

Resources Agency SEA GRANT PROGRAM

Item 3110-001 from the General
Fund

Budget p. R 1

Requested 1983-84	\$400,000
Estimated 1982-83.....	400,000
Actual 1981-82	245,000
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The National Sea Grant College Program Act of 1966 authorizes federal grants to institutions of higher education and other agencies engaged in marine resources research programs. Federal funds provide up to two-thirds of the total cost of approved research projects.

Chapter 1255, Statutes of 1978, allocated \$500,000 annually for fiscal years 1979-80 through 1983-84 from state tidelands oil and gas revenues to the Resources Agency for distribution to higher education institutions. These funds are used to finance the one-third match required by the federal government for sea grant projects.

The Resources Secretary must approve the sea grant projects which are financed by this appropriation. The projects are selected by an advisory panel of representatives from state departments, higher education, and private industry. The projects selected for state support must offer a clearly defined benefit to the people of California. Participants in the program include the University of California, the California State University, Stanford University, the University of Southern California, and the California Institute of Technology.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of \$400,000 to continue support for the Sea Grant program in 1983-84. This is the same amount appropriated for the current year.

Under Ch 1255/78, 1983-84 is the last year in which funding for the Sea Grant program has been authorized. Chapter 1255 provides that during 1983-84, the Legislature shall (1) consider recommendations from the Secretary of Resources and other interested parties on program benefits and (2) determine whether or not to continue funding for the program in future years. Therefore, both the future of the grant program, as well as the level of state funding, will be considered by the Legislature during the budget year.

Issues Warranting Legislative Review

In deciding whether the Sea Grant program warrants continued funding by the state, the Legislature should consider the following:

1. **State Funding is Not Needed to Provide Matching Funds for Federal Grants.** Federal regulations require sea grant recipients to contribute at least one-third of the cost of sea grant projects.

According to data provided by the Resources Agency, the state's direct

contribution to the Sea Grant program in 1980-81 amounted to less than 8 percent of the \$6.4 million spent on supported projects. Other sources of nonfederal funds, including the University of California, the California State University, and the State Water Resources Control Board, financed 34 percent of the program expenditures. These "other" funds, some of which also came from the state, provided more than the required one-third nonfederal match. Consequently, it is possible that funding provided under this appropriation could be eliminated without jeopardizing California's eligibility to participate in this federal program.

2. *Available Research Alternatives.* The University of California is budgeted to receive \$99 million in state support for research in 1983-84. If the University of California considers the Sea Grant program to be sufficiently beneficial, it could redirect a small portion of its research funds to continue the program, thereby permitting reduction or elimination of the direct Sea Grant appropriation.

Resources Agency

TAHOE REGIONAL PLANNING AGENCY

Item 3110-101 from the Environmental License Plate Fund

Budget p. R 1

Requested 1983-84	\$300,000
Estimated 1982-83	300,000
Actual 1981-82	300,000
Requested increase (excluding amount for salary increases) None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Tahoe Regional Planning Agency (TRPA) was established by an interstate compact approved by the California Legislature through Ch 1589/67, the Nevada Legislature, and the United States Congress. The purpose of the compact is to provide coordinated plans and enforceable regulations designed to preserve and enhance the environment and resources of the Lake Tahoe Basin.

Amendments to strengthen the compact were approved by the U. S. Congress and signed by the President on December 9, 1980. California's approval of the amendments was provided through Ch 872/80. Among other things, the revised compact requires TRPA to adopt a new regional plan and implementing ordinances by June 1983.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$300,000 from the Environmental License Plate Fund (ELPF) to cover the state's share of the Tahoe Regional Planning Agency's cost in 1983-84. This is the same amount as was provided for the current and prior years. In each of the last two years, state funds to support the agency came from two separate appropriations — \$165,000 appropriated from the General Fund and \$135,000 appropriated from the ELPF. By shifting all responsibility for funding TRPA to the

TAHOE REGIONAL PLANNING AGENCY—Continued

ELPF, the budget makes possible a savings of \$165,000 to the General Fund.

The General Fund appropriation for the current year is intended to support ongoing TRPA operations and the travel expenses incurred by the California members of the governing board. The amount appropriated from the ELPF is being used to finance the cost of a two-year effort to develop environmental thresholds and a revised regional plan for the Tahoe Basin, as required by the bi-state compact. This two-year planning effort probably will terminate during the summer of 1983. This will free-up \$135,000 within the \$300,000 funding level which will be used to pay the higher operating expenses and salary increases and finance the additional staff work associated with implementation of the new regional plan.

Additional Funding Proposed by TRPA Not Justified

The amount of funding proposed in the Budget Bill as the state's contribution to the TRPA is \$235,000 less than the \$535,000 requested by the agency. The increase above the 1981-82 amount was requested by TRPA on the basis that its staff would have added workload associated with reviewing development projects on the California side of the Tahoe Basin. This work currently is performed by the California Tahoe Regional Planning Agency, which (as discussed under Item 0540 of this *Analysis*) is scheduled for deactivation during the summer of 1983. Our analysis indicates that the \$300,000 level of support proposed in the Budget Bill is appropriate, and that the higher amount requested by TRPA is not justified, for several reasons.

1. *The TRPA's workload associated with project review in 1983-84 is unknown.* It is by no means clear that the agency's workload will increase in the budget year. In fact, it is possible that the regional plan and land use ordinances adopted by TRPA's governing board next summer could result in a net decrease in commercial and residential projects authorized for the basin, compared to previous years. This, in turn, could reduce TRPA's workload in terms of processing permit applications and conducting staff review of proposed development projects. Consequently, we believe it is premature to assume that the level of permit workload encountered in the past will continue in the future.

2. *The TRPA will be receiving additional permit fee revenue after CTRPA is deactivated.* Currently, all review of residential, commercial, and public works projects proposed for the California side of the Tahoe Basin is carried out by CTRPA pursuant to an interagency agreement with TRPA. Review by the CTRPA was instituted several years ago to consolidate reviews and prevent duplication. CTRPA charges a permit fee to help finance the cost of this work. It also pays TRPA one-half of the fee revenue, even though all of the substantive work is done by CTRPA staff. After the California agency is deactivated, this staff function will be assumed by TRPA. When this occurs, the TRPA will collect and retain all of the permit fee revenue. In 1981-82 (the last year for which actual figures are available), CTRPA collected a net of \$68,000 in permit fees. The full amount of revenue from permit fees would be available to TRPA in 1983-84 to defray project review costs.

3. *The TRPA has other sources of funding available to defray any added costs of reviewing development proposals in California.* The 1983-84 budget and work plan submitted by TRPA indicates that in the current

year the agency is receiving about \$117,000 in contract funds from the Lahontan Regional Water Quality Control Board. This money is being used to review development proposed for the California side of the basin, to monitor the impact of approved projects, and to implement the board's "208" water quality plan for Tahoe. This contract eliminates any need for the Lahontan board to establish its own project review staff. The TRPA's work plan indicates that an additional \$100,000 is expected from the Lahontan board to continue this contract in 1983-84.

4. *The Legislature should be assured that all available funds remaining from prior years are fully expended by the TRPA before it approves any increase in support for the agency.* An audit of TRPA's financial statement for 1981-82 indicates that on June 30, 1982, the agency had reserves of \$378,984 remaining from (1) prior year revenues, (2) state and local support funding, (3) surplus money investments, and (4) accounts receivable. This did not include surety deposits or mitigation fees held by the TRPA but which may have to be refunded. The size of this unexpended balance is significant because it (1) exceeds the total level of support provided by the state to TRPA in the 1982 Budget Act (\$300,000) and (2) suggests that the agency was funded in excess of actual need during 1981-82. A portion of any reserves remaining unspent at the end of the current year should be used to reduce the amount of additional funding needed from California and Nevada to support TRPA's operations in 1983-84.

For these reasons, we believe that the level of state support requested for TRPA in the Budget Bill is adequate.

STATE ASSISTANCE FUND FOR ENERGY, CALIFORNIA BUSINESS AND INDUSTRIAL DEVELOPMENTAL CORPORATION

Item 3300 from the State Energy Loan Fund Account, General Fund

Budget p. R 14

Requested 1983-84	\$142,000
Estimated 1982-83	1,543,000
Actual 1981-82	750,000
Requested decrease (excluding amount for salary increases) \$1,401,000 (-91.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The State Assistance Fund for Energy, Business and Industrial Development Corporation (SAFEIDCO) was created by Chapter 819/80. SAFEIDCO is not a state agency. It is a nonprofit corporation that makes loans to small businesses involved in alternative energy production or energy conservation. The corporation has a nine-member board of directors which consists of the Secretary of the Business, Transportation and Housing Agency, the State Controller, a member of the Energy Commission, the President of the Corporation, one member appointed by the Senate Rules Committee, one member appointed by the Speaker of the Assembly, and three members appointed by the Governor.

The corporation makes loans that leverage state money. It does this by

STATE ASSISTANCE FUND FOR ENERGY, CALIFORNIA BUSINESS AND INDUSTRIAL DEVELOPMENTAL CORPORATION—Continued

obtaining federal Small Business Administration (SBA) guarantees for up to 90 percent of each loan it makes, and then selling the guaranteed portion of the loan to investors, using the proceeds to make additional loans. As a result, the total amount of SAFEBCO loans outstanding can grow to as much as 10 times the original amount of state funds provided to the corporation. As of January 14, 1983, SAFEBCO had made loans totaling \$1,604,500, and had approved an additional \$675,000 in loans that were pending SBA approval of guarantees.

The primary sources of funds used to finance the corporation's operating expenses are (1) the difference between the higher interest rate charged by the corporation to loan recipients and the 6 percent interest rate paid by the corporation to the state for its loan funds, and (2) the premiums paid to the corporation by investors for the portion of the loans guaranteed by SBA. (Investors pay a premium for these loans because they earn more interest than other U.S. government-backed securities, such as Treasury Bonds.)

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$142,000 from the State Energy Loan Fund (SELF). This is the maximum amount of loan repayments the corporation expects to deposit in the SELF during 1983-84. The \$142,000 would be used to make more loans.

Chapter 819, Statutes of 1980, established a \$2.5 million line of credit from the General Fund for the corporation to use in making loans. Capital secured from this line of credit is deposited in the SELF. The corporation may borrow any money in the SELF for a term of up to twenty years, at an annual percentage rate of 6 percent. Chapter 819 continuously appropriates the funds in the SELF, allowing it to operate as a revolving loan fund. As a result, interest and principal repayments that are deposited in the fund can be loaned again to the corporation. The SELF is used only for loans. Item 3300-001-021 was included in the 1983 Budget Bill because Ch 1284/78 sunsetted continuing appropriations, such as the one contained in Chapter 819 for the SELF.

Reduced State Funding

The Legislature, through Ch 115/82, delayed the availability of the \$2.5 million line of credit until July 1, 1982 as part of its effort to balance the 1981-82 budget. Section 12.70 of the 1982 Budget Act further limited the line of credit available to the corporation to \$1.5 million, until July 1, 1983. The budget proposes to extend this limitation on the corporation's line of credit through 1983-84 by limiting the appropriation from the SELF to the estimated amount of repayments received during the budget year.

The corporation expects to have at least \$3.8 million in loans outstanding by June 30, 1983, and it projects that without any additional money from the General Fund, the total will increase to between \$7.5 million and \$9.5 million at the end of 1983-84. Ultimately, the \$1.5 million already provided to the corporation could result in loans totaling \$15 million under the program. The corporation, however, probably will not achieve the maximum possible amount of loan leverage because (1) some of the loan guarantees are for amounts less than 90 percent of the SAFEBCO loan,

and (2) achieving the maximum amount of leverage would require many cycles of making loans, selling the guaranteed portion and issuing new loans with the proceeds.

Reserve Account Funds Unspent

Chapter 819 also appropriated \$750,000 from the Energy Resources and Conservation Development Reserve Account (which receives a portion of the revenue from the electricity surcharge). The corporation has not yet spent approximately \$700,000 of the original \$750,000 provided to it from the Reserve Account. (The budget shows the money as having been expended because it has been transferred from the state to the corporation.) This money may be used by the corporation for operating expenses or to make loans. The corporation expects to become fully self-supporting in 1983-84, and indicates that any operating deficit in the current year will be less than \$50,000. the corporation intends to use the remaining reserve account money (approximately \$650,000) as a source of liquid working capital to enable it to make loans before it completes the sale of previous loans to investors and to provide a reserve for loan losses.

CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY

Item 3310 from the Alternative
Energy Source Fund

Budget p. R 15

Requested 1983-84	\$158,000
Estimated 1982-83	147,000
Actual 1981-82	149,000
Requested increase (excluding amount for salary increases) \$11,000 (+7.0 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Financial and operating plan. Recommend adoption of supplemental report language requiring the authority to reevaluate the market for its bonds. 479
2. Repayment of start-up loan. Recommend adoption of supplemental report language directing the authority to establish fees adequate to cover its operating costs and allow it to repay a start-up loan. 479

GENERAL PROGRAM STATEMENT

The California Alternative Energy Source Financing Authority was created by Ch 908/80 for the purpose of issuing up to \$200 million of revenue bonds to finance alternative energy projects undertaken by private businesses. Interest earned on the bonds is exempt from state and federal income taxes, provided that the projects comply with various federal requirements. Alternative energy sources include geothermal, solar, biomass, wind, cogeneration, and small hydroelectric projects, as well as energy conservation projects which will reduce the use of fossil and nuclear fuels.

CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY—Continued

The authority consists of five state officers: the State Treasurer, who acts as Chairman, the Director of Finance, the Chairman of the Energy Commission, the President of the Public Utilities Commission, and the State Controller. The authority began operation in 1981 and has three staff positions.

Chapter 908 appropriated \$200,000 from the Energy Resources Conservation and Development Special Account (ERCDSA) in the General Fund (which derives its revenue from the surcharge on electricity sales) to cover the initial start-up expenses of the authority. Ongoing support is provided from the Alternative Energy Source Fund (AESF), which derives its revenue from application fees and fees imposed on those businesses receiving the proceeds from bonds issued by the authority.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$158,000 from the Alternative Energy Source Fund for support of the authority in 1983-84. This is an increase of \$11,000, or 7 percent, over current-year estimated expenditures. The proposed expenditures will increase by the amount of any salary or staff benefit increases approved for the budget year.

Table 1 shows that the authority will need to generate \$262,000 of fee revenue from bond sales and applications in order to fund its estimated expenditures in 1982-83 and 1983-84 combined. To do so, the authority will have to sell \$65.5 million in bonds over the two-year period, assuming that the authority continues to charge its current average fee of 0.4 percent on the value of the bonds sold.

Table 1
California Alternative Energy Source Financing Authority
Minimum Amount of Bond Sales Needed to Provide Budgeted Support
for 1982-83 and 1983-84
(in thousands)

Estimated expenditures:	
1982-83	\$147
1983-84	158
Total	\$305
Less carry over of funds available from 1981-82 into 1982-83:	
ERCDSA	\$25
AESF	18
Total carry-over	\$43
Net revenue needed	\$262
Amount of bond sales required (based on average fee of 0.4 percent of face value)	\$65,500

Bond Sales Fall Short of Estimate

Last year the authority estimated that it would sell \$65 million of bonds by the end of 1982-83. The authority staff now estimates that only \$20 million of bonds will be sold by May 1983. By early December 1982, however, only \$5.8 million had been sold. According to authority staff, the low level of bond sales so far this year is due to (1) the poor state of the economy and (2) uncertainty in the financial community regarding the continuation of federal tax exemptions for interest earned on industrial development bonds, such as those issued by the authority.

The budget estimates that annual fee revenue to the AESF will be \$180,000 in both 1982-83 and 1983-84, and that the AESF will have a surplus of \$98,000 on June 30, 1984. These estimates assume that the authority will sell \$45 million of bonds annually, or a total of \$90 million over the two-year period. When compared with the current rate at which the authority is selling bonds, the budget estimates appear to be optimistic. Recognizing this, the authority is keeping one of its three positions vacant in order to reduce its operating costs (and also because its workload is less than was anticipated).

New Financial and Operating Plan Needed

We recommend that the Legislature adopt supplemental report language requiring the authority to reevaluate the demand for its bonds.

If bond sales by the authority continue to fall short of projections, the authority may not receive sufficient revenue to cover its proposed expenditures. To reduce the possibility that the authority will incur a deficit during 1983-84, the authority should reevaluate the market for its bonds and adjust its estimate of staffing requirements accordingly, to be consistent with the revised workload projections.

The Authority Should Repay Its Start-Up Loan

We recommend that the Legislature adopt supplemental report language requiring the authority to establish fees which will cover its operating costs and allow it to repay its start-up loan.

The budget does not anticipate that the authority will repay any portion of the \$200,000 appropriated in 1980 to cover its start-up costs. In fact, both the Department of Finance and the authority have advised us that they do not believe the authority is obligated to repay this appropriation.

Our analysis indicates, however, that the existing law requires the repayment of this appropriation. Chapter 908 explicitly made this appropriation subject to Section 26027 of the Public Resources Code, which states:

"For the purposes of meeting the necessary expenses of initial organization and operation until such date as the authority derives revenues or proceeds from bonds or notes as provided under this division, the authority may borrow money as needed for such expenses from the State Energy Resources Conservation and Development Special Account in the General Fund in the State Treasury. Such borrowed monies shall be repaid with interest within a reasonable time after the authority receives revenues or proceeds from bonds or notes as provided under this provision."

For this reason, we recommend that the Legislature direct the authority to repay the appropriation over a reasonable period. Specifically, we recommend adoption of the following supplemental report language, which incorporates both of our recommendations:

"The California Alternative Energy Source Financing Authority shall reevaluate the amount of bonds it expects to sell and formulate an operating and financial plan that:

"1. More accurately estimates annual operating costs.

"2. Determines the level of fees necessary to (a) cover operating expenses, (b) establish a prudent operating reserve, and (c) repay the start-up loan of \$200,000 provided by Ch 908/80 over a reasonable period.

**CALIFORNIA ALTERNATIVE ENERGY SOURCE FINANCING AUTHORITY—
Continued**

“After approving the plan, the authority should adopt the fees necessary to fund the plan.”

Reimbursement of the General Fund

Chapter 908 requires the Controller, on May 10 of each year, to reimburse the General Fund for the estimated amount of General Fund revenue lost as a result of exempting interest on the authority's bonds from state income taxation. The statute requires that this transfer come from the Energy and Resources Fund (ERF) and be equal to one-half of 1 percent of the total amount of the authority's bonds outstanding on May 1 of each year. The authority's estimate of \$20 million of bonds outstanding on May 1, 1983, implies that the transfer on May 10, 1983, will be \$100,000. The budget does not anticipate this transfer or any transfer to be made in May 1984, the amount of which will depend on the value of the bonds outstanding at that time.

Until a reevaluation of the market for the authority's bonds and its current fee policy has been completed, we have no basis for recommending any revisions in the authority's budget for 1983-84.

**Resources Agency
CALIFORNIA CONSERVATION CORPS**

Item 3340 from the General
Fund and special funds

Budget p. R 17

Requested 1983-84	\$27,919,000
Estimated 1982-83.....	33,116,000
Actual 1981-82	24,102,000
Requested decrease (excluding amount for salary increases) \$5,197,000 (-15.7 percent)	
Total recommended reduction	\$375,000

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
3340-001-001—Support		General	\$25,874,000
3340-001-190—Support		Environmental License	946,000
		Plate	
3340-101-465—Solar Training		Energy Resources Programs	1,099,000
		Account, General	
Total			\$27,919,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATION

*Analysis
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1. Allocation of Corpsmember Hours. Recommend CCC report by April 1, 1983 on the allocation of corpsmember hours by user agency for the period 1978-79 through 1981-82. 486
2. Reductions in Corpsmember Strength. Recommend CCC report, prior to budget hearings, on the details of the proposed reduction in the number of corpsmembers. 486

3. Required User Charges. Recommend CCC report, prior to budget hearings, on the details of the proposal to impose user charges on those receiving services from the corps. 489
4. *Workers' Compensation Costs. Reduce Item 3340-001-001 by \$375,000.* Recommend funds budgeted for workers' compensation be based on historical experience. 491
5. Limitation on EDP Expenditures. Recommend adoption of Budget Bill language making the expenditure of \$136,000 for EDP automation contingent on the approval of a feasibility study. 492

GENERAL PROGRAM STATEMENT

The California Conservation Corps (CCC) was established by Ch 342/76 and reauthorized by Ch 50/80 to (1) further the development and maintenance of the state's natural resources and environment and (2) provide meaningful educational and work opportunities and on-the-job training to young people seeking to develop employable skills.

Membership in the CCC is open to California residents aged 18 through 23. A corpsmember's salary is based on the federal minimum wage, which is \$3.35 per hour (\$580 per month) in 1983.

