee-based special funds. These proposals include:**

- A $13.6 million increase in water quality regulatory fees.
- A $10.5 million increase in pesticide-related fees (mainly the mill assessment on pesticide sales).

California Environmental Protection Agency (Cal-EPA)— Organization and Proposed Expenditures

- A $10 million increase in fees on stationary sources of air pollution.

☑ **Significant proposed program reductions include:**

- A $9.5 million (General Fund) reduction for various water quality programs, including water quality trend monitoring.
- A $3.4 million (General Fund) reduction for risk assessment, research, and other activities in the Office of Environmental Health Hazard Assessment.
- A $3.3 million (General Fund) reduction for water rights programs.

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Resources Bond Fund Conditions

☑ **As shown in the figure below, the budget proposes expenditures of about $2.2 billion from five resources bonds approved by the voters between 1996 and 2002, leaving a balance of about $2.8 billion in the bond funds for expenditure in future years.**

Resources Bond Fund Conditions[a]
By Bond Measure

2003-04
(In Millions)

	Total Allocation In Bond	Resources Available	Expenditures	Balances
Proposition 204[b]	$995	$138	$82	$56
Proposition 12[c]	2,100	72	65	7
Proposition 13[d]	1,970	539	178	361
Proposition 40[e]	2,600	1,289	817	472
Proposition 50[f]	3,440	3,021	1,085	1,936
Totals	**$11,105**	**$5,059**	**$2,227**	**$2,832**

a Based on Governor's budget.
b Safe, Clean, Reliable Water Supply Fund, 1996.
c Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund, 2000.
d Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Fund, 2000.
e California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund, 2002.
f Water Security, Clean Drinking Water, Coastal and Beach Protection Fund, 2002.

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Resources Bond Fund Conditions *Continued*

☑ **The figure below shows the Governor's expenditure proposal from the five resources bonds, by programmatic area.** As shown in the figure, bond funds for park projects will be largely depleted at the end of the budget year.

Resources Bond Fund Conditions[a]
By Programmatic Area

2003-04
(In Millions)

	Resources	Expenditures	Balances
Parks and Recreation	$849	$708	$141
State parks	(155)	(93)	(62)
Local parks	(572)	(494)	(78)
Historical and cultural resources	(122)	(121)	(1)
Water quality	872	293	579
Water management	773	213	560
Land acquisition and restoration	1,525	590	935
CALFED Bay-Delta Program	1,017	400	617
Air quality	23	23	—
Totals	**$5,059**	**$2,227**	**$2,832**

[a] Based on Governor's budget; includes Propositions 204, 12, 13, 40, and 50.

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Proposition 40—Proposed Expenditures

☑ **The budget proposes at least $817 million in expenditures from Proposition 40 as follows:**

Proposition 40 Proposed 2003-04 Expenditures[a]	
(In Millions)	
Local governments (mainly parks)	$488.6
Cultural and historical	121.3
River parkways	12.9
Conservancies	87.2
State parks	52.2
Wildlife Conservation Board	17.3
Air Resources Board	23.0
Conservation Corps	5.2
Clean beaches	9.0
Agricultural grazing, oak woodlands, urban forests	—
Total Expenditures	**$816.7**

[a] Based on cross-cut budget display under Item 3790 in Governor's budget.

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Proposition 50
Proposed 2003-04 Expenditures

☑ **The budget proposes about $1.1 billion in expenditures from Proposition 50 as follows:**

(In Millions)

	Amount
Coastal Protection	**$318.0**
• Wetlands acquisition, protection, and restoration	272.0
• Watershed protection	46.0
CALFED Bay-Delta Program	**$326.6**
• Water use efficiency and conservation	64.5
• Water supply reliability	115.0
• Ecosystem restoration	70.9
• Watershed protection	31.1
• Water conveyance	1.8
• Delta levee restoration	22.5
• Water storage planning and studies	20.8
Integrated Regional Water Management	**$153.9**
• Various water supply, pollution reduction, water treatment, flood management, and wetlands restoration projects	93.7
• Land and water acquisitions to improve/protect water quality, water supply reliability, and fish and wildlife habitat	60.2
Safe Drinking Water	**$102.1**
• Small community drinking water system upgrades, contaminant removal and treatment, water quality monitoring, drinking water source protection	
Clean Water and Water Quality	**$88.0**
• Water pollution prevention, water recycling, water quality improvements	37.2
• River parkway projects	25.3
• Coastal nonpoint source pollution control	18.4
• Lake Tahoe water quality improvements	—
• Land and water acquisitions to protect water quality in the Sierra Nevada-Cascade Mountain Region	7.1
Desalination and Water Treatment Project	**$26.9**
• Desalination projects, treatment/removal of specified contaminants, drinking water disinfecting projects	
Colorado River Management	**$54.0**
• Ecosystem restoration	35.0
• Canal lining	19.0
Water Security	**$15.1**
• Protection of drinking water systems, dams, and the State Water Project from terrorist attacks and other deliberate acts of destruction or degradation	
Total	**$1,084.6**[a]

[a] In addition, the budget proposes $2.3 million in the Resources Agency for statewide bond administration costs.