The corps' headquarters is in Sacramento. It operates 26 base centers, as well as a corpsmember training academy at Fricot City in Calaveras County. The budget for the current year provides funding for 1,840 corpsmembers plus 438 personnel-years.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations totaling \$27,919,000, primarily from the General Fund, for support of the CCC in 1983-84. This is a decrease of \$5,197,000 or 16 percent, below estimated current-year costs. This reduction, however, makes no allowance for any salary or staff benefit increases which may be approved by the Legislature for the budget year.

Total program expenditures, including expenditures from reimbursements, are projected at \$35,668,000 in 1983-84. This is a decrease of \$2,413,000 or 6.3 percent, from estimated total expenditures in the current year. (In calculating the change from estimated expenditures in 1982-83, we have made no allowance for the 2 percent unallotment or the freeze on corpsmember contracts directed by Executive Order D-1-83.)

Table 1 summarizes the major components of the changes proposed for the CCC in the budget year.

Proposed adjustments to the level of expenditures estimated for the current year include the following:

Increases:

- \$422,000 (various funds) to restore funding for retirement contributions on behalf of CCC employees that were paid in 1982-83 from funds of the Public Employees' Retirement System.
- \$1,062,000 (various funds) for miscellaneous adjustments, including merit salary adjustments, price increases, and the full-year cost of operating a new center.

Decreases:

- \$3,000,000 (General Fund) to reflect elimination of 155 corpsmember contracts and 42.6 staff. The elimination of 155 corpsmember contracts also reduces reimbursements for food and lodging by \$310,000. According to the budget document, this reduction, in combination with the two redirections discussed below, will allow three base centers to be closed in 1983-84.

CALIFORNIA CONSERVATION CORPS—Continued***Redirections:***

- \$397,000 (General Fund) from corpsmember contracts to pay increased medical insurance costs. This results in a decrease of 25 corpsmember contracts.
- \$323,000 (General Fund) from corpsmember contracts to provide an increase in operating expenses. This results in a decrease of 20 corpsmember contracts.

Funding Shifts:

- Replace \$3,200,000 (General Fund) with increased reimbursements from agencies that use CCC services.
- Replace Energy and Resources Fund support for one center with Environmental License Plate Fund support.

Corpsmember Projects—Who Benefits?

CCC has become one of the state's fastest growing and most visible agencies. The corps' program has grown from \$7.8 million in 1976-77 to \$33.2 million in 1982-83, an increase of \$25.4 million, or 325 percent. In the current year, corpsmember strength is authorized at 1,840. The corpsmembers, together with 438 staff personnel-years, are distributed among 26 base centers, a training academy, and the headquarters office.

More than 3.0 million corpsmember hours of service will be provided during 1982-83 for a variety of projects and activities. Under current policy, agencies using CCC services generally are required to provide only materials, specified equipment, and technical supervision. The CCC provides labor, tools, and crew supervision at no cost to the agency receiving these services.

Our analysis indicates that although the cost of corpsmember services to user agencies is relatively low, the cost to the state is significant. As a means of providing the Legislature with the information needed to determine how the costs of the CCC should be divided between the General Fund and user agencies, we requested data from CCC on the allocation of corpsmember services (by number of hours) to user agencies in recent years. Although we requested this data for each year since 1976-77, CCC's automated projects system was able to provide it only for 1981-82. This data is summarized in Table 2.

Even though it is limited, this data is useful for two purposes. First, it provides a quantifiable record of the de facto priorities used by CCC in allocating corpsmember resources. Second, it provides a data base which can be used to analyze the potential impact of reducing the corps by 200 members and imposing user charges on those agencies utilizing the services of corpsmembers, as proposed in the Governor's Budget for 1983-84.

Table 1
California Conservation Corps
Proposed Budget Changes
1983-84
(in thousands)

	<i>General Fund</i>	<i>Energy^a Resources Programs Account</i>	<i>Other^b Funds</i>	<i>Reim- burse- ments</i>	<i>Totals</i>
1982-83 Base Budget (Revised)	\$31,094	\$1,035	\$987	\$4,965	\$38,081 ^c
A. Workload and Administrative Adjust- ments					
1. Restoration of employer retirement contributions	398	12	12	—	422
2. One-time 1982-83 equipment pur- chase	-236	—	-222	—	-458
3. Elimination or reduction of contracts	—	—	—	-289	-289
4. Cal-Stars implementation	75	—	—	—	75
5. Miscellaneous adjustments (includ- ing merit salary adjustments and price increases)	743	52	169	98	1,062
B. Significant Program Changes					
1. Reduction in corpsmember strength (155 corpsmembers)	-3,000	—	—	-310	-3,310
2. Increased corpsmember medical in- surance (funded by eliminating 25 corpsmember contracts)	(397)	—	—	125	125
3. Increased operating costs (funded by eliminating 20 corpsmember con- tracts)	(323)	—	—	-40	-40
4. User charge requirement	-3,200	—	—	3,200	—
Total 1983-84 Changes	-\$5,220	\$64	-\$41	\$2,784	-\$2,413
Total Proposed 1983-84 Budget	\$25,874	\$1,099	\$946	\$7,749	\$35,668

^a Formerly the State Energy Resources Conservation and Development Account, General Fund.

^b Support for one center is being changed from the Energy and Resources Fund in the current year (\$987,000) to the Environmental License Plate Fund in the budget year (\$946,000).

^c Estimated expenditures for 1982-83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

Table 2
California Conservation Corps
Allocation of Total Corpsmember Hours
1981-82

<i>Sponsor</i>	<i>Hours Allocated to Emergencies</i>	<i>Hours Allocated to Non- emergencies</i>	<i>Total Hours</i>	<i>Percent of Total</i>
A. CCC In-House Activities				
1. Center maintenance	—	157,163	157,163	5.1%
2. Corpsmember training	—	267,137	267,137	8.6
3. Program support	—	690,345	690,345	22.3
Subtotals, In-House Activities	—	(1,114,645)	(1,114,645)	(36.0%)
B. Project Work				
1. State agencies	553,554	550,053	1,103,607	35.7
2. Local agencies	11,896	501,032	512,928	16.6
3. Federal agencies	112	247,820	247,932	8.0
4. Nonprofit agencies	—	110,530	110,530	3.6
5. Other ^a	—	2,383	2,383	0.1
Subtotals, Project Work	(565,562)	(1,411,818)	(1,977,380)	(64.0%)
Total Corpsmember Hours	565,562 (18.3%)	2,526,463 (81.7%)	3,092,025 (100%)	100.0%

^a The "other" category represents several small projects which have not been classified.

CALIFORNIA CONSERVATION CORPS—Continued

Table 2 shows the allocation of *corpsmember* (not staff) hours for 1981–82. The hours are aggregated by user agency category (including in-house activities) and divided into emergency and nonemergency work.

As Table 2 indicates, CCC allocated almost 3.1 million corpsmember hours in 1981–82. Approximately 18 percent of these hours was allocated for emergency work, 36 percent was allocated for CCC in-house activities, and the remaining 46 percent was allocated for nonemergency project work.

Emergencies. Performing work in connection with emergencies is the corps' most visible activity. Approximately 566,000 hours, or 18 percent of the total, were allocated to emergencies in 1981–82. We believe, however, that the amount of emergency work was unusually high in that year, because of the 260,000 hours allocated for the Medfly eradication effort. If Medfly eradication activities are excluded, emergency hours account for only 9.9 percent of the total.

Over 31 percent of all emergency hours was for flood control work, primarily for the state Office of Emergency Services. Fire fighting, almost all of it for the California Department of Forestry, accounts for 20 percent of the emergency hours. Emergency work for local agencies accounted for 2.1 percent of total emergency hours, most of which was for flood control.

CCC In-House Activities. The CCC used approximately 1.1 million hours, or 36 percent of its total hours, for in-house activities. Taken together, in-house activities represented the largest single use of corpsmember hours.

Maintenance of CCC base centers accounted for 157,163 hours, or 5.1 percent, of all corpsmember hours. This activity includes making improvements at base centers, such as remodeling.

Corpsmember training required 267,137 hours, or 8.1 percent of total hours. This category includes activities such as corpsmember time spent at the training academy, fire training, water safety, and driver training. It does not include time spent after normal work hours on activities such as literacy training.

Program support was allotted 690,345 hours, or over 22 percent of total hours. This category includes corpsmember time allotted to recruitment, vehicle maintenance, gardening, cooking, and other activities in support of the base center operation.

Table 3
California Conservation Corps
Allocation of Corpsmember Hours for Nonemergency Projects
1981–82

<i>Sponsor</i>	<i>Corpsmember Hours</i>	<i>Percent of Total</i>
State agencies	550,053	39.0%
Local agencies	501,032	35.4
Federal agencies	247,820	17.6
Nonprofit agencies	110,530	7.8
Other.....	2,383	0.2
Totals.....	1,411,818	100.0%

Taken together, emergencies and in-house activities account for almost 1.7 million hours, or 54 percent of the total. The remaining 1.4 million hours (46 percent) were allocated for nonemergency projects benefitting various agencies. The allocation of these hours is discretionary on the part of CCC management. In order to better focus on how these discretionary hours were allocated, we have included a separate breakdown of hours, by user agencies, in Table 3.

State Agencies. Approximately 550,053 hours, or 39 percent of total nonemergency project hours, were allocated to state agencies. Corpsmember crews were allocated to 24 different state agencies, with the primary users being the Department of Parks and Recreation (27 percent), the Department of Fish and Game (20 percent), and the California Department of Forestry (19 percent).

Local Agencies. The second largest user of CCC services was local government. Over 500,000 hours were allocated to a variety of local agencies, with 47 percent of the total going for city sponsors, 28 percent going for counties, and 25 percent going for special districts.

Federal Agencies. Federal agencies received 247,820 hours, or almost 18 percent of the total. The primary sponsoring agencies in this category were the U.S. Forestry Service, with 53 percent of the federal total and the U.S. National Park Service, with 32 percent. Other federal agencies utilizing CCC services were the U.S. Coast Guard, the National Weather Service, the Fish and Wildlife Service, the Corps of Engineers, the Bureau of Reclamation, and the Bureau of Land Management.

Nonprofit Agencies. Approximately 80 nonprofit agencies received 110,530 hours of corpsmember services in 1981-82. This represented 7.8 percent of total nonemergency project hours. Services were provided to agencies such as the YMCA, Girl Scouts, the San Diego Zoo, KQED-Channel 9, Goodwill Industries, and the Herbert Hoover Boys Club.

Conclusions Regarding the Allocation of CCC Services

A review of the distribution of corpsmember hours in Table 2 and Table 3 leads to the following three conclusions.

1. *Nonstate agencies receive most of the nonemergency services.* Although CCC is almost entirely state-funded, most of the benefits from its nonemergency work, in the form of "low-cost" labor, free tools, and crew supervision, goes to nonstate agencies. As shown in Table 3, 61 percent of all nonemergency project work is carried out on behalf of nonstate agencies while only 39 percent is for state agencies. This is particularly surprising given that CCC has identified a substantial backlog of work for state agencies.

2. *The selection process used by the CCC does not provide criteria to adequately differentiate among competing agencies.* The wide discrepancy between what is allocated for state and what is allocated for nonstate work is in large part due to the absence of any guidelines setting priorities in selecting projects for the corps. With the exception of emergencies and certain "high priority" statewide projects which are mandated by headquarters, most project selection is done at the base center level. Our discussions with center directors and headquarters staff have disclosed a lack of criteria for differentiating among competing agencies (state, federal, local, etc.). This explains why the corps allowed 18 percent of nonemergency project hours to be allocated to the federal government, even while projects of importance to state agencies were being deferred.

3. *The amount of hours devoted to in-house activities—that is, activities benefitting only the CCC itself—was surprisingly high.* These activities

CALIFORNIA CONSERVATION CORPS—Continued

represent the largest category of budgeted corpsmember hours. Taken together, they account for 36 percent of the total. Based on the current-year authorized level of 1,840 corpsmembers, this represents the services of 622 corpsmembers, or the equivalent of over 10 full centers. The proportion of total hours devoted to in-house activities appears to be even higher when added to the 438 personnel-years of staff. The result is that 1,060 years of staff and operating overhead are needed for 1,178 personnel-years of project effort.

Improved Project Data Needed

We recommend that CCC report to the fiscal committees and the Joint Legislative Budget Committee by April 1, 1983, on the allocation of corpsmember hours for each year from 1978-79 through 1981-82.

Our review of how project hours are allocated by the CCC originally sought to provide the Legislature with an analysis of the use of corpsmember services over time. We were not able to achieve this objective, however, because the CCC provided data covering only one year.

We believe information for other years would be useful to the Legislature in considering the funding and policy issues raised by the 1983-84 budget, as well as in overseeing the operations of the corps—particularly with respect to services performed on behalf of the federal government, the corps' in-house activities, and the extent of emergency services performed. Furthermore, we believe this data can be provided through the new automated state project system. The system was to be operable during the fall of 1982. However, because of implementation delays, data for years prior to 1981-82 is not yet available.

Because full historical data would be useful to the Legislature, we recommend that the Director of the California Conservation Corps submit a report to the fiscal committees and the Joint Legislative Budget Committee by April 1, 1983, on the allocation of corpsmember hours. The report should cover all corpsmember hours allocated annually from 1978-79 through 1981-82, and should show separately the allocation of these hours to projects on behalf of state, federal, local, nonprofit agencies, as well as for CCC in-house activities. Hours allocated to emergencies should also be identified separately.

Proposed Reductions in Corpsmember Strength

We recommend that, prior to budget hearings, CCC report to the Legislature on the details of the proposed reduction in the number of corpsmembers. The report should identify the number and location of centers proposed for closure and/or reduction, the reduction in corpsmember contracts, and the reduction in staff personnel-years.

The budget proposes three changes which, in total, would result in a reduction of 200 authorized corpsmember contracts and 47.6 related staff personnel-years. These changes are summarized in Table 4.

Decrease of \$3 million in General Fund support. The budget proposes a \$3.0 million General Fund reduction in support for the California Conservation Corps (CCC) in 1983-84. The reduction would eliminate funding for 155 corpsmembers and 42.6 related staff personnel-years. This reduction, along with the proposed elimination of 45 corpsmembers in order to free up funds for increased medical costs and operating expense (discussed separately below), results in a total reduction of 200 corpsmembers and 47.6 staff personnel-years below the authorized level for the current year.

Table 4
California Conservation Corps
Proposed Changes Reducing Authorized Corpsmember Strength

	<i>Authorized Corpsmembers</i>	<i>Personnel- Years</i>
A. 1983-84 Baseline	1,840	437.8
1. Decrease of \$3 million in General Fund support	-155	-42.6
2. Redirection of \$397,000 to compensate for increase in medical insurance costs	-25	-3.0
3. Redirection of \$323,000 to cover increase in operating expenses	-20	-2.0
Total Changes	-200	-47.6
1983-84 Proposed Budget	1,640	390.2

According to the budget, the reductions would be made by closing three centers (180 corpsmembers) and reducing the number of corpsmembers at other centers (20 corpsmembers). The centers proposed for closure and/or reductions have not been identified. Implementation of the proposed reduction will depend on (1) program decisions made by the CCC with respect to the location and number of centers to be closed and (2) the impact of Executive Order D-1-83, which imposes a freeze on personal services (corpsmember) contracts. The freeze has temporarily stopped the intake of corpsmembers.

The proposed reduction in corpsmember strength raises what essentially is a policy issue—what is the priority to the Legislature of this program, relative to others financed from the General Fund. The CCC program is not based on objective workload data capable of showing what level of corpsmember strength is appropriate. Consequently, we have no analytical basis to recommend action on the proposed reductions in corpsmember strength. In reviewing the proposals to reduce the corps, however, the Legislature may wish to consider the following:

- ***Transfer of CCC Fire Centers to the California Youth Authority.***

The budget does not identify the three centers to be closed. If the Legislature approves the 200-corpsmember reduction, it may wish to specify that from one to three of the centers jointly operated by CCC and the California Department of Forestry (CDF) as fire centers be closed and turned over to the California Youth Authority (CYA). These centers originally were designed, constructed, and operated as inmate conservation camps by CDF and the California Department of Corrections. Consequently, they are well suited to CYA operations.

Transfer of these centers to the CYA would have two advantages. First, it would provide the CYA with additional space which could be used to house CYA wards. We estimate that CYA will have an excess population on July 1, 1983, ranging from 654 to 1,037 wards. (This issue is discussed in greater detail in our analysis of the CYA's budget—see the discussion under Item 5460.) Second, it would provide relatively greater savings to the CCC than would the closure of other centers because fire centers cost CCC approximately \$200,000 per year more to operate than base centers. This savings could be used either to lessen the reduction in corpsmember strength or to pay increased state costs such as health insurance or operating costs (as discussed later in this analysis).

CALIFORNIA CONSERVATION CORPS—Continued

- **Reduction of Corpsmember Salaries.** As an alternative to reducing the number of corpsmembers, the Legislature may wish to consider reducing salaries for incoming corpsmembers. According to CCC, corpsmember salaries were raised to the federal minimum wage in order to make the state eligible for federal grants. Although the corps no longer receives these grants, CCC continues to pay the minimum wage. Thus, first-year corpsmembers receive \$580 monthly. Crew leaders and cook specialists receive an additional 15 percent, or \$666 monthly. Monthly deductions for first-year corpsmembers include \$145 per month for food and a minor part of housing costs, \$20 for health insurance, \$1.30 for life insurance, and a maximum of \$59.25 in federal and state taxes. This results in a net income of at least \$354 per month (crew leaders net \$424 monthly). In addition, corpsmembers receive inkind benefits in the form of General Fund support for a significant portion of the costs of housing plus \$40 monthly in state-financed medical insurance.

A reduction in the hourly rate from \$3.35 to \$3.00 would generate savings of approximately \$1 million annually. This savings would be sufficient to retain from 60 to 80 of the corpsmembers proposed for elimination in the budget. A reduction in salaries might also be justified on the basis that many trained and experienced adults, although willing to work at the salary and benefit levels paid untrained and inexperienced corpsmembers, currently are unable to find employment.

Increase in Medical Insurance Costs. The budget proposes to reduce the authorized corpsmember strength by 25 corpsmembers and staffing by 3 personnel-years in order to free up \$397,000 for use in funding increased corpsmember medical insurance costs.

The cost for corpsmember medical insurance is shared between the state and the individual corpsmembers. Prior to November 1, 1982, the total monthly cost was \$16.50 per corpsmember, with the corpsmember paying \$10 and the state paying \$6.50. Because the carrier refused to continue its contract with the state, CCC was forced to contract with a new carrier at a significantly higher rate. Effective November 1, 1982, the Medical Insurance costs increased to \$50 monthly per corpsmember, an increase of 203 percent over the previous rate.

Table 5
California Conservation Corps
Corpsmember Monthly Medical Insurance Costs

	<i>Corps-</i> <i>member</i>	<i>Percent</i>	<i>State</i>	<i>Percent</i>	<i>Total</i>	
	<i>Cost</i>	<i>Increase</i>	<i>Cost</i>	<i>Increase</i>	<i>Monthly</i>	<i>Percent</i>
					<i>Cost</i>	<i>Increase</i>
Old Rate	\$10.00	—	\$6.50	—	\$16.50	—
New Rate (Effective 11/1/82)	\$20.00	100%	\$30.00	362%	\$50.00	203%

The CCC decided to absorb more than half of the increases. This is shown in Table 5, which compares the old and the new premiums and how the costs of these premiums are divided between the corpsmembers and the state. The costs of increasing the state's share of medical insurance in the current year is approximately \$390,000 (\$23.50 increase \times 9 months \times 1,840 corpsmembers). Because CCC was not budgeted for the increase, the added cost is being absorbed within CCC's existing budget,

primarily by reducing the number of corpsmember contracts.

The budget proposes to continue the current policy of absorbing these costs in the budget year by proposing a reduction in the CCC's authorized strength amounting to 25 (and three related staff personnel-years). The existing health insurance contract expires November 1, 1983. Consequently, there may be further increased costs for corpsmember health insurance in 1983-84. These costs would probably have to be absorbed in the same manner.

Increase in Operating Expenses. The budget proposes to reduce authorized corpsmember strength by 20 corpsmembers and staffing by 2 personnel-years to free up \$323,000 in order to fund underbudgeted operating expenses.

For several years, the CCC has underbudgeted certain categories of operating expenses. This underbudgeting was noted in our *Analysis of the 1980-81 Budget Bill*. During hearings on the budget, however, the administration maintained that the budget was adequate and no funding adjustments were made.

Since that time, CCC has compensated for its underbudgeting each year by reducing the number of corpsmember contracts below the level anticipated in the Budget Act. For example, in 1981-82 actual expenditures for "general expenses" exceeded the amount budgeted by \$518,000, while the number of corpsmembers fell short of the budgeted level. Similar reductions in corpsmember contracts are occurring in 1982-83.

The budget for 1983-84 acknowledges the underbudgeting of operating expenses, and proposes to reduce the authorized corpsmember strength in order to free up the money needed for general expenses, communication, travel, and printing.

The proposed reduction of 200 corpsmembers (through three separate actions) is a significant policy and fiscal issue, affecting not only the CCC, but other agencies as well. The impact of this reduction will depend on how it is implemented—particularly with respect to the number and locations of those centers closed and/or reduced. To permit a thorough review of the issue by the Legislature, we recommend that, prior to budget hearings, the CCC submit the details of the proposed reduction in corpsmember strength. The report should identify the number and location of centers proposed for closure and/or reduction, the reduction of corpsmember contracts and the reduction in staff positions.

Required User Charges

We recommend that, prior to budget hearings, the California Conservation Corps submit to the Legislature a detailed plan for implementing its proposal to levy user charges on agencies receiving services from CCC. The plan should cover, but not be limited to, the amount of the charge to be imposed, how the amount of the charge was derived and an identification of the source of reimbursements.

The budget proposed a major change in how the corps is financed. Specifically, it proposes to charge other agencies for services which CCC provides.

Under existing policy, when CCC undertakes a project for other agencies, the user agency is typically required to pay for only the costs of materials, technical supervision, and specialized equipment. No charge is made for the costs of corpsmember salaries, CCC crew supervision, tools, or transportation, all of which are paid from the CCC support appropriation.

CALIFORNIA CONSERVATION CORPS—Continued

The budget is proposing to revise this process significantly by charging users a portion of the costs for those CCC services which agencies currently receive at no cost. Consistent with this proposal, General Fund support for the CCC has been reduced by \$3.2 million, and reimbursements, representing the proceeds from user charges, have been increased by an equal amount. Charges will not be levied on emergency work, work for nonprofit organizations, and CCC in-house activities.

At the time this analysis was prepared, the details of the proposed process had not been fully developed. Consequently, a number of issues remain unresolved, including the following:

Amount of the Charge. The amount to be charged by the CCC was not identified in the budget. Rather, the budget simply refers to a "nominal funding match". It is not clear, moreover, whether the charge would be levied at a flat rate, or vary for different projects. Clearly, however, the amount of the charge will have a direct effect on the demand for CCC's services. Agencies which presently receive "free labor" from the CCC may be reluctant to begin paying for these services if they consider the charge excessive.

For purposes of illustration, we calculated the average rate per corpsmember hour that would have been required in 1981-82 to meet the \$3.2 million reimbursement goal. These calculations are based on the actual allocation of corpsmember hours for 1981-82, as shown in Tables 2 and 3. The CCC corpsmembers worked approximately 3.1 million hours in 1981-82. However, because the proposal exempts emergency work, nonprofit work, and CCC in-house work (as well as the fully reimbursed stream clearance project), the number of chargeable corpsmember hours in 1981-82 would have been only 1.2 million, or 39 percent of total hours worked. This would have necessitated a charge of approximately \$2.65 per corpsmember hour for all work on projects subject to the charge. This might reduce the demand for CCC services by some agencies.

Unknown Source of Reimbursement. The budget assumes that \$3.2 million will be received as reimbursements from user agencies, but does not identify the source of these funds.

Based on the 1981-82 work project data, approximately 40 percent of all potentially reimbursable work is conducted for state agencies. We are aware of no state agency that has received a budget augmentation to pay any additional costs associated with this proposal. Furthermore, because the budget provides for little growth (and in some cases, for outright reductions), state agencies will be limited in their flexibility to redirect funds for this purpose. The same situation probably applies to nonstate sponsors, most of whom are the agencies of federal government and local government.

Potential Reduction in Corpsmember Strength. If reimbursements are not adequate to replace the \$3.2 million in lost General Fund support, CCC will have to reduce its corpsmember strength accordingly. The budget already proposed to reduce authorized corpsmember strength by 200; any shortfall in reimbursements would add to this reduction.

Program Redirection. The user charge could have a significant impact on how corpsmembers spend their time. It could result in CCC redirecting resources away from in-house activities and toward more project work. Or CCC might be forced to seek out more aggressively those projects capable of producing reimbursements. This might curtail work on projects that provide the best training for corpsmembers, or are the most impor-

tant in terms of developing and maintaining the state's natural resources. The proposed user charge might also discourage CCC work on low-priority projects proposed by local agencies only because the labor is free.

Because all of these issues require clarification, we recommend that, prior to budget hearings, the California Conservation Corps report to the Legislature detailing its plan for implementing the proposed user charge. The plan should cover, but not be limited to, the amount of the charge to be levied, the basis for deriving this amount, and an identification of the source of reimbursements.

Workers' Compensation Costs Overbudgeted

We recommend that Item 3340-001-001 be reduced by \$375,000 to reflect a revised estimate of workers' compensation costs based on actual experience.

The 1982 Budget Act provides approximately \$1.3 million for corpsmember workers' compensation costs. This amount, which is equal to \$728 per authorized corpsmember, was based on modified commercial rate schedules, rather than on actual expenditures, because prior to 1980, CCC did not maintain accurate data on workers' compensation costs and could not prepare a budget based on past experience.

The budget proposes \$1.2 million in 1983-84 to continue funding workers' compensation at the current-year level of \$728 per corpsmember. This amount, however, exceeds the amount justified on the basis of CCC's actual expenditures during the past two fiscal years. These expenditures, as well as the amounts budgeted for the current and budget years, are shown in Table 6.

Table 6
California Conservation Corps
Corpsmember Workers' Compensation Costs
1980-81 through 1983-84

	<i>Total State Cost</i>	<i>State- Supported Corps- members</i>	<i>State Cost Per Corps- member</i>
1980-81	\$437,351	770	\$568
1981-82	729,463	1,381	528
1982-83—Estimated ^a	873,332	1,855	471
(1982-83 Budgeted)	(1,339,520)	(1,840)	(728)
1983-84 Budgeted	1,193,920	1,640	728

^a Estimate is based on six months' actual expenditures of \$436,666. There may be additional expenditures in the current year, depending on the outcome of two death benefit claims presently being adjudicated. These claims are one-time-only, and should not be used in determining future-year costs.

Table 6 indicates that actual expenditures for workers' compensation costs per corpsmember have declined during the past two years and may continue to decline into 1982-83. State costs in 1980-81 averaged \$568 per corpsmember. In 1981-82, the cost declined to \$528 per corpsmember, a decrease of 7.0 percent. Comparable data for the first six months of 1982-83 results in a current-year rate of \$471 per corpsmember, a decrease of 11 percent from the previous year and 35 percent less than the amount budgeted for the current year (\$728). According to CCC, the decrease results primarily from the implementation of an aggressive work-safety

CALIFORNIA CONSERVATION CORPS—Continued

program that was begun in 1980-81.

Based on the data contained in Table 6, CCC appears to be overbudgeted for workers' compensation. Consequently, we recommend that funding for workers' compensation be based on actual experience in the current year (\$471 per corpsmember), for a General Fund savings of \$375,000 to Item 3340-001-001. If CCC's current-year experience changes significantly prior to budget hearings, we will advise the Legislature of any revision in the amount that may be warranted.

Limitation on EDP Expenditures

We recommend that Budget Bill control language be added to Item 3340-001-001 making expenditure of \$136,000 for electronic data processing contingent on approval of a feasibility study by the Department of Finance with a 30-day review period by the Joint Legislative Budget Committee.

CCC has been attempting to develop a limited electronic data processing system for over two years. The 1981 Budget Act included \$192,000 to study the feasibility and begin implementation of automated personnel, fiscal, and project management systems. That study was not sufficient to justify implementing all of the individual components of the system.

The 1982 Budget Act approved \$32,000 for automation of the project tracking and medical records elements of CCC's proposed EDP system. The expenditure of an additional \$111,000 for a corpsmember personnel management system and CCC staff personnel system was made contingent on Department of Finance approval of a feasibility study covering those systems, and 30 days' prior notice being given to the Joint Legislative Budget Committee.

The current status of the EDP system is uncertain. The project tracking system was to be implemented in the fall of 1982. As of January 1, 1983, however, the system was not fully operational. Further, the CCC determined that automation of the medical records element was no longer necessary, and it will not be implemented. Finally, CCC has not completed the required feasibility study, and indicates that the \$111,000 will not be needed for EDP expenditure in the current year.

The 1983-84 budget includes \$136,000 to implement and operate the corpsmember personnel management system and CCC staff personnel system. The feasibility study for these systems is not scheduled for completion until June 1983. Although we concur with the concept of automating the remaining elements, full automation should not proceed until a feasibility study has been prepared and approved. CCC is not experienced in EDP systems, and mistakes in the development of such systems can have an adverse effect on program service delivery, as well as costs. Consequently, we recommend that the \$136,000 budgeted for EDP be approved contingent on adoption of the following language in Item 3340-001-001 requiring approval of a feasibility study by the Department of Finance:

"Provided that \$136,000 budgeted for automation may be encumbered no sooner than 30 days after the Department of Finance has provided the Joint Legislative Budget Committee with a feasibility report in support of further automation; and provided further, that the feasibility report shall have been approved by the Department of Finance and prepared in accordance with the State Administrative Manual (Sections 4921 to 4928, inclusive)."

CALIFORNIA CONSERVATION CORPS—CAPITAL OUTLAY

Item 3340-301 from the General

Fund, Special Account for

Capital Outlay

Budget p. R 21

Requested 1983-84	\$434,000
Recommended approval	313,000
Recommendation pending	121,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Minor Capital Outlay. Withhold recommendation on 17 projects totaling \$121,000 under Item 3340-301-036(a), pending identification by the corps of centers to be closed in the current and budget years. 494

ANALYSIS AND RECOMMENDATIONS

The budget includes \$434,000 from the General Fund, Special Account for Capital Outlay, to fund capital outlay projects for the California Conservation Corps. The funds would be used to complete the development of the Greenwood Solar Center, and to make minor modifications to other centers operated by the corps.

Greenwood Solar Center

We recommend approval of Item 3340-301-036(b).

The budget includes \$306,000 under Item 3340-301-036(b) for working drawings and construction for two barracks buildings and an office/recreation building at the Conservation Corps' Greenwood Solar Center in El Dorado County.

The Legislature has appropriated \$455,000 over the past three fiscal years for development of the center. The prior appropriations provided for a kitchen and mess hall, maintenance facilities, two shop buildings, and general site improvements. The work proposed for 1983-84 is the final phase of development.

Barracks Buildings. The corps is proposing to construct two 33-person barracks, at a cost of \$106,500 each. The buildings will provide a total of 5,680 square feet of living space. The corps members currently are housed in trailers which are difficult to heat and maintain, and are in generally rundown condition. The proposed barracks, one of which will house male corps members and the other of which will house female members; will be wood frame structures with wood siding.

Office/Recreation Building. The proposal also includes \$93,000 to construct a 2,576 square foot office and recreation building. The building would provide 728 square feet of permanent office space for eight employees. This will replace 200 square feet of office space in two small trailers. In addition, the facility would provide 1,848 square feet of recreation space for the corps members. No facility currently exists at the center to provide for the recreational needs of the members.

The proposed appropriation is consistent with prior legislative action to establish and develop the Greenwood Solar Center. The amount is reasonable to accomplish the proposed work. Consequently, we recommend approval of the \$306,000 to complete the center's development.

CALIFORNIA CONSERVATION CORPS—CAPITAL OUTLAY—Continued**Minor Capital Outlay**

We recommend approval of \$7,000 for one minor project at the corps' academy. We withhold recommendation on the remaining \$121,000 under Item 3340-301-036(a), minor capital outlay, pending identification by the corps of the number and location of centers to be closed in the current and budget years.

Item 3340-301-036(a) includes \$128,000 for minor capital outlay projects (projects costing \$150,000 and less) for the Conservation Corps. The corps indicates that \$50,000 would be spent on seven fire and life safety projects, and \$78,000 would be used for 11 projects to make minor improvements to existing facilities.

One project would provide battery-operated emergency lighting units at several locations at the corps' academy. Power outages at the academy have resulted in potentially dangerous situations and curtailment of activities. The proposed project will allow the academy to continue operating when outside power is lost. We recommend approval of the \$7,000 for this project.

The remaining projects that are proposed for funding would provide modifications to various centers around the state. The budget, however, also proposes changes to the corps' program which, if approved by the Legislature, would result in a reduction of 200 corpsmembers in 1983-84. Depending on how the proposed reductions are implemented, the corps could be required to close up to three of its existing centers. This, in turn, would eliminate the need for funds to make minor improvements to the centers.

Consequently, we withhold recommendation on the remaining 17 minor projects until the corps identifies those centers proposed for closure, and the need to make improvements is made clear.

Projects by Descriptive Category

In *The Budget for 1983-84: Perspectives and Issues*, we identify a number of problems that the Legislature will confront in attempting to provide for high-priority state needs within available revenues. To aid the Legislature in establishing and funding its priorities, we have divided those capital outlay projects which are analysis indicates warrant funding into the following seven descriptive categories:

1. Reduce the state's legal liability—includes projects to correct life threatening security/code deficiencies and to meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.
7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to

meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

The development of the Greenwood Solar Center (\$306,000) and the one minor project at the academy (\$7,000) fall in Category 7.

Resources Agency

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

Item 3360 from various funds

Budget p. R 22

Requested 1983-84	\$25,859,000
Estimated 1982-83	50,794,000
Actual 1981-82	27,891,000
Requested decrease (excluding amount for salary increases) \$24,935,000 (-49.0 percent)	
Total recommended reduction	\$1,693,000
Recommendation pending	\$12,686,000

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
3360-001-031—Assistance to Agricultural and Forestry Waste-to-Energy Projects		State Agricultural and Forestry Residue Utilization Account, General	4,600,000
3360-001-033—Energy Conservation Loans to Schools, Hospitals, and Local Governments		State Energy Conservation and Assistance Account, General	6,056,000
3360-001-044—Support		Motor Vehicle Account, State Transportation	94,000
3360-001-465—Support		Energy Resources Programs Account, General	14,285,000
3360-001-890—Support		Federal Trust	(1,332,000)
3360-101-034—Grants to Local Governments with Geothermal Resources		Geothermal Resources Development Account, General	824,000
Total			\$25,859,000

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Clarification of Budget Needed. Recommend that the Legislature direct the Energy Commission and the Department of Finance to (a) clarify the programmatic impact of proposed reductions in the commission's budget and (b) resolve various technical discrepancies in the budget. 505
2. *Additional Federal Funds Available. Reduce Item 3360-001-465 by \$1,693,000 in state funds and increase Item 3360-001-890 by an equal amount of federal funds.* Recommend funding switch in order to replace state funds with available federal funds. 508
3. Appropriation of Federal Funds. Recommend adoption of Budget Bill language to ensure that the Legislature has an opportunity to consider any proposed expenditure of federal funds that are not appropriated by the Budget Act. 509
4. *Unused Loan Funds. Transfer \$541,000 from the State Agricultural and Forestry Residue Utilization Account to the General Fund.* Recommend transfer because the commission has terminated the program for which these funds were originally provided, and has no further plans for using the money. 510
5. Federal Escrow Funds. Recommend that the Department of Finance report on the amount of "petroleum violation escrow funds" the federal Department of Energy will allocate to California and how the administration proposes to use these funds. 511

GENERAL PROGRAM STATEMENT

The Energy Resources Conservation and Development Commission is a five-member full-time commission that is responsible for siting major electric power plants, forecasting energy supplies and demands, developing energy conservation measures, and carrying out a program of research and development involving energy supply, consumption, conservation, and power plant siting technology. The commission, located in Sacramento, has 504 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes five appropriations totaling \$25,859,000 from various state funds for support of commission activities in 1983-84. This is a decrease of \$24,935,000, or 49 percent, from estimated current-year expenditures. This reduction, however, makes no allowance for any salary or staff benefit increases that may be approved for the budget year.

The budget proposes total expenditures in support of the commission's programs of \$28,566,000 in 1983-84. In addition to the \$25,859,000 in state funds reflected in the Budget Bill, this amount includes expenditures of \$1,332,000 from federal funds and \$1,375,000 from the Geothermal Resources Development Account. The latter amount is the 1983-84 portion of a two-year appropriation made by the 1982 Budget Act for the San Bernardino District Heating Project.

The level of expenditures from all sources proposed for 1983-84 (\$28,566,000) is \$23,894,000, or 46 percent, less than the \$52,460,000 that the commission expects to spend during the current year. The budget indicates that this reduction reflects a change in the role of the Energy Commission. This change would convert the commission from an active participant in and implementer of state energy policy to an advisor to the other state agencies and the private sector. Some of the major effects of this reduction would be to:

- Eliminate or minimize the development of new energy efficiency standards for buildings and appliances.
- Eliminate emergency planning for oil shortages.
- Eliminate projects and staff for transportation energy conservation.
- Reduce staff by 45 percent and contract funds by about 60 percent for the development and demonstration of new energy sources, especially synthetic fuels and solar energy.
- Eliminate staff for the study of long-range issues related to power plant siting.
- Eliminate one-half of the legal staff.

Table 1
Energy Commission
Proposed Total Expenditures, Estimated Loan Repayments,
and Proposed Net Expenditures
1983-84
(in thousands)

<i>Fund</i>	<i>Proposed Total Expenditures (By Budget Item)</i>	<i>Estimated Revenue in 1983-84 From Loan Repayments</i>	<i>Proposed Net Expenditures</i>
<i>Support</i>			
Energy Resources Programs Account (Item 3360-001-465)	\$14,285	—	\$14,285
Motor Vehicle Account (Item 3360-001-044)	94	—	94
Federal Trust Fund (Item 3360-001-890)	1,332	—	1,332
Totals, Support	\$15,711	—	\$15,711
<i>Loan and Grant Programs</i>			
State Energy Conservation and Assistance Account— Schools, Hospitals, and Streetlight Loans (Item 3360-001-033)	\$6,056	\$5,057	\$999
State Agricultural and Forestry Residue Utilization Account— Assistance to Biomass Energy Projects (Item 3360-001-031)	4,600	4,615	—15
Geothermal Resources Development Account— Grants to local governments (Item 3360-101-034)	824	—	824
San Bernardino Heating—Balance of 1982 Appropriation	1,375	—	1,375
Totals, Loan and Grant Programs	\$12,855	\$9,672	\$3,183
Totals, Programs	\$28,566	\$9,672	\$18,894

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION —Continued

Reconciliation of Net and Total Expenditures. Total expenditures, as described above, exceed the level of expenditures shown in the budget. This is because of the way expenditures under various loan programs are reflected in the budget. Table 1 reconciles *net* expenditures, as shown in the commission's budget, with actual expenditures as discussed in this *Analysis*. The table shows that the commission proposes to expend a total of \$28,566,000 in 1983–84. Of this amount, \$15,711,000 would be spent for support of the commission. This represents a reduction of \$9,739,000, or 38 percent, from estimated support expenditures in 1982–83 (\$24,450,000).

The remaining \$12,855,000 in expenditures proposed for the budget year would be spent under various existing loan and grant programs. The budget anticipates that the commission will receive \$9,672,000 in repayments of past loans (including equipment buy-back agreements), and deducts the amount of these repayments from total expenditures so that only the net amount of proposed expenditures for loan and grant programs—\$3,183,000—is reflected in the totals. This is why the budget proposes total expenditures for 1983–84 of only \$18,894,000.

Similarly, the budget shows current-year total expenditures of \$50,713,000, which is the result of offsetting \$52,460,000 in expenditures with \$1,747,000 in loan repayments.

Electricity Surcharge

Under existing law in effect until July 1, 1983, the Energy Resources Conservation and Development Special Account (the Special Account) receives revenues from a surcharge on the sale of electricity. The Warren-Alquist Act, which established the Energy Commission, states that funds in the Special Account may be used for any purpose authorized by the act. The maximum statutory rate of the surcharge is \$0.0002 (two-tenths of a mill) per kilowatt hour. At this maximum rate, the surcharge increases the average monthly residential electric bill in California by about 10 cents. The Board of Equalization sets the rate each year and collects the surcharge from the utilities.

Prior law required the board to set a rate each January that would produce enough revenue to fund the expenditures from the Special Account proposed in the budget. The board adjusted the rate again in August, if necessary, to reflect the final appropriations in the Budget Act. The surcharge has been set at its maximum rate since August 1981.

New Surcharge Mechanism. Chapter 1139, Statutes of 1982, requires the Board of Equalization to continue to set the surcharge at its maximum rate regardless of the amount of expenditures proposed in the budget. Chapter 1067, Statutes of 1982, which will take effect on July 1, 1983, eliminates the role of the Board of Equalization in setting surcharge rates. On July 1, 1983, the maximum rate will become permanent. Chapter 1067 also renames the Special Account as the Energy Resources Programs Account (ERPA) in the General Fund, and eliminates the Reserve Account. Finally, Ch 1067 expands the potential use of surcharge revenue so that the ERPA may be used for any "ongoing energy programs and energy projects."