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Bond-Related Issues

☑ ***Legislative Oversight Through the Hearing Process.*** We recommend joint budget and policy committee hearings to review the Governor's proposals for Proposition 40 and Proposition 50 expenditures as a "package." (Please see *Analysis*, page B-45.)

☑ ***Improving Bond Fund Accountability.*** We recommend the enactment of legislation to require fund conditions for Propositions 204, 12, 13, 40, and 50 to be displayed annually in the Governor's budget document. (Please see *Analysis*, page B-46.)

☑ ***Enacting Implementing Legislation.*** We recommend the enactment of legislation to guide the implementation of new or substantially expanded programs funded from Proposition 50 bond funds, particularly in cases where the budget provides very few details of the proposed expenditures. (Please see *Analysis*, pages B-47, B-48, B-76, and B-109.)

☑ ***Ensuring That Legislative Direction Is Followed.*** The Legislature should deny budget proposals that are inconsistent with prior legislative direction (see, for example, page B-96 of the *Analysis* related to Colorado River funding) and adopt budget control language, where appropriate, to ensure that prior legislative direction is followed. (Please see *Analysis*, pages B-26 and B-28 related to CALFED.)

☑ ***Legislative Oversight of Wildlife Conservation Board's (WCB's) Bond-Funded Capital Outlay Expenditures.*** Most of the WCB's bond expenditures are not reviewed by the Legislature given the board's "continuous appropriations" authority. We recommend steps to improve the Legislature's oversight of these funds, including making these funds subject to an appropriation in the budget bill. (Please see *Analysis*, page B-93.)

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Fee Issues

☑ ***Budget's Fee Proposals Can Go Further.*** The budget proposes a number of fee increases for resources and environmental protection programs. We offer additional fee proposals to shift General Fund to fees, totaling $214 million, based on the "direct beneficiary pays" or "polluter pays" principles. These opportunities include:

- ***Timber Harvest Fees.*** A new fee on timber operators would generate General Fund savings of $22.1 million. (Please see *Analysis*, page B-60.)
- ***Resource Assessment Fees.*** An increase in fees on permit applicants and developers benefiting from the Department of Fish and Game's resource assessment activities would reduce General Fund costs by $2 million. Please see *Analysis*, page B-53.)
- ***Fire Protection Fees.*** A new fee ($6 per acre) on private landowners benefiting from the state's fire protection services would result in General Fund savings of $170 million. (Please see *Analysis*, page B-88.)
- ***Dam Safety Fees.*** An increase in existing fees on dam owners would reduce General Fund costs by $5.4 million. (Please see *Analysis*, page B-106.)
- ***Air Resources Board's Stationary Source Program.*** An increase in fees on stationary source polluters would save the General Fund $4.4 million. (Please see *Analysis*, page B-111.)
- ***Funding Pesticide Regulation.*** An increase in the mill fee on pesticide sales to cover the pesticide-related program costs of state agencies outside of the Department of Pesticide Regulation would reduce General Fund costs by at least $2.9 million. (Please see *Analysis*, page B-116.)

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Fee Issues *(Continued)*

- ***Water Rights Fees.*** An increase in the water rights permit application fee and a new annual compliance fee on water right holders would save the General Fund $7.2 million. (Please see *Analysis*, page B-123.)

☑ ***Energy Commission's Power Plant Siting Program.*** The Energy Commission's siting program is currently primarily supported by the Energy Resources Program Account (funded by utility rate payers). We recommend enacting power plant siting and annual compliance fees to at least partially cover the costs of this program. (Please see *Analysis*, page B-79.)

☑ ***Funding the Office of Environmental Health Hazard Assessment's (OEHHA's) Programs.*** Should the Legislature wish, it could restore funding for pesticide and air-related activities using the pesticide mill fee and the Environmental License Plate Fund. (Please see *Analysis*, page B-130.)

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Other Major Budget Issues

- ☑ **Unspecified new state park acquisitions may result in unfunded future General Fund obligations.** (Please see *Analysis*, page B-102.)

- ☑ **Governor's proposal to shift responsibility for scientific peer review of pesticide risk assessments is problematic.** (Please see *Analysis*, page B-129.)

- ☑ **Legislative oversight needed of electricity settlement funds.** (Please see *Analysis*, page B-64.)

- ☑ **Legislature should ensure ongoing coordination among multiple state agencies representing the state's energy interests before the Federal Energy Regulatory Commission.** (Please see *Analysis*, page B-68.)

- ☑ **"Environmental Protection Indicators for California" (EPIC) initiative should be guided by legislation.** (Please see *Analysis*, page B-30.)