Expenditures in 1982–83. Table 2 shows that, during the current year,

the budget estimates that expenditures from the Special Account will be \$31,302,000. Most of this money will be spent by the Energy Commission (\$22,686,000) and by the Public Utilities Commission (PUC) (\$6,474,000). Six other agencies will spend the remaining \$1,745,000 (excluding pro rata charges).

Expenditures in 1983-84. Table 2 also shows the expenditures from the ERPA proposed by the budget for 1983-84. Total proposed expenditures are \$16,010,000, a decrease of \$15,253,000, or 49 percent, from current-year estimated expenditures from the Special Account. The primary reasons for this decrease are (1) a reduction of \$8,401,000, or 37 percent, in proposed expenditures by the Energy Commission and (2) the elimination of \$6,474,000 for support of the PUC. The decrease in ERPA funding shown for the Energy Commission reflects a proposed reduction in programs, whereas the elimination of surcharge support for the PUC reflects a funding shift—the proposed replacement of surcharge funds by revenue from fees imposed by the PUC on the utilities it regulates.

Table 2
Estimated Expenditures from the Energy Resources Conservation
and Development Special Account (Special Account)
and Proposed Expenditures from the Energy Resources Programs Account
(ERPA)
(in thousands)

<i>Organization</i>	<i>Special Account Estimated 1982-83</i>	<i>ERPA Proposed 1983-84</i>
Energy Commission	\$22,686	\$14,285
Public Utilities Commission	6,474	—
California Conservation Corps	1,035	1,099
Solar Cal Council	250	118
Solar Energy Conservation Mortgage Corporation.....	240	—
Air Resources Board	141	152
Board of Equalization	54	72
Alternative Energy Source Financing Authority.....	25	—
Pro Rata Assessments	397	284
Totals	\$31,302	\$16,010

Surcharge Revenue in 1983-84. At its maximum rate, the electricity surcharge produces between \$30,000,000 and \$32,000,000 of revenue annually, depending on the amount of electricity sold by the state's utilities. Because the level of expenditures from ERPA proposed in the budget is only \$16,010,000, the Board of Equalization could have reduced the surcharge rate to one-tenth of a mill per kilowatt hour (one-half the maximum rate) had Ch 1139/82 not been enacted. Section 150 of the companion bill to the Budget Bill would, if enacted, permit the Board of Equalization to reduce the surcharge rate in August if a lower rate will produce enough revenue to fund all of the appropriations from ERPA.

Table 3 compares the surcharge revenue needed to fund proposed expenditures with the revenue which the surcharge produces at the maximum rate. The table indicates that \$13,628,000 of surcharge revenue will be needed in 1983-84 in order to fund the \$16,010,000 of expenditures proposed by the budget. The difference of \$1,382,000 reflects a carryover balance from the Special Account and revenue from the sale of docu-

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ments. However, the budget estimates that surcharge revenue will be \$31,860,000 at the maximum rate, leaving a surplus available for appropriation of \$18,232,000 in the ERPA in 1983–84.

Table 3
Energy Resources Programs Account (ERPA)
Comparison of Revenue Needed to Fund Proposed 1983–84
Expenditures with Maximum Potential Revenue
(in thousands)

1983–84 Proposed Expenditures (from Table 2)	\$16,010
Less:	
Estimated balance of Special Account to be transferred to ERPA on July 1, 1983 ^a	–2,292
Estimated revenue from sale of documents ^a	–90
Surcharge revenue needed in 1983–84	\$13,628
Estimated surcharge revenue at maximum rate ^a	31,860
Surplus available for appropriation	\$18,232

^a From Governor's Budget, page R 29.

Geothermal Resources Development Account

Under federal law, the state receives one-half of the revenue from bonuses, royalties and other payments from mineral development on federal land in California. Chapter 139, Statutes of 1980, requires that the state's share of the revenues from geothermal development on federal land be deposited in the Geothermal Resources Development Account (GRDA) in the General Fund. The GRDA also receives \$2 million annually each year from the state's share of federal mineral revenues (primarily from oil and gas) which otherwise would be deposited in the State School Fund. This transfer, which was authorized by Chapter 139, will continue through 1984–85, in order to give the GRDA an amount of funds equivalent to the amount of federal geothermal revenues which the state received before the GRDA was established.

Thirty percent of the revenue received by the GRDA is available to the Energy Commission for grants to local governments with geothermal resources. These grants may be used for a wide variety of purposes related to the development of local geothermal resources. Chapter 139 established a one-year lag between when revenues are received and when they become available for expenditure by the Energy Commission. However, the 1982 Budget Act eliminates the one-year waiting period for revenue received in 1982–83, and for up to \$1,375,000 of 1983–84 revenue (the second half of the appropriation for the San Bernardino geothermal project). The other 70 percent of GRDA revenues is transferred to the Renewable Resources Investment Fund (30 percent) or paid directly to counties in which the federal geothermal leases are located (40 percent).

Table 4 indicates that \$2,322,000 will be available in the GRDA for use by the Energy Commission in making grants to local governments in 1983–84. The budget proposes an appropriation of \$824,000 to the Energy Commission for local grants in 1983–84, leaving an unexpended balance of \$1,498,000 on June 30, 1984.

Table 4
Energy Commission
Geothermal Resources Development Account (GRDA)
Funds Available in 1983-84
(in thousands)

Unexpended balance from 1982-83.....	\$1,109 ^a
30 percent of total GRDA revenue in 1983-84	2,588 ^b
Reserve for 1983-84 portion of appropriation for the San Bernardino heating project	-1,375 ^c
Funds available for local grants	\$2,322 ^d
Proposed appropriation for local grants (Item 3360-101-034)	-824
Projected unexpended balance June 30, 1984	\$1,498 ^d

^a Calculation by Legislative Analyst's Office based on current and past budgets, and assuming estimated expenditures of \$892,000 (based on Energy Commission information) for grants during 1982-83 and \$1,375,000 for the first half of the San Bernardino geothermal project.

^b Based on total GRDA revenue of \$8,627,000 for 1983-84, as estimated in budget.

^c Appropriation for 1983-84 made by Item 3360-101-034 of the 1982 Budget Act.

^d Of these funds, \$1,213,000 is not available under existing law for local grants until 1984-85. This amount is 30 percent of GRDA revenue in 1983-84, less \$1,375,000 appropriated to complete the San Bernardino heating project.

Significant Budget Changes

Table 5 summarizes the commission's proposed budget changes for 1983-84 by funding source. Due to the absence of budget change proposals and other detailed information on the budgeted amounts at the time of this analysis was prepared, we have had to estimate the funding sources for some of the allocations shown in the table.

The table indicates that *net* total expenditures are proposed to decline from \$50,713,000 in the current year to \$18,894,000 in the budget year, a decrease of \$31,819,000, or 63 percent. Total expenditures in 1983-84 (including the expenditure of loan repayments) are proposed at \$28,566,000, a reduction of \$23,894,000, or 46 percent, from current-year estimated total expenditures of \$52,460,000.

Staff Reductions. The budget proposes a reduction of 31 percent in the commission's expenditures for personal services, from \$15,444,000 to \$10,694,000. The budget indicates that this funding reduction will decrease the number of staff personnel-years (PYs) at the commission from 474.4 in 1982-83 to 305.1 in 1983-84, a decrease of 169.3 personnel-years.

In order to achieve the savings called for in the budget, the commission will have to start reduction-in-force procedures immediately. At best, a six-month delay can be expected between the initiation of these procedures and the termination of any employees. The actual delay could be substantially longer if many employees protest the staffing decisions that are made, or if bottlenecks develop at the State Personnel Board or the Department of Personnel Administration. These two agencies also will be handling the workload resulting from reductions-in-force at other agencies. If staff reductions are delayed significantly beyond July 1, 1983, the commission may have to reduce its staff below the levels authorized in the budget for the remainder of the fiscal year in order to stay within its budget.

The magnitude of the staff reductions that would have to be made by the commission is compounded by the commission's failure to achieve the staff reductions mandated by the Legislature during the current year. The 1982 Budget Act reduced the commission's staff by about 38 positions. The commission's vacancy rate in 1982-83, however, has been about 5 percent, which is less than the budgeted salary savings rate and much lower than in previous years. In addition, despite the staff reduction mandated by the

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
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Table 5
Energy Commission
1983-84 Proposed Budget Change
(in thousands)

	<i>Special Account or ERPA</i>	<i>Motor Vehicle Account</i>	<i>Energy Account, Energy & Resources Fund</i>	<i>Other Funds</i>	<i>Federal Trust Fund</i>	<i>Total</i>
1982-83 budget (Revised)	\$22,686	\$3,498	\$9,849	\$13,170	\$1,510	\$50,713
Program Changes:						
I. Regulatory and Planning Program						
A. Eliminate Locational Analysis (-16.4 PY)	-1,017	—	—	—	—	-1,017
B. Eliminate CEQA Analysis (-5.2 PY)	-299	—	—	—	—	-299
C. Discontinue Salton Sea Solar Pond Project	—	—	-500	—	—	-500
D. Other contract reductions ^a	-450	-220	—	—	—	-670
E. Reduce Management and Support (-8 PY)	-238	—	—	—	—	-238
II. Conservation Program						
A. Discontinue traffic signal synchronization grants	—	-2,400	—	—	—	-2,400
B. Energy conservation loans						
1. New loans	—	—	-4,770 ^c	3,507 ^d	—	-1,263
2. Repayments ^e	—	—	—	-3,310 ^d	—	-3,310
C. General Program Reduction						
1. Eliminate 55.3 PY ^a	-1,954	-184	—	—	—	-2,138
2. Reduce contracts ^a ..	-888	-412	—	—	—	-1,300
D. Estimated reduction in federal funds	—	—	—	—	-178	-178
III. Development Program						
A. Eliminate one-time expenditures						
1. Fluidized-bed co-generation	—	—	-500	—	—	-500
2. Methanol automobiles and buses	—	—	-3,890	-2,539 ^f	—	-6,429
3. Clean coal projects..	—	—	—	-2,000 ^g	—	-2,000
B. Loans for biomass energy projects						
1. New loans	—	—	—	-1,754 ^f	—	-1,754
2. Repayments ^e	—	—	—	-4,615 ^f	—	-4,615
C. Geothermal grants to local governments.....	—	—	—	824 ^h	—	824
D. General Program Reduction (-40.1 PY)						
1. Eliminate 40.1 PY ..	-2,022	—	—	—	—	-2,022
2. Reduce contracts ...	-800	—	—	—	—	-800

IV. Policy, Management and Administration

A. Eliminate 38.5 PY due to reduced workload from other programs ^a	-1,368	-188	—	—	—	-1,556
B. Reduce contracts.....	-300	—	—	—	—	-300
C. Reduce legal services (-6 PY) ^a	-295	—	—	—	—	-295
V. Miscellaneous and Base-line Changes.....	1,230	—	-189	-100	—	941
Totals, 1983-84 Budget changes	-\$8,401	-\$3,404	-\$9,849	-\$9,987	-\$178	-\$31,819
Totals, 1983-84 Proposed Budget..	\$14,285	\$94	—	\$3,183	\$1,332	\$18,894

^a Allocation of budget change among funding sources is estimated by Legislative Analyst's Office.

^b Energy conservation loans to schools, hospitals, public care institutions and units of local government and loans to local governments for replacing inefficient streetlights.

^c Decrease due to one-time appropriations of \$2,885,000 to augment "Schools and Hospitals" loan funds and \$1,885,000 to augment streetlight conversion loan funds in 1982-83.

^d State Energy Conservation and Assistance Account, General Fund.

^e Loan repayments are included as negative expenditures.

^f State Agricultural and Forestry Residue Utilization Account, General Fund.

^g Clean Coal Account, General Fund.

^h Geothermal Resources Development Account, General Fund.

Legislature, the commission continued to hire new employees during the first half of the current fiscal year. As a result of these factors, the personal services costs projected for the commission in 1982-83 exceeded the amount approved in the budget by more than \$1 million when the commission and the Department of Finance began discussions in early January 1983 on how this problem could be rectified.

Contract Funds. The Budget proposes \$1,667,000 for Energy Commission contracts in 1983-84. This is a reduction of \$3,508,000, or 68 percent, from the estimated amount of contract funds available in the current-year (\$5,175,000). These figures do not include contract expenditures under loan and grant programs or special items of expense which are funded by one-time appropriations. Nor do they reflect \$1,260,000 in federal funds that were carried over from 1981-82 into 1982-83. These federal funds, which were added by a budget revision in August 1982, bring the total amount available for contracts during the current year to \$6,435,000. When the Governor imposed a freeze on contract expenditures in January 1983, \$3,649,000 of this money had been spent.

At the time this *Analysis* was prepared, the Department of Finance had not supplied the Legislature with a list of the contracts proposed for funding in 1983-84. According to the budget narrative, "contract funds proposed for 1983-84 are limited to continuation of only those activities funded in the current year."

Loan and Grant Programs and Special Projects. In the current year, the commission received \$9,849,000 from the Energy Account of the Energy and Resources Fund to augment its existing energy conservation loan programs and to fund several major new energy technology projects. The proposed budget for 1983-84 does not include any money from the Energy and Resources fund or from any other source to augment the loan programs, establish any new loan or grant programs, or to fund new energy technology demonstrations.

The budget includes expenditure of \$1,375,000 from the Geothermal

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Resources Development Account to fund the second part of a two-year appropriation made in the 1982 Budget Act for the San Bernardino Geothermal Heating Project.

Budget Changes by Program

Although the budget makes significant reductions in all four of the Energy Commission's programs, the largest reductions, on both a dollar basis and a percentage basis, are made in the Energy Conservation program and the Energy Development program. A general discussion of the reductions in each of the four programs follows.

Regulatory and Planning Program. The budget continues staff and funds for power plant siting at the current-year level. It eliminates all staff and funds for locational analyses (the study of long-term power plant siting issues), as well as for the environmental analyses of (1) other commission programs and (2) the activities of other agencies pursuant to the California Environmental Quality Act (CEQA). The budget reduces contract funds, but maintains existing staff levels, for energy supply and demand forecasting and analysis work. The budget also reflects a discontinuation of funding for the Southern California Edison Company's Salton Sea Solar Pond Project. The commission received an appropriation of \$500,000 from the Energy and Resources Fund in the current year for this project, but the money will not be spent because the project is not progressing.

Energy Conservation Program. The budget proposes a 60 percent reduction in staff and a 65 percent reduction in contract funds for the Energy Conservation program. Staff would decrease from 92.6 to 37.3 personnel-years, and contract funds would decrease from approximately \$2,000,000 in the current year to \$700,000 in 1983-84. These reductions would eliminate all staff and funds for transportation energy conservation work and planning for oil shortage emergencies. Furthermore, grants to local governments for traffic signal synchronization would not be continued in 1983-84. The commission received \$2.4 million from the Motor Vehicle Account for these grants during the current year.

Staff to develop and implement energy conservation standards for new buildings would be reduced from 43.2 to 15.0 personnel-years in 1983-84, and staff assigned to the development and implementation of energy efficiency standards for appliances and equipment would be reduced from 7.3 personnel-years in the current year to 4.0 in 1983-84. The budget does not reduce staff assigned to the development and monitoring of utility load management programs.

Energy conservation loans to public and nonprofit schools, hospitals, public care institutions, and units of local government, and loans to replace inefficient street lights would be reduced from \$7,263,000 in the current year to \$6,000,000 in 1983-84. Loans in the current year were funded in part with \$4,770,000 appropriated from the Energy and Resources Fund in the 1982 Budget Act to augment these programs. Repayments of previous loans received by the State Energy Conservation and Assistance Account, a revolving loan fund, provided the remaining money. All loans made in 1983-84 would use money from repayments of previous loans.

Development of New Energy Sources. Estimated expenditures in the current year for the Energy Development program include \$8,929,000 for

one-time expenditures. These projects are not replaced by other projects in the 1983-84 budget. These special one-time items of expense are a fluidized bed, coal cogeneration project (\$500,000), methanol-fueled automobile and bus demonstrations (\$6,429,000), and clean coal projects investigating the use of methanol and coal gas as industrial fuels (\$2,000,000).

The budget estimates that loans to businesses for biomass energy conversion projects will be reduced by \$1,754,000, from \$6,354,000 to \$4,600,000. All of the money loaned in 1983-84 would be provided from repayments of previous loans deposited in the State Agricultural and Forestry Residue Utilization Account. The budget also proposes \$824,000 from the Geothermal Resources Development Account for grants to local governments for geothermal-related projects.

The changes in support for the Energy Development program proposed by the 1983-84 budget involve a reduction in personnel-years from 92.6 to 52.5, for a savings of \$2,022,000, and an \$800,000 reduction in contract funds, from \$1,350,000 in 1982-83 to \$550,000. The budget indicates that the positions being eliminated will come from the synthetic fuels office, the solar office, and the management of the development division.

Policy Management and Administration Program. This program includes the commissioners and their staffs, the executive office, administrative services, most of the legal staff, and various special offices, such as the public advisor and governmental affairs. The budget reduces funding for this program by 20 percent, from \$8,570,000 to \$6,893,000, and reduces staff by 32 percent, from 136.7 personnel-years to 92.5 personnel years. The reduction is distributed among the various offices included in this program, and is primarily based on the reduced workload for central administration and management that would result from the reductions in the other three programs.

The budget also eliminates 4 lawyers and 2 support staff, for a savings of \$295,000. This reduction reflects the Governor's policy decision to reduce in-house legal staff of all line agencies, in order to centralize the provision of legal services in the Department of Justice. The workload-based reduction eliminates another 4 legal positions and 1.5 support positions, so that the total proposed reduction in the commission's legal staff amounts to 8 attorneys and 3.5 support positions. The commission's authorized legal staff for 1982-83 is 15.6 lawyers and 8 support positions. Thus, the budget proposes to cut the legal staff approximately by 50 percent.

Effect of Reductions on Programs Uncertain

We withhold recommendation on the Energy Commission's support budget and further recommend that the Energy Commission and the Department of Finance be directed to (1) clarify the programmatic impact of the reductions proposed in the budget, (2) resolve various technical discrepancies in the budget, and (3) report thereon to the Legislature, prior to subcommittee hearings.

The budget proposes a major change in direction for the Energy Commission. Since it began operation in 1975, the commission's total expenditures have grown at an average annual rate of 26 percent. During this time, the commission has expanded from a narrow focus on the demand for electric energy and the availability of facilities to produce it, to encompass essentially all facets of energy supply and demand, including natural gas supplies, the world oil situation, energy use by transportation, and synthetic fuels. The activities of the commission and its staff have expand-

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ed programmatically from the original core work of power plant siting and the establishment of building and appliance energy efficiency standards to include a variety of loan and grant programs that are intended to promote energy conservation and the development of new energy technologies, as well as the direct funding of major projects to demonstrate and develop energy technologies, such as methanol fuel, photovoltaic power, and direct use of geothermal heat.

The budget states that the reductions in staff and funding proposed by the administration are intended to alter the role of the commission. Specifically, the budget proposes that the commission's role be changed so that it is no longer heavily involved in the adoption and implementation of energy policies, and instead acts more as an advisor on energy issues to other institutions, such as the PUC, universities, and the private sector. The budget narrative describes the proposed change as follows:

"Rather than being an active participant in developing new energy conservation strategies and alternative energy sources, the emphasis of the commission's activities will be limited to forecasting future energy supply and demand and formulating strategies for energy conservation and development in response to energy forecasts."

Our analyses of past commission budgets have indicated that many of the commission's activities were poorly focused and of questionable value to the state. In some instances, studies by staff and contractors have been little more than sophisticated speculation. In other cases, it appeared that the major purpose of alternative energy projects was to demonstrate that with sufficient state subsidy, any technology could be implemented. In addition, we have found that the commission's regulatory proceedings in power plant siting and other areas often have been overly complex and legalistic.

For these reasons, we believe that a major reduction in the commission's budget can be made without eliminating support for activities of critical importance to the state. In addition, significant reductions in staff and contract funds will stimulate the commission to concentrate more on setting priorities for the study of energy-related problems and the development of alternative energy sources. A sharper focus in the commission's programs could make the programs considerably more effective in achieving demonstrable results.

At the same time, however, we recognize that substantial reductions in staff and funding, such as those proposed in the budget, cannot be achieved quickly without causing some disruption to all of the commission's activities.

In sum, we believe that reductions of the magnitude proposed in the budget *may* be justified. Nevertheless, we withhold recommendation on the commission's support budget at this time, for two reasons:

1. The programmatic impact of the proposed reductions is not clear. There are no budget change proposals or other supporting documents which describe how the proposed reductions would be implemented, what their impact would be.

2. There are many technical discrepancies in the budget which cannot be resolved without the participation of the energy commission budget staff. For example, the budget indicates that the cost of one personnel-year of staff effort in the development program appears is only \$18,800,

whereas the cost of a personnel-year of staff in the policy management and administration program appears to be \$74,000. Furthermore, the budget proposes to reduce conservation program contracts by \$1,300,000 from the current-year level, leaving \$700,000 for 1983-84. However, we can identify a total of only \$1,700,000 budgeted for conservation program contracts in the current year, not \$2,000,000.

Preliminary Observations. Although detail on the proposed changes in commission programs is lacking, it is clear that the specific policy and program choices reflected in the budget raise important issues for the Legislature to consider. Our preliminary observations on some of these choices are as follows:

1. ***The Commission Would Play a Greatly Diminished Role in Regulating Buildings and Appliances.*** The budget appears to eliminate the formulation or adoption of new building energy standards or appliance efficiency standards in 1983-84. The commission has adopted standards for most types of buildings and household appliances, and currently is engaged in a long-term effort to update and extend its energy conservation standards for commercial buildings. It is not clear from the budget whether the Governor intends to *delay* the formulation of new standards, or to *eliminate* any substantive future revisions or additions to the standards by deleting funds for these activities.

2. ***The Commission's Regulatory Workload Would be Significantly Curtailed.*** If building and appliance standards development is eliminated or limited merely to technical changes and adjustments, the commission's regulatory workload would be reduced substantially. Power plant siting and load management would remain as the major regulatory functions.

At this time, it appears that the siting workload in 1983-84 will consist of two geothermal power plants, three cogeneration power plants, and one transmission line siting case. All of these cases are expected to be before the commission only for a portion of the fiscal year. These geothermal and cogeneration siting cases are also subject to expedited siting procedures, and do not normally involve the major issues which can arise in siting large coal or nuclear baseload power plants. In addition, all of the geothermal projects will be at The Geysers, where the commission has already sited several power plants. Consequently, these cases should be relatively routine. Nor should the work on load management standards present a heavy regulatory burden because these standards usually involve expenditures of ratepayer money and adjustment of the rate schedules. In practice, authority to set these standards is shared with various public rate-setting bodies (the PUC or the governing boards of municipal utilities).

Because of the commission's limited and diminishing regulatory workload, we question whether the remaining regulatory workload would be sufficient to warrant 5 full-time commissioners. We note that these commissioners currently have a combined staff of 19 permanent professional and clerical employees, only 2 of which the budget proposes to delete.

3. ***The Focus and Specific Mission of the Commission Become Even More Diffuse.*** The Energy Commission does not have a clear mission or focus. Although it investigates a broad range of energy-related issues, its regulatory authority is not comprehensive. Instead, its regulatory authority covers only segments of the energy regulatory spectrum, and tends to be disjointed. On the other hand, the role of the PUC in state energy policy has become much greater, as it has increased its efforts to use rates and utility revenues in order to implement energy conservation programs

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—Continued

and to promote alternative energy sources.

By eliminating or deemphasizing building and appliance standards, the budget would further erode the commission's specific regulatory focus, while continuing at current staffing levels a fragmented energy forecasting and assessment function. The budget narrative appears to indicate that the commission will continue to formulate broad energy policies for the state, but it emphasizes that the implementation of these policies will be accomplished by traditional institutions such as the PUC. In this regard, the budget does not suggest that any formal mechanism will be proposed which would cause the policies adopted by the Energy Commission to be implemented by the agencies or institutions which have either the authority or the program responsibility to implement new energy policies.

Continuation of High-Priority Projects or Functions. In each of the program areas where the budget proposes reductions in staffing and funding, there are likely to be some functions or activities which warrant continuation because of the immediate, identifiable, and significant benefits which the state can expect to receive from them. These activities might include those in which a substantial state investment has already been made and which require only a relatively small effort in 1983-84 in order to produce useful results. Another type of high-priority activity may be continued participation in some regulatory proceedings and litigation with immediate importance to California—for example, rate proceedings regarding the purchase of power by California utilities from the Bonneville Power Administration. Completion or continuation of these activities should be considered by the Legislature for high-priority funding within the reduced programs.

Additional Federal Funds Available

We recommend a reduction of \$1,693,000 (Item 3360-001-465), offset by a corresponding increase in federal funds (Item 3360-001-890), in order to assure that available federal funds are fully utilized and to reduce demands on limited state funds.

The 1982 Budget Act appropriated \$1,510,000 of federal funds to the commission. This was the estimated amount of new federal funds that would be available to the commission for 1982-83. Essentially all of this money was to be spent for the federally approved State Energy Conservation Program (SECP). The Department of Energy distributes SECP funds to state energy offices on a formula basis. SECP funds can be used for a wide variety of energy conservation activities, and can either replace or augment state money.

Commission staff now indicate that the actual amount of federal funds available for expenditure in 1982-83 will be \$3,505,000, about twice the \$1,510,000 appropriated. Of the additional \$1,995,000, \$1,784,000 represents SECP money that remains unexpended from previous years. Most of the remaining \$211,000 is from surplus funds available to the commission for administering the federal schools and hospitals energy conservation grant program.

As of January 1983, the Department of Finance had authorized the commission to spend an additional \$1,286,000 of these federal funds, bringing the total to \$2,796,000 in 1982-83. Thus, the commission will carry-over at least \$709,000 in federal funds from 1982-83 into 1983-84. The Depart-

ment of Energy now indicates that new SECP funds totaling \$1,168,000 more than the amount proposed in the budget will be available to the commission in 1983-84. This additional money, together with the \$525,000 in surplus SECP funds from the current year, could be substituted for state funds in the commission's energy conservation program for 1983-84. Accordingly, we recommend that \$1,693,000 in available federal funds be used in lieu of state funds to support the energy conservation program in the budget year.

Circumvention of Legislative Review

Several actions taken by the commission during the current fiscal year appear to circumvent legislative review and control of the budget. These actions are discussed in the next two sections of this analysis.

Carry-Over of Federal Funds

We recommend that Budget Bill language be added to Item 3360-001-890 directing the State Controller to prohibit the expenditure of any unappropriated federal funds by the commission during 1983-84 unless he has determined that (1) the additional money will replace state funds or (2) the Director of Finance has certified to the Chairmen of the Joint Legislative Budget Committee and the fiscal committee of each house in writing that the money cannot be used to offset a like amount of state money.

On August 2, 1982, the Department of Finance approved a revision to the Energy Commission's budget that allowed the commission to spend an additional \$1,259,712 of federal funds for contract studies during 1982-83. The Legislature did not appropriate any of these funds for 1982-83; nor was the Legislature notified of this augmentation pursuant to requirements set forth in Section 28.00 of the Budget Act. This augmentation, which was made possible by the availability of surplus, federal SECP grants, could have been—and should have been—presented to the Legislature during its consideration of the commission's 1982-83 budget. All of the money is from prior-year federal grants, and could have been anticipated at the time of budget hearings. As a result of the commission and the department failing to advise the Legislature that these funds were available:

1. The Legislature was denied the opportunity to substitute this money for state funds, and thereby achieve additional savings in the Special Account which could have been used to reduce demands on the General Fund.

2. The Legislature was denied the opportunity to review the specific contracts to be funded.

We recommend that the Legislature adopt the following Budget Bill language to insure that it retains control over federal funds received by the commission:

“Provided that, the State Controller shall not allow the Energy Resources Conservation and Development Commission to spend any federal funds in excess of the amount appropriated by Item 3360-001-890, unless either (1) the expenditure of the additional federal funds will result in an equivalent reduction in the expenditure of state funds appropriated to the commission or (2) the Director of Finance certifies to the chairmen of the Joint Legislative Budget Committee and the fiscal committee of each house that the additional federal funds can be used only to augment existing state funds.

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
—Continued**Funds Switched from Ethanol to Methanol Program**

We recommend the transfer of \$541,000 from the State Agricultural and Forestry Residue Utilization Account to the General Fund because there is no plan to spend this money for its original purpose.

Another circumvention of legislative budgetary review and control involves the use of funds appropriated by Chapter 161/79. This act appropriated \$10 million from the Transportation, Planning and Development Account to the Secretary of Business, Transportation, and Housing for the development of alternative motor vehicle fuels. Chapter 803, Statutes of 1980, transferred \$3.8 million of this amount to the State Agricultural and Forestry Residue Utilization Account (SAFRUA) for use by the Energy Commission in "investigating the practicality and cost effectiveness of alternative motor vehicle fuels, including, but not limited to, the production of fuel grade ethanol from agricultural products."

The commission established a program to fund feasibility studies and provide loans for the construction of medium-sized ethanol production facilities to implement this legislation. In our *Analysis of the 1982 Budget Bill*, we noted that at the time approximately \$2.5 million of this money remained unspent, and that the commission's staff had rejected all of the specific proposals for using the funds on the basis that these proposals (involving the conversion of grain to alcohol) were not economically feasible. On this basis, we recommended that the commission report to the Legislature on how it intended to use the remaining \$2.5 million.

In its written response to our analysis and during the budget hearings, the commission indicated that it planned to solicit a new round of funding proposals for projects to make ethanol from agricultural waste materials (such as cull fruits or cheese whey) or from feed stocks grown by prospective ethanol producers. Thus, the program would continue to promote the production of ethanol fuel from agricultural materials.

In July 1982, the commission diverted \$1,998,000 of this money to fund a contract which had been awarded several months earlier to demonstrate the feasibility of *methanol*-fueled buses. Initially, the methanol bus work was funded from the Clean Coal Account. Subsequent to the enactment of the budget, however, the commission switched the funding for the methanol bus contract to the SAFRUA. It did this so that it could use the Clean Coal Account to proceed with methanol and coal gasification projects. (The commission had planned to use \$2 million from the Clean Coal Account to support these projects, but the Legislature chose to transfer these funds to the General Fund.) Thus, money which was intended by the Legislature to be used for ethanol loans to help farmers and other segments of the agricultural industry is instead being used to demonstrate the feasibility of methanol-fueled buses in a suburban mass-transit system. The Department of Finance did not choose to notify the Legislature of this diversion, as it is required to do by Control Section 28.00 of the Budget Act.

The commission's diversion of funds from the ethanol program to the methanol program represents a significant policy change and involves a substantial amount of money. While the commission's decision not to fund the ethanol projects may have been prudent, the diversion of the \$1,998,000 to the methanol bus fleet contradicted what the commission had told the Legislature during the budget hearings and denied the Legislature an

opportunity to examine the ethanol and methanol programs and make its own determination regarding funding priorities.

Of the original \$3.8 million available for ethanol loans, approximately \$541,000 remains unexpended at this time. According to commission staff, there are no plans at present to spend this money. On this basis, and in order to provide the Legislature with more fiscal flexibility in providing funding for its priorities, we recommend that \$541,000 be transferred from the State Agricultural and Forestry Residue Utilization Account to the General Fund.

State to Receive Federal Escrow Funds

We recommend that the Department of Finance report to the Legislature on the amount of "petroleum violation escrow funds" which the Department of Energy will allocate to California, and the proposed use of these funds.

House Joint Resolution 631, enacted by Congress in December 1982, requires the Secretary of Energy to distribute up to \$200 million of "petroleum violation escrow funds" to the states. The escrow funds are payments by oil companies and others to the federal government because of alleged overcharging during the period when petroleum prices were regulated. Each state will receive money in proportion to its use of refined petroleum products when price controls were in effect (1973 to 1981).

California probably will receive about 10 percent of the nationwide amount, or \$20 million if the full \$200 million is distributed to the states. The Department of Energy indicates that it will announce in late January the amount each state will receive. This money may be used only to augment funds otherwise available (both state and federal) for the following five federally authorized energy conservation programs:

1. Home weatherization assistance to low-income persons administered by the Governor's Office of Economic Opportunity.
2. The Department of Energy-approved state energy conservation program carried out by the Energy Commission.
3. Grants to schools and hospitals for energy conservation projects, administered by the Energy Commission.
4. The Energy Extension Service operated by the Office of Appropriate Technology.
5. Low-Income Home Energy Assistance payments, administered by the Department of Social Services.

The Department of Finance should report to the Legislature as soon as possible on the amount of these federal funds that the state will receive and how the administration proposes to use the money.

Resources Agency

CALIFORNIA WASTE MANAGEMENT BOARD—SUPPORT AND REAPPROPRIATION

Items 3380 from the General Fund and 3380-490 from the Environmental License Plate Fund

Budget p. R 33

Requested 1983-84	\$4,059,000
Estimated 1982-83.....	6,808,000
Actual 1981-82	8,161,000
Requested decrease (excluding amount for salary increases) \$2,749,000 (-40.4 percent)	
Total recommended reduction	660,000
Recommendation pending	\$940,000

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
3380-001-001—Support		General	\$4,024,000
3380-490-140—Reappropriation		Environmental License Plate	35,000
Total			\$4,059,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

- 1. *Contract Management Positions. Reduce Item 3380-001-001 by \$230,000.* Recommend a reduction of \$230,000 to delete four existing contract management positions and one clerical support position which are no longer justified on a workload basis. 515
- 2. *Supervisory and Administrative Positions. Reduce Item 3380-001-001 by \$430,000.* Recommend a reduction of \$430,000 to delete five existing supervisory positions and seven existing administrative services positions, consistent with reductions in the board's programs. 515
- 3. *Public Awareness and Education.* Withhold recommendation on 8.6 positions and \$940,000 requested for public awareness activities, pending receipt and review of a legislatively mandated report on public awareness program alternatives. 517

GENERAL PROGRAM STATEMENT

The California Waste Management Board is responsible for (1) ensuring that nonhazardous wastes are handled and disposed in an environmentally sound manner and (2) encouraging the adoption of environmentally, economically, and technically-sound changes in waste disposal practices. Under existing law, the primary responsibility for solid waste management and associated planning is assigned to local government. The budget proposes 85 personnel-years for the board during the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations totaling \$4,059,000 from state funds for support of the California Waste Management Board in 1983-84. This amount consists of \$4,024,000 from the General Fund and \$35,000 in funds remaining from the \$200,000 originally appropriated by Ch 1019/80 to finance a study of the migration of methane gas from landfills. The total amount proposed in the two appropriations is \$2,749,000, or 40 percent, less than estimated current-year expenditures. This, however, makes no allowance for any salary or staff benefit increases that may be approved for the budget year.

The board also plans to spend \$83,000 in reimbursements, bringing total proposed expenditures in 1983-84 to \$4,142,000. This is a decrease of \$2,832,000, or 41 percent, from total expenditures in the current year.

Significant Budget Changes

The major changes in the board's 1983-84 budget are shown in Table 1 and discussed below.

1. *Reduction in Grant and Contract Funds.* The budget proposes a reduction in the amount available to the board for grants and contracts amounting to \$2,548,000. This leaves only \$200,000, to be used to fund projects for public awareness.

During the period 1978-79 through 1982-83, the board received significant funding for grants and contracts pursuant to Ch 1161/77 (SB 650). This act established a five-year program of state support to local governments and private entities to encourage litter control, recycling, and resource recovery. Expenditures under this program were approximately \$8 million in 1978-79, \$9.5 million in 1979-80, \$9.1 million in 1980-81, \$5.2 million in 1981-82, and \$2.8 million in 1982-83. This money supported a wide variety of projects, including research on recycling methods, waste-to-energy conversion and other technologies, public awareness, litter cleanup, and the establishment and operation of recycling centers.

Senate Bill 650 directed our office to report annually to the Legislature on the effectiveness of the programs established by the bill. In our reports, we concluded that, while some projects funded by SB 650 had merit, the program as a whole has not resulted in significant changes in the amount of materials recovered or recycled in the state.

The lack of progress under this program, despite the expenditure of nearly \$35 million over a five-year period, can be traced to several factors. In the early years of the program, the board distributed a large number of relatively small grants, with the expectation that these small amounts of "seed money" would be sufficient to get many projects operating on a self-supporting basis. This proved not to be the case, particularly for waste-to-energy and other complex projects. Most of the waste-to-energy projects which received funding from the board continue to face severe siting, air quality, ash disposal, and financing difficulties. Furthermore, the board was unable to adequately monitor and manage the large number of projects it had funded.

In the recycling area, we concluded that the basic premise of the program—to establish recycling facilities to collect additional materials—would not result in a significant increase in recycling unless corresponding action was taken to increase the demand for recycled materials. The board has attempted to develop programs to increase demand, but few feasible options have been identified.

Given that program results to date have been limited, we conclude that

CALIFORNIA WASTE MANAGEMENT BOARD—SUPPORT AND REAPPROPRIATION—Continued

the proposed reduction in grant and contract funds will not significantly affect the overall implementation of alternative waste management techniques in California. The proposed reduction presents no threat to public health or safety, and the board will retain staff to provide technical assistance to local entities. Taking into account the fiscal problems facing the state, we have no basis for recommending that the budget be augmented to restore funds for grants and contracts given the relatively ineffective manner in which these funds have been used to date.

2. **Termination of the Solid Waste Management Fund.** In recent years, a significant portion of the board's expenditures has been funded through the Solid Waste Management Fund. In essence, however, this amounted to General Fund support, because all revenue to the Solid Waste Management Fund came from the General Fund. The statutory authorization for the Solid Waste Management Fund will expire on June 30, 1983. Therefore, the 1983-84 appropriation to support the board is budgeted directly from the General Fund. There will be no net effect on the level of General Fund expenditures as a result of this change.

Table 1
California Waste Management Board
Proposed Budget Changes
1983-84
(in thousands)

	<i>General Fund</i>	<i>Solid Waste Management Fund</i>	<i>Other</i>	<i>Totals</i>
1982-83 Base Budget (Revised) ^a	\$4,550	\$2,102	\$322 ^b	\$6,974
A. Program Changes				
1. Reduction in contract and grant funds	-2,548 ^c	—	—	-2,548
B. Baseline Changes				
1. Elimination of Solid Waste Management Fund	2,102	-2,102	—	—
2. Deletion of pro rata charges	-215	—	—	-215
3. Termination of one-time expenditures for methane gas study	—	—	-121 ^c	-121
4. Loss of federal funding	—	—	-108 ^d	-108
5. Miscellaneous	135	—	25 ^e	160
Totals, 1983-84 Budget Changes	-\$526	-\$2,102	-\$204	-\$2,832
Totals, 1983-84 Proposed Budget	\$4,024	—	\$118 ^f	\$4,142

^a The total estimated expenditure for 1982-83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83.

^b Includes \$156,000 from the Environmental License Plate Fund, \$108,000 in federal funds, and \$58,000 in reimbursements.

^c Environmental License Plate Fund.

^d Federal funds.

^e Reimbursements.

^f Includes \$35,000 from the Environmental License Plate Fund and \$83,000 in reimbursements.

Delete Unjustified Contract Management Positions

We recommend deletion of \$230,000 from Item 3380-001-001 to eliminate four existing contract management positions and one clerical support position which are no longer justified on a workload basis.

As noted above, the board's budget request includes a reduction of \$2,548,000 (93 percent) in funding for grants and contracts. No corresponding reduction was made, however, in the level of staff devoted to the development and management of grants and contracts. Instead, the budget provides for the continuation of the staffing level authorized in the current year.

The workload involved in grant and contract management includes:

- Determining specific study areas to be addressed.
- Developing "requests for proposals" (RFPs) which are used to select contractors to perform desired studies or projects.
- Evaluating proposals and selecting contractors.
- Negotiating and drafting contracts.
- Monitoring each contractor's performance.
- Clerical support.

Table 2 shows the board's recent and projected contract management workload.

Table 2
California Waste Management Board
Contract Management Workload

	1980-81 ^a	1981-82	1982-83	1983-84
Grant and contract funds available.....	\$5,981,000	\$5,198,000	\$2,818,000	\$200,000
Number of proposals evaluated	268	59	25	9
Number of new contracts awarded.....	67	37	27	3
Number of contracts monitored	106	154	132	35

^a Excludes litter grants to facilitate comparison.

Based on the board's work plan for 1982-83, we estimate that the board has approximately four personnel-years devoted to contract management work in the current year. This does not include staff in the public awareness area (the only program budgeted to receive contract funds in 1983-84), nor does it include staff necessary to monitor and audit existing contracts that will extend into 1983-84.

Given the proposed elimination of all grant and contract funds other than for public awareness, the four personnel-years devoted to contract management and one clerical support position are no longer justified on a workload basis. We therefore recommend deletion of five positions, for a savings of \$230,000 in Item 3380-001-001.

Supervisory and Administrative Positions

We recommend a reduction of \$430,000 in Item 3380-001-001 to delete five existing supervisory positions and seven existing administrative positions, consistent with reductions in the board's programs.

For 1983-84, the board requests \$1,772,000, or 43 percent of the board's total budgeted expenditures, for overall board support and administration. This percentage is substantially higher than the norm for state departments.

Our analysis indicates that the recent significant reductions in the

CALIFORNIA WASTE MANAGEMENT BOARD—SUPPORT AND REAPPROPRIATION—Continued

board's overall programs and expenditures have not been accompanied by corresponding reductions in administrative staff. Table 3 shows the board's administrative expenditures as a percentage of total expenditures for the period 1980-81 through 1983-84.

Table 3
California Waste Management Board
Administrative Expenditures as a Percentage of Total Expenditures
(dollars in thousands)

<i>Expenditures</i>	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>
Total	\$14,325	\$8,564	\$6,974	\$4,142
Administrative	1,622	1,670	1,687	1,772
Administrative as percentage of total	11.3%	19.5%	24.2%	42.8%

As Table 3 indicates, the board's administrative expenses have remained roughly constant in dollars, while overall program expenditures have been reduced from \$14,325,000 to \$4,142,000—a reduction of 70 percent.

We recognize that there are large fixed costs associated with the structure and functioning of the board itself. The board consists of a full time salaried chairman, plus eight voting members who receive \$100 per day plus expenses for attending monthly board meetings. The board itself and its associated operating expenses account for \$150,000 of the 1983-84 budget request. In addition, the board's budget includes within administration 18 positions (executive office, division chiefs, and centralized clerical pool) which in other agencies are identified as program staff.

Nevertheless, we believe that a reduction in the board's overall administrative and supervisory staff is warranted. The board requests 1983-84 funding for a full-time chairperson, an executive officer, a 3-position Office of Policy and Program Analysis, 16 other supervisory-level positions, and a 23-position administrative services division, for a total of 44 workload-associated administrative and supervisory positions. While this level of executive and administrative services support may have been appropriate when the board was developing and managing \$9 million per year in grants and contracts, this is no longer the case.

Based on a review of the board's requested staffing patterns, we conclude that, as a minimum, a reduction of five supervisory positions, or approximately \$230,000, could be sustained without seriously affecting the board's ability to manage its current programs.

In addition, administrative workload is declining in response to reductions in grant expenditures, the number of contracts outstanding, and the number of personnel employed by the board. At the time this analysis was prepared, however, we had not received sufficiently detailed workload information to determine with precision what further reductions are warranted by the reduction in workload. We have reviewed the board's staffing in the administrative services area, and identified activities to which the board is now devoting more than one staff position. These activities include personnel, contract and auditing, business services, accounting, and clerical support. Given the sharp reductions in the board's workload, it would appear that seven positions probably could be eliminated without jeopardizing the performance of these activities. It is on this basis that we recommend the reduction of seven positions and associated expenses for a savings of \$200,000. This results in an overall recommended reduction of

\$430,000 in Item 3380-001-001.

Once detailed workload information on the board's administrative support requirements becomes available, we will review this recommendation and advise the Legislature if any changes are warranted by our review.

Public Awareness Staffing and Contracts

We withhold recommendation on 8.6 positions and \$940,000 requested for public awareness activities, pending receipt and review of the report on public awareness program alternatives that the Legislature mandated in 1982.

The budget proposes 8.6 positions and \$940,000 (including \$200,000 in contract funds) for public awareness activities in 1983-84.

Last year, we recommended and the Legislature adopted the following language in the *Supplemental Report of the 1982 Budget Act*:

"The board shall allocate up to \$30,000 from its public awareness and education funds for a contract study and report on alternative approaches to public awareness and education efforts, and formulate an overall plan for the education and public awareness program."

A contract for the report has been awarded, and the report is expected to be available for review in February 1983. We anticipate that the report will be useful to the Legislature in reviewing the public awareness activities and expenditures proposed by the board. We, therefore, defer recommendation on the funding requested for public awareness activities, pending receipt and review of the report.

Remaining Board Activities

The proposed \$2,548,000 reduction in 1983-84 grant and contract funding continues a trend that was begun in 1981-82. Table 4 shows board expenditures in each of its principal program areas for the last four fiscal years.

Table 4
California Waste Management Board
Expenditures by Program Area
(in thousands)

	1980-81	1981-82	1982-83	1983-84	Percent Change
1. Monitoring and Enforcement	\$2,181	\$1,773	\$1,879	\$1,489	-32%
2. Resource Conservation and Recovery	6,668	5,248	3,861	1,713	-74
3. Litter Control	4,227	—	—	—	-100
4. Public Awareness	1,249	1,543	1,234	940	-24
Totals	\$14,325	\$8,564	\$6,974	\$4,142	-71%

Because of the significant reductions in the board's programs, it is not clear that the provisions of existing law setting forth the board's mission and priorities are still valid. For this reason, the Legislature may wish to reevaluate the board's mission as set forth in the Government Code. To facilitate such a reevaluation, the balance of this analysis describes the board's remaining activities and statutory responsibilities.

The board's current activities can be grouped into two distinct categories. First, the board seeks to assure that existing waste management facilities and practices are environmentally sound. This function is per-

CALIFORNIA WASTE MANAGEMENT BOARD—SUPPORT AND REAPPROPRIATION—Continued

formed as part of the board's Monitoring and Enforcement program.

Second, the board seeks to encourage environmentally, economically, and technically-sound changes in existing waste disposal practices. This function is performed as part of the board's Resource Conservation and Recovery program and its Public Awareness program. (The Litter Control program, which is shown separately in Table 4 in order to provide historic perspective, no longer exists as a separate program element.)

Monitoring and Enforcement. The budget proposes the expenditure of \$1,489,000 for monitoring and enforcement activities in 1983-84. This is 32 percent less than expenditures for this purpose during 1980-81.

The board has no direct regulatory responsibility in the solid waste area. No state permits are required for solid waste collection or disposal facilities. Instead, the board's responsibilities are limited to reviewing the activities of local entities with regard to the planning and siting of solid waste facilities, the issuance of solid waste facility permits, and the enforcement of permit terms and conditions. Under existing law, the board is required to:

1. Review county solid waste management plans and plan revisions.
2. Review the addition of implementation schedules to county plans and report to the Legislature by January 1, 1989.
3. Determine whether proposed sites for solid waste facilities are in conformance with the county solid waste management plans.
4. Provide written concurrence with, or objections to, local decisions to issue, modify, or revise solid waste facility permits.
5. Complete, by January 1, 1984, a study of methane gas migration from landfills.
6. Act as the local enforcement agency if none is designated by a local area. (The board is, by request, the local enforcement agency in San Diego.)
7. Periodically review the activities of local enforcement agencies.
8. Maintain a file of all permitted facilities and an inventory of facilities which violate state minimum standards.
9. Inspect a specified number of solid waste facilities each year.

Based on the board's 1982-83 work plan, we estimate that approximately \$1,300,000 of the \$1,489,000 budgeted for monitoring and enforcement in 1983-84 will be used to respond to workload associated with these statutory responsibilities. The remaining \$189,000 will be used to provide technical assistance to local enforcement agencies, respond to public complaints, and conduct some special studies on waste-to-energy conversion systems.

Resource Conversion and Recovery. The budget proposes the expenditure of \$1,713,000 for Resource Conservation and Recovery activity in 1983-84. This is 74 percent less than expenditures for this purpose in 1980-81.

The primary objective of this program is to encourage the recovery of resources and energy from waste materials. This program provided funding for most of the projects undertaken pursuant to SB 650.

The decrease in expenditures under this program element results from (1) legislative reductions to the authorized program level in 1981-82 and 1982-83 and (2) the budget's proposed elimination of \$2,548,000 in contracts and grants in 1983-84.

Existing law calls for the board to provide financial and technical assist-

ance to encourage resource recovery and recycling. In contrast to the Monitoring and Enforcement element, however, there are no specific ongoing functions which the board is *required* by law to perform in this program area. Consequently, the level of effort and funding for resource recovery is discretionary.

Budgeted activities for 1983-84 in this program include:

1. Monitoring grants and contracts awarded in previous years.
2. Providing technical assistance to local waste management officials on a case-by-case basis and through seminars and publications.
3. Undertaking research and analysis regarding the implementation of waste-to-energy projects in California.
4. Attempting to increase the demand for recycled materials.

Litter Control. The 1980-81 expenditures in this program area consisted primarily of litter cleanup grants to cities and counties pursuant to SB 650. In 1981-82, the Legislature eliminated from the budget all funding for litter control grants. The board's current activities in the area of litter control are now carried out as part of its public awareness and resource conservation programs.

Public Awareness. The budget proposes the expenditure of \$940,000 for Public Awareness in 1983-84. This is 24 percent less than expenditures for this purpose in 1980-81.

This program is designed to educate the public about a variety of solid waste management issues. Activities budgeted for 1983-84 include:

1. Responding to public inquiries.
2. Conducting press conferences and media events related to waste issues.
3. Conducting a "war on waste" campaign focused on organizing and assisting local groups.

As in the Resource Recovery and Recycling program element, existing law calls for the board to conduct a public education and awareness campaign, but does not specify any particular level of effort. The future of the public awareness work will likely be influenced significantly by the findings and conclusions contained in the report on this work that the board will be submitting in February.

Future Status of Board

In past *Analyses*, we have recommended that the board be converted to a department. Given the significant reductions in the size and content of the board's programs, departmental status for the board is no longer justified. In fact, the remaining responsibilities and activities of the state's solid waste management program do not, in our view, justify the expense of maintaining a separate, independent board. Further savings to the state beyond those recommended in this analysis could be realized if the board's remaining activities were transferred to another state agency.

There are at least three options available to the Legislature for achieving these savings. First, the state's solid waste management functions could be assigned to the Department of Health Services (DHS), which has responsibility for hazardous waste management. Second, the hazardous waste control activities within DHS could be combined with solid waste management to form a new entity responsible for both hazardous and nonhazardous waste management. Third, the board's solid waste functions could be consolidated with the Air Resources Board and the Water Resources Control Board to form a new state waste management agency (with or without the DHS hazardous waste activities). All of these alterna-

CALIFORNIA WASTE MANAGEMENT BOARD—SUPPORT AND REAPPROPRIATION—Continued

tives warrant considerable study before the Legislature can be given an adequate basis for determining the most appropriate alternative.

**Resources Agency
AIR RESOURCES BOARD**

Item 3400 from the General
Fund and special funds

Budget p. R 38

Requested 1983-84	\$51,607,000
Estimated 1982-83.....	56,640,000
Actual 1981-82	51,229,000
Requested decrease (excluding amount for salary increases) \$5,033,000 (-8.9 percent)	
Total recommended reduction	None
Recommendation pending	\$19,180,000

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
3400-001-001—Support		General	\$3,576,000
3400-001-044—Support		Motor Vehicle Account, State Transportation	23,651,000
3400-001-115—Support		Air Pollution Control	1,896,000
3400-001-128—Regulation of Licensed Smog Stations by Bureau of Automotive Repair		Automotive Repair	1,601,000
3400-001-140—Air Pollution Research		California Environmental License Plate	243,000
3400-001-420—Operation and Supervision of Mandatory Vehicle Inspection Program in South Coast Air Basin		Vehicle Inspection	13,879,000
3400-001-465—Cogeneration		Energy Resources Programs Account	152,000
3400-001-890—Miscellaneous Support		Federal Trust	(2,373,000)
3400-101-044—Subventions to Local Air Pollution Control Districts		Motor Vehicle Account, State Transportation	6,609,000
Total			\$51,607,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Stationary Source Control Work. Withhold recommendation on \$12,295,000 requested for the Regional Programs, Enforcement, and Stationary Source Control Divisions, and for executive and general support, pending review of the board's allocation of proposed reductions.
2. Research. Withhold recommendation on \$2,000,000 requested for acid deposition research and monitoring, pending review of a detailed breakdown of proposed expenditures. Further, withhold recommendation on \$4,885,000 requested for other research activities, pending review of the board's allocation of proposed reductions.

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3. In-Use Vehicle Testing. Recommend that the Legislature direct the board to report on the status of the In-Use Vehicle Testing program and its relationship to the new biennial vehicle emission inspection program. 524
4. Discontinue Mandated Report. Recommend that a report on certification of certain emission control devices be discontinued. 525

GENERAL PROGRAM STATEMENT

The Air Resources Board (ARB) is responsible for achieving and maintaining satisfactory air quality in California. The board consists of a full-time chairperson and six part-time members, all of whom are appointed by the Governor and serve at his pleasure.

Most of the board's staff are located in Sacramento. Vehicle emission testing, vehicle certification, and air pollution laboratory work are conducted in El Monte.

The board has 555.6 authorized personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes total appropriations of \$51,607,000 from the General Fund and various special funds for support of Air Resources Board activities in 1983-84. This is a decrease of \$5,033,000, or 9 percent, from estimated current-year expenditures. Total expenditures by the board will increase, however, by the amount of any salary or staff benefit increases approved for the budget year.

In addition to \$51,607,000 of state funds, the board proposes to spend \$2,373,000 from federal funds and \$620,000 from reimbursements, bringing total budget-year expenditures from all sources to \$54,600,000. This is a decrease of \$4,938,000, or 8 percent, from estimated total expenditures in the current year.

Significant Budget Changes

Table 1 summarizes the ARB's proposed budget changes for 1983-84. The significant changes are:

1. **Reduction in Stationary Source Control Work.** A reduction of \$1,644,000 to eliminate 39 positions involved in the control of pollution from stationary sources.
2. **Acid Deposition Program.** An increase of \$2,000,000 and 11.5 positions to design and implement an acid deposition research and monitoring program pursuant to Ch 1473/82 (AB 2752).
3. **Research Reduction.** An overall reduction of \$3,460,000 in the board's research program, obtained by eliminating \$2,995,000 for research contracts and 10 research positions costing \$465,000.
4. **Particulate Monitoring.** An increase of \$242,000 and one position to retrofit ambient air monitoring stations to monitor small particles, pursuant to revised state and federal ambient air quality standards.
5. **Legal Services.** A reduction of three positions and \$145,000 consistent with the administration's statewide reduction in department-based legal staff.
6. **Vehicle Inspection.** A reduction of \$3,225,000 in expenditures for the change-of-ownership inspection program in the South Coast Air Basin. The current contract expires in March 1984 and will be phased out as the annual inspection program authorized by Ch 892/82 (SB 33) is implement-

AIR RESOURCES BOARD—Continued

ed. The positions and funding requested for the implementation of SB 33 are budgeted in the Bureau of Automotive Repair, and are discussed as part of our analysis of Item 1150-008-420.

Table 1
Air Resources Board Proposed Budget Changes
(dollars in thousands)

	General Fund	Motor Vehicle Account	Air Pollution Control Fund	Other	Total
1982-83 Base Budget (Revised)	\$3,804	\$32,428	\$1,441	\$21,865	\$59,538 ^a
1. Reduction in Stationary Source Control Work	-326	-1,318	—	—	-1,644
2. Acid Deposition Program	—	1,000	1,000	—	2,000
3. Research Reduction					
a. Staff	-98	-367	—	—	-465
b. Contracts	—	-2,995	—	—	-2,995
4. Particulate Monitoring	—	194	48	—	242
5. Legal Services	-15	-130	—	—	-145
6. Vehicle Inspection	—	—	—	-3,225 ^b	-3,225
7. Baseline Adjustments					
a. Fund Transfer	—	446	-446	—	—
b. Pro Rata Increase	—	136	48	55	239
c. Salary and Price Increases	211	993	33	191	1,728
d. Other	—	-127	-228	-18	-673
Totals, 1983-84 Budget Changes	-\$228	-\$2,168	\$455	-\$2,997	-\$4,938
Totals, 1983-84 Proposed Budget....	\$3,576	\$30,260	\$1,896	\$18,868	\$54,600

^a Estimated expenditures for 1982-83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

^b Vehicle Inspection Fund.

Reductions in Stationary Source Control Work

We withhold recommendation on \$12,295,000 requested for (1) the Regional Programs, Stationary Source Control, and Enforcement Divisions and (2) boardwide executive and administrative support, pending review of the board's allocation of proposed reductions in these program areas.

The budget requests \$12,295,000 for the Regional Programs, Stationary Source Control, and Enforcement Divisions and boardwide executive and administrative support. This request reflects a reduction of \$1,644,000 and 39 positions from baseline resources devoted to the regulation of stationary source pollution. Table 2 shows the proposed reductions, by division.

Table 2
Proposed Reductions in Stationary Source Control Work
(dollars in thousands)

Division	1982-83 Authorized Positions	Positions	Proposed Reduction		Total
			General Fund	Motor Vehicle Account	
Regional Programs	52.8	-5	-\$31	-\$186	-\$217
Stationary Source Control	79.5	-24	-215	-825	-1,040
Enforcement	34.5	-10	-80	-307	-387
Totals	166.8	-39	-\$326	-\$1,318	-\$1,644

At the time this *Analysis* was prepared, the board had not allocated these reductions to specific positions and activities within each division. We are therefore unable to comment in detail on the probable impact of the proposed reductions, or the adequacy of the remaining amount included in the budget for these activities in 1983-84. As a consequence we withhold recommendation, pending receipt and review of the board's detailed allocation of the proposed reductions.

Even without knowing the specific details of how the proposed reduction would be implemented, we can offer four general observations regarding the approach taken in the budget toward the regulation of stationary source pollution.

1. *The Proposed Reductions Represent a Policy Change in the Board's Role with Respect to the Regulation of Stationary Source Pollution.*

Local air pollution control districts have primary authority for the control of pollution from stationary sources. The state board has general authority to assist the districts, coordinate air pollution activities throughout the state, and review the plans, rules, regulations and enforcement practices of local districts, to insure the attainment of ambient air quality standards.

In practice, there is no clear-cut distinction between "coordination, review, and assistance" and "involvement in district activities". For example, state development of "suggested control measures" which describe technologies available to reduce emissions may be viewed as assistance to the districts. From the local point of view, however, the determination of control measures for specific sources is a district responsibility. If a district is not receptive to the board's "suggestions", the board's activities can be viewed as "interference" with local activities.

In the past, disagreement over the appropriateness of requests by the board for additional resources devoted to stationary source control activities has led to much debate during budget hearings. We have noted in past *Analyses* a trend towards increased board involvement in stationary source control work, and at times have recommended deletion of proposed augmentations in the board's budget on the grounds that the proposed work was a local, rather than state, responsibility.

In many instances the Legislature has supported the board's requests, with the result that the board's involvement in stationary source control work has been increasing. The budget proposes to reverse this trend, and return to a more restricted state role.

2. *The Proposed Reductions Generally Would Achieve the Administration's Intent of Limiting Board Involvement in Stationary Source Pollution Control.* The intent of the proposed reductions, as stated in the budget document, is to reduce state activities directed at the control and regulation of stationary source pollution. We conclude that the reductions, in general, appear to be targeted properly to achieve this intent. Overall, the major areas of board involvement in stationary source control are reduced, while the board's mobile source control efforts are not affected.

We note that the budget, as submitted, contains no corresponding reductions in the board's administrative services. If necessary, we will address this point in more detail after we have reviewed the board's detailed allocation of the proposed reductions.

3. *The Salary Savings Target for the Board Will Result In Additional Program Reductions.* The budget reflects salary savings (savings result-

AIR RESOURCES BOARD—Continued

ing from vacant positions, etc.) in 1983–84 amounting to the equivalent of 28 personnel-years. This is 5 percent of the authorized staffing level. Given the reduction in staffing proposed in the budget, it is unlikely that the targeted salary savings level will be achieved unless some positions are *deliberately* held vacant. Therefore, we believe that additional program reductions above the level identified in the budget will be necessary if the board is to achieve the salary savings target.

4. *The Proposed Reductions Will Result in Relatively Modest General Fund Savings.* As Table 2 indicates, only \$326,000 (20 percent) of the \$1,644,000 in savings anticipated from the proposed stationary source reduction would accrue to the General Fund. In part, this is because the General Fund is a relatively minor source of funding for the board's activities.

Acid Deposition and Other Research Activities

We withhold recommendation on \$2,000,000 requested for acid deposition research and monitoring, pending review of a detailed breakdown of proposed expenditures. We also withhold recommendation on \$4,885,000 requested for other research activities, pending review of the board's allocation of proposed reductions.

Acid Deposition. "Acid deposition" is the process whereby acidic air pollutants are deposited on the ground, in lakes or on vegetation via gases, particles, or rainfall. Chapter 1473, Statutes of 1982 (AB 2752), directed the ARB to design and implement a comprehensive acid deposition research and monitoring program. The board requests \$2,000,000 and 11.5 positions to implement this program in 1983–84.

Chapter 1473 created a State Agency Working Group, and a Scientific Advisory Committee, to advise and assist the ARB in the design and implementation of the research and monitoring program. The board has prepared a preliminary outline of proposed 1983–84 activities for review by these groups. The comments and suggestions from these groups will be incorporated into a final detailed 1983–84 work plan, which will not be available until after the publication of this *Analysis*. We, therefore, withhold recommendation on the \$2,000,000 and 11.5 positions requested, pending receipt and review of a detailed breakdown of proposed expenditures.

Other Research. The budget also requests \$4,885,000 and 45.9 positions for other research activities. This is a reduction of \$3,460,000 from the current-year level, obtained by eliminating \$2,995,000 in funding for research contracts and \$465,000 for 10 staff positions. As is the case with the stationary source control reductions discussed above, at the time this analysis was prepared, the board had not determined the specific positions or research contracts to be deleted. We, therefore, withhold recommendation on the board's remaining request, pending receipt and review of the board's allocation of the proposed reductions.

In-Use Vehicle Testing

We recommend that the Legislature direct the Air Resources Board to report on the status of the In-Use Vehicle Emission Testing program, and its relationship to the new biennial vehicle inspection program.

The budget requests approximately \$600,000 for "in-use" vehicle emission testing. This testing, performed at the board's laboratory in El Monte,

measures the emissions from selected used motor vehicles. The test results are used to estimate the emissions produced by typical vehicles over the course of their useful lives, and to identify durability problems in emission-control systems.

Chapter 892, Statutes of 1982 (SB 33), authorized the implementation of a biennial motor vehicle inspection program. Beginning late in 1983-84 the biennial program will provide for the periodic emission testing of virtually all nondiesel passenger vehicles in the state. We recognize that the in-use tests conducted at the board's laboratory include testing of more pollutants and are more accurate than will be possible under the biennial program. We believe, however, that the biennial program has the potential to supply at least some of the information currently provided by the in-use testing program.

Because the biennial program will be administered by the Bureau of Automotive Repair and the in-use testing program is administered by the Air Resources Board, it is important that the two testing programs be carefully integrated in order to avoid duplication. To provide for legislative review of these programs, we recommend the adoption of the following supplemental report language:

"The Air Resources Board shall report to the Legislature by November 1, 1983 on the future status of the in-use testing program and its relationship to the new biennial inspection program. The report shall (1) describe the information to be collected by the biennial inspection program, (2) identify those specific information needs that cannot be met using information from the biennial program, and (3) indicate the number and type of in-use laboratory tests needed to satisfy the identified needs."

Discontinue Mandated Report

We recommend that a report on certification of retrofit emission control devices be discontinued, because the report is no longer useful.

Chapter 1632, Statutes of 1982 (AB 2960), required each state agency to (1) identify publications which are legislatively mandated and require more than 100 employee hours to produce and (2) recommend whether any of these reports should be discontinued. Our office was directed to review the information supplied by each agency and recommend discontinuation, if appropriate.

The Air Resource Board submitted a list of six reports meeting the criteria of Ch 1632/82, of which three were recommended for discontinuation. Two of the three provide information that is, in our judgment, useful to the Legislature in reviewing the activities of the board.

We agree, however, that a report on the certification of retrofit fuel system evaporation loss control devices should be discontinued. This reporting requirement was established in 1968 so that the Legislature would be able to monitor the implementation of the newly authorized emission control retrofit requirements. Few such retrofit systems are being certified now, and the information contained in this report is available directly from the ARB for those with a specialized interest. We, therefore, recommend that the report be discontinued.

AIR RESOURCES BOARD—Continued**Technical Support Capability**

The budget proposes significant program reductions to implement a policy change in the control and regulation of pollution from stationary sources. If that policy change is approved by the Legislature, reductions in some of the board's technical support areas may also be warranted. For example, the board currently has sophisticated data processing, emission inventory, source testing, and laboratory analysis capabilities that may not be fully employed if regulatory activities in stationary source control are significantly reduced.

After the Legislature has dealt with the underlying policy issue regarding the relative responsibility and funding for stationary source control, we will advise the fiscal committees if any changes in budgeted technical support services are warranted to fully implement the Legislature's decision.

**Resources Agency
COLORADO RIVER BOARD**

Item 3460 from the General

Fund	Budget p. R 48
Requested 1983-84	\$185,000
Estimated 1982-83	160,000
Actual 1981-82	167,000
Requested increase (excluding amount for salary increases) \$25,000 (+15.6 percent)	
Total recommended reduction	None

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
3460-001-001—Support		General	\$177,000
3460-001-140—Salinity Control		Environmental License	8,000
		Plate	
Total			\$185,000

GENERAL PROGRAM STATEMENT

The Colorado River Board is responsible for protecting the state's interest in the water and power resources of the Colorado River. This is accomplished through the analysis of engineering, legal, and economic matters concerning Colorado River resources, through negotiations and administrative action, and sometimes through litigation. The board develops a unified position reflecting the views of those California agencies having established water rights on the Colorado River.

The board consists of 11 members appointed by the Governor. Six members are appointed from the following agencies with entitlements to Colorado River water: The Palo Verde Irrigation District, Imperial Irrigation District, Coachella Valley County Water District, Metropolitan Water District of Southern California, San Diego County Water Authority, and the

Los Angeles Department of Water and Power. The other board members are the directors of the Departments of Water Resources and Fish and Game, and three public representatives.

The board is located in Los Angeles and has a staff of 10.7 positions. It is supported approximately two-thirds by the six water agencies listed above and one-third by the state.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes two state appropriations totaling \$185,000 for support of the Colorado River Board in 1983-84, consisting of \$177,000 from the General Fund and \$8,000 from the Environmental License Plate Fund (ELPF). This is an increase of \$25,000, or 16 percent, above the estimated current-year expenditure level. The primary components of this increase are: (1) an increase of \$8,000 from the ELPF to cover the state's share of the Colorado River Basin Salinity Control Forum (matched by \$16,000 from the six local water agencies), (2) an increase of \$10,000 to restore a one-time reduction in operating expenses made by the Legislature in the 1982 Budget Act, and (3) an increase of \$5,000 to restore a one-time 1982-83 General Fund reduction in employee retirement contributions. The remaining \$2,000 is for price increases and merit salary adjustments.

The total 1983-84 budget for the board (all funds) is \$571,000, consisting of the state's two appropriations totaling \$185,000 (32 percent) and \$386,000 in reimbursements from the six water agencies (68 percent). Our analysis indicates that the budget request is reasonable, and we recommend approval.

Resources Agency

DEPARTMENT OF CONSERVATION

Item 3480 from the General

Fund and various other funds

Budget p. R 50

Requested 1983-84	\$13,708,000
Estimated 1982-83	13,715,000
Actual 1981-82	12,336,000
Requested decrease (excluding amount for salary increases) \$7,000 (-0.1 percent)	
Total recommended reduction	\$156,000

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
3480-001-001—Department of Conservation, Primary Funding Source		General	\$10,062,000
3480-001-035—Surface Mining and Reclamation Program		Surface Mining and Reclamation Account, General	1,177,000
3480-001-042—State Share, California Institute of Technology Seismograph Network		State Highway Account, State Transportation	12,000
3480-001-140—Division of Mines and Geology, Geothermal Resource Assessments		California Environmental License Plate	124,000

DEPARTMENT OF CONSERVATION—Continued

3480-001-144—State Share, California Institute of Technology Seismograph Network	California Water	12,000
3480-001-190—Special Services, Important Farmlands Mapping	Resources Account, Energy and Resources	720,000
3480-001-398—Division of Mines and Geology, Strong-Motion Instrumentation	Strong-Motion Instrumentation Program	1,601,000
3480-001-890—Various Programs	Federal Trust	(195,000)
Total		\$13,708,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
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1. Mammoth Lakes Volcanic Hazard Monitoring. Recommend that the State Geologist report, at the time of budget hearings, on (a) the Division of Mines and Geology's capability for sustaining the ongoing cost of monitoring the current volcanic hazard present in the Mammoth Lakes area and (b) the adequacy of the division's existing budgetary resources allocated to this activity. 532
2. Williamson Act Cancellation Fees. Recommend (a) enactment of legislation requiring cities and counties to expedite transfer to the state of all fees collected from cancellation of open-space contracts, and (b) the department report on the number of cancellation requests pending and the amount of revenue due from this activity (potential cash flow increase to the General Fund: \$24.4 million). 533
3. California Resource Information System. Reimbursement Not Identified. Recommend department identify source of \$454,000 in reimbursements budgeted for support of California Resource Information System and that the program be terminated if the availability of these reimbursements cannot be established. 535
4. *Farmland Mapping Overbudgeted. Reduce Item 3480-001-140 by \$156,000.* Recommend reduction of one-time funds provided for prior and current year start-up costs which have been included improperly in 1983-84 baseline budget. 535

GENERAL PROGRAM STATEMENT

The Department of Conservation consists of two divisions and a special program unit within the Director's office.

The Division of Mines and Geology functions as the state's geologic agent. Under the direction of the State Geologist, the division conducts a strong-motion instrumentation program to measure the large-scale destructive motion of earthquakes. It also is responsible for classifying designated urban and other lands according to their mineral content. Policy direction is given to this division by the state Mining and Geology Board, whose members are appointed by the Governor.

The Division of Oil and Gas regulates the development, operation, maintenance, and abandonment of oil, gas, and geothermal wells.

The Special Services for Resource Protection Unit administers (1) the open-space subvention program (Williamson Act) on behalf of the Secretary of Resources, (2) a farmland mapping and monitoring program, (3) soil resource information activities, and (4) the California Resource Infor-

mation System (CRIS). The department has 340 personnel-years authorized in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of \$13,708,000 from various state funds for support of the Department of Conservation in 1983-84. This is essentially a level budget request, reflecting an increase of less than 1 percent (0.05 percent) over estimated current-year expenditures. (The total for 1982-83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83.) However, the department's expenditures will increase further by the amount of any salary or staff benefits increase approved for 1983-84. The budget proposes a total of 330 personnel-years in 1983-84—10 less than the number authorized for the current year.

The department estimates that it will spend \$15,622,000 from all sources in 1983-84, which is \$194,000, or 4.6 percent, more than total expenditures in 1982-83. This amount will be financed from the following sources:

1. General Fund (Item 3480-001-001)	\$10,062,000
2. Surface Mining and Reclamation Account, General Fund (Item 3480-001-035)	1,177,000
3. Special Funds (Items 3480-001-140 through 3480-001-398)	2,469,000
4. Reimbursements	1,719,000
5. Federal Trust Funds	195,000
Total	\$15,622,000

The Surface Mining and Reclamation Account was created pursuant to Ch 800/80. It finances the Division of Mines and Geology activities that (1) designate significant mineral-bearing lands and (2) monitor reclamation of mined lands which local governments regulate. The special account receives the first \$1.1 million of federal mining revenues provided to the state each year.

Reimbursements of \$1,719,000 come primarily from state and public agencies receiving geologic and natural resource information contract services from the department, from fees paid for preparation of environmental impact reports on proposed geothermal power projects, and from sales of publications (primarily geologic maps and reports).

The department expects to receive \$195,000 during 1983-84 from the U.S. Geological Survey for support of various cooperative research projects carried out by the Division of Mines and Geology.

The 1982 Budget Act provided for baseline reductions in the department's General Fund budget totaling \$286,000, including a \$60,000 reduction in travel expenses. The Department of Finance, as authorized by the Legislature, permitted much of the travel reduction to be taken in other operating expenses. These reductions are continued in the department's baseline budget for 1983-84.

Significant Budget Changes

Table 1 summarizes significant changes in programs, by funding source, proposed for 1983-84. These changes are discussed in more detail below.

Workload and Administrative Adjustments. As indicated in Table 1, the budget includes a General Fund increase of \$275,000 to pay for relocation costs and higher rental expenses to be incurred by the Division of Mines and Geology (CDMG). These costs will result from termination of the lease covering the division's San Francisco offices. The CDMG will utilize the augmentation to move from the Ferry Building into other office

DEPARTMENT OF CONSERVATION—Continued

Table 1
Department of Conservation
Proposed Program Changes by Funding Source
(in thousands)

	General Fund	Energy and Resources Fund	Other Fund ^a	Federal Funds	Reim- burse- ments	Totals
1983-84 Base Budget (Revised)	\$9,301 ^b	\$1,711	\$2,703	\$201	\$1,012	\$14,928
1. Workload and Administrative Ad- justments						
a. San Francisco CDMG office relo- cation	275	—	—	—	—	275
b. Windbreak demonstration project	—	-155	—	—	—	-155
c. CALSTARS implementation	—	43	—	—	—	43
d. OAL review of regulations	-8	—	—	—	—	-8
e. Price increase for operating ex- penses	85	—	—	—	—	85
2. Significant Program Changes						
a. Geothermal well inspections	61	—	—	—	—	61
b. Sonoma geothermal resource as- sessment	—	-314	112 ^c	—	—	-202
c. California-Mexico seismic studies	—	-112	—	—	—	-112
d. Injection well inspections	—	—	—	—	114	114
e. Soils data base compilation	—	-150	—	—	—	-150
f. Important farmlands mapping	—	—	—	—	200	200
g. California Resource Information System (CRIS)	—	-328	—	—	454	126
3. Merit Salary Adjustments, Miscella- neous Minor Changes	348	25	111	-6	-61	417
Total Changes 1983-84	761	-991	223	-6	707	694
Total Proposed 1983-84 Budget	\$10,062	\$720	\$2,926	\$195	\$1,719	\$15,622

^a Includes expenditures from the Surface Mining Reclamation Account in the General Fund, Strong-Motion Instrumentation Program Fund, California Environmental License Plate Fund, and small accounts from State Transportation Fund (State Highway Account) and California Water Fund.

^b The total General Fund expenditures for 1982-83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

^c Reflects increase of \$112,000 from Environmental License Plate Fund.

space located in the Bay Area. No funding has been requested to provide space for the division's mineral museum collection which is also housed in the Ferry Building. This museum is scheduled to be closed during the current year, because of the reduction made in the department's 1982-83 budget.

Other adjustments reflect (1) the completion of the two-year wind-break demonstration project (\$155,000), (2) additional funding needed to implement the CALSTARS accounting system (\$43,000), and (3) elimination of the review of department regulations by the Office of Administrative Law (\$8,000).

Significant Program Changes. The budgets for the last two fiscal years (1981-82 and 1982-83) have provided major increases to finance new initiatives by the department in soils data collection, farmland monitoring, geothermal resource development, seismic investigations, and establishment of a computer-based resource information and mapping unit. Most

of these initiatives were supported from the Energy and Resources Fund. The 1983-84 budget contains few increases for new projects and, instead, reflects reductions to phase-out some of the projects begun in recent years or shift support for them to reimbursements. Specifically, the budget proposes:

1. Elimination of all Energy and Resources Fund support for the California Resource Information System (CRIS), for a savings of \$328,000. The budget indicates that support for the program will be shifted to reimbursements, but it does not identify the source of these reimbursements.

2. Termination of soil data-gathering activities, for a savings of \$150,000 to the Energy and Resources Fund.

3. Reducing support for the cooperative seismic hazard research project in the California-Mexico border region from \$220,000 to \$108,000, for a savings of \$112,000 to the Energy and Resources Fund.

4. Shifting support for geothermal resource investigations in the Sonoma Valley to the Environmental License Plate Fund at the reduced level of \$112,000, for a savings of \$314,000 to the Energy and Resources Fund.

For several years, we have pointed out problems with most of the programs now proposed for reduction or funding shifts. Some of them appear to have a relatively low priority. Others are continuing programs that do not qualify for short-term financing from the Energy and Resources Fund, given the statutory limitations on the fund. Still others have no identifiable users for the product to be produced. On this basis, we believe that the proposed reductions and redirections are warranted.

The budget also proposes a General Fund augmentation of \$61,000 for the Division of Oil and Gas to conduct additional field inspections in the Imperial Valley that are warranted by increased geothermal exploration activities and well drilling in that area. This amount is in addition to the \$5.7 million currently being expended for this program. This increase will be reimbursed from additional oil and gas assessments deposited in the General Fund.

Another budget change provides for an increase of \$114,000 in reimbursements from the State Water Resources Control Board (SWRCB), which will finance expanded field inspections of oil and gas injection wells. These funds are provided by the SWRCB from a grant to the board made by the U.S. Environmental Protection Agency (EPA). The Oil and Gas Division will use the money to monitor the impact of injection well operations on underground drinking water sources.

The last significant program change reflected in Table 1 is an increase of \$200,000 in reimbursements for the Important Farmland Mapping Program. Another \$556,000 from the Energy and Resource Fund is proposed to continue this program, which received statutory authorization last year, pursuant to Ch 13/82. The \$200,000 in reimbursements is to pay for publication and distribution of additional copies of important farmland maps being prepared in the current year. Copies of the maps will be sold at a price that is sufficient to recover publication costs.

These changes leave (1) the Farmlands Monitoring and Mapping Program (\$556,000) and (2) the California-Mexico Seismic Studies (\$108,000) as the only remaining activities financed from the Energy and Resource Fund. The other \$56,000 to be derived from this funding source in 1983-84 is intended to cover pro rata costs. As a consequence, total department Energy and Resources Fund expenditures in 1983-84 are \$991,000 less than the \$1.7 million anticipated to be expended in the current year.

DEPARTMENT OF CONSERVATION—Continued**Mammoth Lakes Volcanic Hazard Monitoring**

We recommend that the State Geologist report, at the time of budget hearings, on:

1. The Division of Mines and Geology's capability for (a) sustaining ongoing maintenance and repair costs for seismometer instruments deployed in the vicinity of Mammoth Lakes and (b) supporting additional data processing expenses associated with monitoring the current volcanic hazard present in this area; and

2. The adequacy of the division's budgetary resources currently allocated to this activity, in light of recent seismic events.

Hazard Watch in Effect. In May 1982, the U.S. Geological Survey (USGS) contacted the State Geologist and the Office of Emergency Services (OES) concerning the possibility of a volcanic eruption in the Mammoth Lakes area. Based on its own independent investigation of earthquake activity in the region, the Division of Mines and Geology had already reached substantially the same conclusion—that a major eruption could occur in the near future. In both cases, the conclusions were based on information provided by seismic instruments deployed near Mammoth Lakes, Convict Lake, and Hot Creek on the east side of Sierra Nevada. This area is known as the Long Valley Caldera. Both state and federal officials also noted that similar earthquake activity had been observed prior to the 1980 eruption of Mount St. Helens.

Because of the seismic activity, the USGS last summer issued a notice of volcanic hazard potential for the area—the lowest level of the federal government's three-tier scale of hazard alert. Both OES and the State Geologist have concurred with this action. The OES, in consultation with affected local agencies, subsequently developed *Plan Caldera*, which assigns emergency responsibilities to state and local agencies in the event that the potential for a volcanic eruption increases or that an eruption occurs.

New Seismometer Network Deployed. The Division of Mines and Geology has deployed seven seismometer instruments in the Mammoth Lakes area to monitor ongoing seismic events which may portend an impending volcanic eruption. These seismometers are part of a joint network established with USGS. They are portable, battery-operated instruments which operate continually and must be serviced periodically by technicians familiar with the equipment. Seismic records from the state's instruments are recovered by Caltrans crews pursuant to a cooperative agreement with the CDMG, and are sent weekly by bus to Sacramento for processing and analysis.

Impact of Travel and Other Restrictions. The division indicates that its seismometers must be calibrated and repaired monthly by CDMG technicians. The estimated yearly cost for servicing the instruments, including travel costs and miscellaneous supplies, is about \$5,000. The CDMG advises, however, that its entire seismology program has only \$500 per year authorized for travel, due to the reductions imposed on travel expenses pursuant to Section 27.10 of the 1982 Budget Act. This restriction on state travel also impairs the ability of the division to deploy staff and additional equipment to the Mammoth Lakes area.

The division estimates an electronic data processing (EDP) cost of about \$102,000 for interpreting data generated from the seismometer net-

work. The CDMG has an estimated \$50,200 in EDP funds budgeted for the entire statewide seismology program next year.

Ad Hoc Funding. To date, the division's expenses for monitoring and processing records of seismic events at the Mammoth lakes area has been financed within its existing budget. It is not known to what extent the division has redirected funding or staff from other legislatively established programs and activities to sustain this new monitoring effort. In light of the dozens of earthquakes that occurred at Mammoth Lakes early in January (including two recorded at 5.1 on the Richter scale), it is likely that the division will be maintaining this volcanic hazard watch for some time.

Report Recommended. To ensure that (1) the division's high priority monitoring work in Mammoth Lakes continues and (2) analysis of the volcanic eruption potential is not impaired by the department's allocation of funds in response to the restrictions placed on in-state travel and other budgetary constraints, we recommend that the State Geologist report, during budget hearings, on (a) the division's capability for sustaining existing monitoring efforts in Mammoth Lakes and (b) the adequacy of existing financial resources allocated to this activity, in light of the recent seismic events of January. The State Geologist should also advise the Legislature on (1) the source of the financial support which has been redirected to this effort during the current year and (2) the potential impact on other division programs and activities if it is necessary to continue this diversion of funding into 1983-84 and beyond.

Collection of Williamson Act Contract Cancellation Fees Needs Improvement

We recommend:

- 1. Enactment of legislation requiring cities and counties to transfer immediately to the state all fees collected for cancellation of open-space contracts; and*
- 2. The department report, at the time of budget hearings, on (a) the number of cancellation requests approved or pending under provisions of Ch 1095/81 and (b) the amount of cancellation fees collected or due the state from this activity. (Potential cash flow increase to the General Fund: at least \$24.35 million).*

Administration of the Williamson Act. The department's budget includes \$141,000 from the General Fund for support of 4.7 positions to administer the open-space subvention program on behalf of the Secretary of Resources. This program, which was established under the California Land Conservation Act of 1965 (Williamson Act), permits landowners to enter into contracts with local governments which restrict the use of property to open-space and agricultural purposes. To compensate the landowners for agreeing to this restriction, the property is assessed at less than market value for property tax purposes.

Section 16144 of the Public Resources Code requires the Secretary of Resources to obtain specified information from each city and county with land covered by open-space contracts. This information is used to certify the level of subvention payments made by the state to local governments by the State Controller. These payments are intended to compensate the counties for the loss of revenue resulting from the lower property tax rate levied on the open-space and agricultural land. This compensation ranges from \$8 per acre for urban prime land to \$0.40 per acre for nonprime land. Open space payments to local governments are paid from the General Fund, and are budgeted under Item 9100-101-001(f).

DEPARTMENT OF CONSERVATION—Continued

Currently, open-space contracts last for a period of 10 years, and are automatically renewed unless the landowner or local government files for nonrenewal. Landowners, however, may also petition to cancel contracts prior to the end of the 10-year period. If a petition to cancel is approved, the landowner must pay a substantial cancellation fee to the state. This fee may be waived only with the concurrence of the Secretary of Resources and the local agency. The cancellation fees are assessed and initially collected by local government for transfer to the state.

The One-Time Cancellation "Window". Procedures governing regular cancellation petitions were modified substantially by Ch 1095/81. This legislation provided a one-time "window" between January 1 to May 30, 1982, when landowners could petition local government for cancellation of an open-space contract under less restrictive procedures. Cancellations filed during the five-month "window" were also subject to the regular cancellation fee, but this fee could not be waived by the Resources Secretary.

At the close of the one-time "window" last June 1, a total of 311 cancellation requests for 98,526 acres had been filed with local governments. The department advises that, as of November 1982, 70 of these petitions (7,815 acres) had been at least tentatively approved, with action by local government pending on 218 requests for 89,560 acres. A total of 23 other petitions covering 1,151 acres have either been disapproved or withdrawn.

Because a significant number of these cancellation petitions are likely to be approved by local government, the state's General Fund eventually will receive a substantial amount of revenue from the cancellation fees. Assuming a fee of \$250 to \$700 per acre, the department estimates that the state should receive between \$1.95 and \$5.47 million in revenue from the 70 petitions already approved. This amount could increase by another \$22.4 million-to-\$62.7 million, depending on how many of the remaining cancellation petitions are approved.

Fees Improperly Held by Local Government. Because existing law does not specify when cancellation fees assessed by local governments must be transferred to the state's General Fund, deposit of the cancellation fees in the General Fund may be delayed indefinitely. Furthermore, the Department of Conservation reports that cities and counties frequently have sought from the Secretary of Resources waivers of the cancellation fees due to the state, even though (1) waivers are not authorized by Ch 1095/81, and (2) in most cases the money has already been collected from the landowner. If a request for a waiver is made, the local government can hold the cancellation fee and earn interest on it while the waiver request, and any of appeals of the department's initial decisions, are processed. According to the department, these delays can take up to two years.

Because Ch 1095/81 does not allow waiver of the cancellation fees, there is no justification for local governments delaying the payment of cancellation fee revenue to the state once the cancellation petition has been approved. Consequently, the law should be amended to require the transfer to be made immediately.

To expedite the transfer of cancellation fee revenues to the General Fund, we recommend that legislation be enacted to specifically require cities and counties to transfer all cancellation fees to the state without any delay. We further recommend that the department provide information during budget hearings on the amount of the additional revenue to the General Fund that could be anticipated from such legislation.

Source of Reimbursements for California Resource Information System Unknown

We recommend that the department report, prior to budget hearings, on the source of \$454,000 in reimbursements anticipated in support of the California Resource Information System. We further recommend that the program be terminated if the availability of these reimbursements cannot be established.

For 1983-84, the budget deletes all state funding for the California Resource Information System (CRIS), and proposes to shift support for the program to reimbursements. The budget anticipates \$454,000 in reimbursements during the budget year. In the current year, this program is being financed with \$328,000 from the Energy and Resource Fund (ERF).

When this program, which initially was referred to as the California Automated Resources Inventory (CARI) System, was established in 1980-81, the department advised the Legislature that its primary purpose would be to develop a computer-based data storage and retrieval capability for natural resource mapping that would be utilized by a variety of other state agencies and programs. This objective was to be accomplished through purchase of computer hardware and development of an in-house digitized mapping capability. The department believed that once the system was fully operational, a portion of its ongoing costs would be financed from fees charged to user groups for services provided and maps produced. Last year, the project was renamed the California Resource Information System.

Other than a few demonstration efforts, such as a mapping project involving the City of Lafayette, CRIS has not been successful in developing a clientele for its services. In fact the Lafayette mapping project was financed at no cost to the city.

The budget narrative indicates that state funding in 1983-84 will be replaced with reimbursements from fees charged for maps and CRIS information services. At the time this analysis was prepared, however, the department had not identified the source of these reimbursements.

Given CRIS's inability to develop a clientele for its services during its first 30 months of operation, we believe the budget proposal to make the program fully self-supporting is unrealistic. In the event that the department, prior to budget hearings, cannot establish the availability of \$454,000 in outside funding, we recommend that the Legislature terminate the program by the end of the current fiscal year. Furthermore, we recommend that the Legislature adopt supplemental language prohibiting the department from redirecting funds from other departmental activities to continue CRIS in 1983-84.

Farmland Mapping and Monitoring Program

We recommend a reduction of \$156,000 from Item 3480-001-140 to delete funds provided in the current year to fund one-time start-up costs of the Farmland Mapping and Monitoring program.

Last year, the Legislature approved \$540,000 from the Energy and Resource Fund to finance the second-year costs for a new comprehensive program which (1) publishes and distributes maps of important farmlands located within 41 counties, (2) prepares annual reports to the Legislature on the conversion of those lands to or from agricultural use, and (3) maintains a computerized map and data base system for purposes of recording changes in the use of such lands. This activity is known as the

DEPARTMENT OF CONSERVATION—Continued

Farmland Mapping and Monitoring program, and was authorized by Ch 13/82.

Two-Year Start-Up Costs. This program was established in 1981–82 using \$709,000 from the Agricultural Investment Fund that had been appropriated in the 1981 Budget Act. As part of the program, the department initiated a two-year project to develop a series of county maps identifying the location of important farmlands. These 41 maps are to be compiled using U.S. Soil Conservation Service (SCS) soil data, and will serve as the baseline for monitoring future changes in use of agricultural lands (for example, the conversion of such lands to residential or commercial use). An additional \$540,000 from the Environmental License Plate Fund was provided in the 1982 Budget Act to continue this work in the current year.

During hearings on Ch 13/82, the Department of Conservation estimated that the ongoing annual cost of this program would be \$325,000 to \$400,000. Costs were expected to decrease after 1982–83 because the staff work and consultant contracts involved in compiling the initial set of 41 farmland maps would be completed. Part of this one-time cost was for digitizing the baseline map series, which will simplify the task of revising the maps in future years to reflect land-use changes.

Baseline Not Adjusted to Delete Start-Up Costs. The budget does not indicate any decrease in program expenditures during 1983–84, as anticipated by the department during legislative hearings on Ch 13/82. In fact, the amount requested for support of the program is \$16,000 higher than estimated current-year expenditures. Assuming that the initial series of maps is completed during the current year, as planned, we believe funding for the program is overbudgeted. Accordingly, we recommend that funding for 1983–84 be limited to \$400,000—the upper range of the estimate presented to the Legislature last year—and that the balance of \$156,000 be deleted.

**Resources Agency
DEPARTMENT OF FORESTRY**

Item 3540 from the General

Fund and various funds

Budget p. R 61

Requested 1983–84	\$135,953,000
Estimated 1982–83	130,888,000
Actual 1981–82	117,886,000
Requested increase (excluding amount for salary increases) \$5,065,000 (+3.9 percent)	
Total recommended reduction	\$3,643,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
3540-001-001—Primary Support		General	\$126,187,000
3540-001-140—Forest Practices, Chaparral Management		Environmental License Plate	2,745,000
3540-001-190—Dutch Elm Disease, Chaparral Management		Resources Account, Energy and Resources	2,494,000

3540-001-300—Board of Forestry, Registration of Foresters	Professional Foresters Registration Fund	85,000
3540-001-890—Various	Federal Trust	(2,467,000)
3540-001-928—California Forest Improvement Program	Forest Resources Improvement	3,761,000
3540-001-940—Watershed Mapping, Soil Erosion Studies, Forest Practices Deficiency	Renewable Resources Investment	662,000
3540-001-965—Administration of Timber Yield Tax	Timber Tax	19,000
3540-011-928—State Forest System, Support	Forest Resources	(1,248,000)
Total		\$135,953,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Freeze Impact. Recommend Department of Forestry (CDF) report at the time of budget hearings on (a) the impact of Executive Order D-1-83 and (b) what provision has been made for CDF to hire seasonal fire suppression personnel and contract for air tanker operations prior to 1983 fire season. 543
2. Wildland Fire Protection Assessment Feasibility Study. Recommend that at least \$50,000 of the amount budgeted for Forest Resources Assessment Program (FRAP) be redirected to support feasibility study on establishing a system of landowner assessments for financing wildland fire protection similar to that used by other western states. 543
3. Amador Plan Subsidy. Recommend enactment of legislation repealing authority for department to provide state-subsidized structural fire protection during wintertime pursuant to the Amador Plan. (Potential General Fund savings: \$1.3 million to \$1.5 million annually.) 546
4. Replace S-2 Airtankers. Recommend that \$1,050,000 requested for equipment expenditures be used to convert three S-2 airtankers needed to (a) replace similar aircraft that are no longer usable and (b) eliminate the need to lease more costly substitute airtankers. 548
5. *Chaparral Management Program. Reduce Item 3540-001-001 by \$107,000 and Item 3540-001-190 by \$153,000.* Recommend (1) reduction to delete one-time funding provided for current-year costs associated with conversion of seventh UH1-F helicopter and purchase of special equipment, for combined savings of \$260,000, and (2) that the savings resulting from reducing Item 3540-001-190—\$153,000 be transferred from the Energy and Resources Fund to the General Fund. 550
6. State Liability for Federal Fire Escapes. Recommend adoption of Budget Bill language prohibiting department from spending any funds to assist U.S. Forest Service (USFS) in prescribed burning projects on national forestlands, unless USFS agrees in advance to indemnify state for all suppression costs in event of fire escape. 551
7. Increase in BLM Presuppression Payments Not Identified. Recommend department report, prior to budget hearings, on the increase in presuppression payments it anticipates during 1983-84 for fire protection services provided to Bu- 553

DEPARTMENT OF FORESTRY—Continued

- reau of Land Management (BLM) lands pursuant to new contract with BLM.
8. ***Emergency Fire Assistance Provided to Federal Lands. Reduce Item 3540-001-001 by \$2,000,000 and Increase Reimbursements by \$2,000,000.*** Recommend (a) reduction of \$2,000,000 as a means to require department to finance all emergency fire suppression assistance provided to USFS and BLM on a reimbursable basis and (b) adoption of language specifying that the cost of such assistance shall be due and payable within 60 days following submittal of invoice, and any amount unpaid thereafter shall be converted to a loan which is subject to penalty interest charges. 554
 9. ***Unpaid Forest Service Debts. Reduce Item 3540-001-001 by \$879,000.*** Recommend reduction in amount budgeted for cooperative fire protection provided to state responsibility lands by USFS to offset (a) \$525,000 in unpaid billings for three 1980 fires within the Cleveland National Forest and (b) \$353,000 in state emergency fire expenditures for controlling escape of prescribed burn on Shasta-Trinity National Forest in 1982. 556
 10. **Forest Practices Corrective Work.** Recommend (a) reappropriation of unexpended balance from the Environmental License Plate Fund in 1982 Budget Act to correct Forest Practices Act violations in 1983-84. 557
 11. ***California Forest Improvement Program (CFIP) Expenditures Exceed Anticipated Revenues. Reduce Item 3540-001-928 by \$507,000.*** Recommend (a) reduction to balance expenditures for CFIP with reduced estimates of available revenue and (b) department absorb part of this reduction by decreasing grant administration expenditures by \$339,000. 558
 12. **Executive Aircraft Use.** Recommend adoption of supplemental report language (1) limiting use of executive aircraft and requiring that department bill for cost for aircraft use and pilot services provided to other state agencies, and (2) directing the Department of Finance to revise provisions of the State Administrative Manual (S.A.M.) for purposes of improving management of state-owned aircraft used for transportation of state personnel. 559

GENERAL PROGRAM STATEMENT

The California Department of Forestry (CDF) provides fire protection services for approximately 33 million acres of privately owned timber, range, and brushland. It contracts with 31 counties to provide fire protection services using CDF fire fighters in 38 areas for which local governments have the responsibility for maintaining these services. The department also (1) regulates timber harvesting on private forestland, (2) provides advisory and financial assistance to landowners on forest and range management, (3) regulates and conducts controlled burning of brushlands, and (4) manages seven state forests.

The nine-member Board of Forestry provides policy guidance to the department. It establishes forest practice rules and classifies private wildlands as state responsibility lands for fire protection purposes. The mem-

bers of the board are appointed by the Governor. The department has authorization for 3,845 personnel-years in 1982-83.

ANALYSIS AND RECOMMENDATIONS

The budget proposes eight appropriations from the General Fund and various funds totaling \$135,953,000 for support of the California Department of Forestry (CDF) in 1983-84. When adjustments are made to eliminate estimated expenditures from the Emergency Fund during the current year (\$10 million), the department's budget reflects a \$5,065,000, or 3.9 percent, increase over 1982-83 expenditures for support activities. Expenditures will increase further by the amount of any salary or staff benefit increases approved for the budget year. (Estimated expenditures for 1982-83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83).

Funding Source

The department estimates that total expenditure from all source for support programs will be \$176,367,000 in 1983-84, which is a \$1,817,000, or 1 percent, increase over the current year amount. These expenditures will be financed from the following sources:

1. Items 3540-001-001 through 3540-001-965	\$135,953,000
2. Federal Trust Fund.....	2,467,000
3. Reimbursements:	
(a) Local fire protection services provided to counties, cities, and special districts using CDF fire fighters	32,804,000
(b) Supervision and training of California Conservation Corpsmembers	2,705,000
(c) Conservation Center Instructors and camp support (funded by the Departments of Corrections and the Youth Authority)	1,318,000
(d) Subsistence, housing, and other services provided to employees	705,000
(e) Timber operator license fees	73,000
(f) Miscellaneous.....	342,000
Subtotal, Reimbursements	\$37,947,000
Total	\$176,367,000

Budget Changes

Table 1 summarizes the department's budget, by funding source, and identifies significant program changes proposed for 1983-84. These changes are discussed in greater detail below.

1. **Workload and Administrative Adjustments.** The budget proposes a General Fund increase of \$1,795,000 and a decrease of \$2,459,000 in reimbursements to reflect a change in the method of financing operations and inmate supervision provided by CDF at five Department of Corrections Conservation camps. Previously, all CDF costs were budgeted as reimbursements from the Department of Corrections. Beginning in 1983-84, these funds will be appropriated directly to Forestry. The decrease in reimbursements is larger than the increase in General Fund support because the current-year budget also includes one-time expenditures (financed by Corrections) for (1) expanding the Baseline and Antelope Conservation camps and (2) converting two California Conservation Corps (CCC) fire centers (Tehama and Owens Valley) to inmate camp facilities.

The budget also proposes a \$131,000 General Fund increase to finance

DEPARTMENT OF FORESTRY—Continued

Table 1
Department of Forestry
Proposed Program Changes by Fund
(in thousands)

	General Fund	Energy and Resources Fund ^a	ELPF ^b	Other special Funds ^c	Federal Funds	Reim- burse- ments	Totals
1982-83 Base Budget (Revised)	\$128,900	\$5,141	\$664	\$6,183	\$2,830	\$40,832	\$184,550 ^d
1. Workload and Administrative Ad- justments							
a. Emergency fire suppression unal- lotment	-10,000						-10,000
b. CDC conservation camp opera- tions	1,795					-2,459	-664
c. Wood stove and furnace installa- tion				-442			-442
d. Canadair CL-215 evaluation (Ch 633/82)			-345				-345
e. CALSTARS implementation	131						131
f. Forest practice corrective actions			-100				-100
g. OAL costs and litigation expenses	-93						-93
h. Watershed mapping, forest prac- tice rules (SWRCB)						-124	-124
i. Incident command training sys- tem					-135		-135
j. Rural community fire funding					-157		-157
2. Significant Program Changes							
a. Chaparral management program funding shift		-1,993	2,000				7
b. Urban forestry program elimina- tion				-910			-910
c. California forest improvement program		-400					-400
d. THP permit fee deficit		-489	544	4			59
e. COLA reinstatement—USFS and contract counties	132						132
f. Watershed mapping project				-198			-198
g. Management of SLC forest land parcels				43			43
3. Merit Salary Adjustment, Price In- creases							
Miscellaneous Minor Changes	5,322	235	-18	-153	-71	-302	5,013
Total Changes 1983-84	<u>-\$2,713</u>	<u>-\$2,647</u>	<u>\$2,081</u>	<u>-\$1,656</u>	<u>-\$363</u>	<u>-\$2,885</u>	<u>-\$8,183</u>
Total Proposed 1983-84 Budget	\$126,187	\$2,494	\$2,745	\$4,527	\$2,467	\$37,947	\$176,367

^a Energy and Resources Fund, Resources Account.^b Environmental License Plate Fund.^c Professional Foresters Registration Fund, Forest Resources Improvement Fund, Renewable Resources Investment Fund, Special Deposit Fund (DOE), and Timber Tax Fund.^d The total estimated expenditures do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

costs associated with implementation of the CALSTARS accounting system. CALSTARS is an agency-based, centrally operated and maintained accounting information system. When fully operational, it will serve as the accounting and reporting system for more than 150 departments, agencies and institutions.

Other administrative adjustments include a reduction of \$442,000 due to completion of a one-time energy conservation project that provided for the installation of wood stoves or furnaces in suitable CDF fire stations and ranger unit facilities. This work was financed in the current year with funds from a special U.S. Department of Energy litigation settlement.

The reduction of \$345,000 from the Environmental License Plate Fund (ELPF) is due to the completion of a one-time study required by Ch 633/82. This act required the department to conduct a study of the CL-215 "Super Scooper" air tanker manufactured by Canadair. A \$345,000 appropriation in the measure paid for aircraft operations and consultant costs.

In both the 1981 and 1982 Budget Acts, the Legislature provided augmentations of \$100,000 from the ELPF to finance the cost of any corrective action taken by CDF to enforce the Forest Practice Act. The budget, however, treats the increase provided for 1982-83 as a one-time expenditure and, as a consequence, reflects a baseline reduction of \$100,000 for this activity. This reduction will be discussed in greater detail later in this analysis.

The decrease of \$124,000 in reimbursements is due to termination of funding from the SWRCB for (1) a special watershed mapping project and (2) development of new rules pertaining to soil erosion for use in regulating timber harvesting on private forestlands. In 1983-84, the watershed mapping project will be funded by an appropriation from the Renewable Resources Investment Fund.

The reduction of \$135,000 in federal funds reflects a decrease in the amount to be provided in 1983-84 for development of the incident command training system. The budget proposes \$250,000 for this ongoing project, compared to \$385,000 allocated for 1982-83.

The decrease of federal money for rural community fire funding reflects uncertainty over whether the U.S. Forest Service will continue this subvention program in the budget year. While a total of \$157,000 was provided in the current year for local fire protection assistance, continued funding is not anticipated in 1983-84. If additional federal money does become available for this purpose, CDF indicates that the Legislature will be given prior notice of any expenditures to be financed with their funds, either through a Finance budget revision or the Section 28 process.

2. Significant Program Changes. In contrast to the budgets for recent years, the 1983-84 budget proposes few increases to initiate new projects or augment existing programs. The most significant changes proposed for 1983-84 consist of the following:

- A \$2,000,000 partial shift in the source of funds for the existing Chaparral Management program from the Energy and Resources Fund to the California Environmental License Plate Fund. This shift will leave a total of \$2,991,000 in state funding (including \$991,000 from the Energy and Resources Fund) to continue helitack operations and prescribed burning activities during the budget year.
- Elimination of the Urban Forestry program, which results in savings of (1) \$375,000 to the Forest Resources Improvement program and (2) \$535,000 to the Renewable Resources Investment Fund.
- A reduction of \$400,000 in Energy and Resources Fund support for the Forest Improvement program. During the current year, this money was used to supplement the funding provided from state forest timber sales for rural reforestation grant projects.
- Increases of \$744,000 from the Environmental License Plate Fund

DEPARTMENT OF FORESTRY—Continued

(ELPF) and \$148,000 from the Renewable Resources Investment Fund (RRIF) to partially finance a \$1 million shortage in funding for the administration of the Forest Practices Act. This shortage occurred last year when the department was unable to establish a system of permit fees that was intended to make the timber industry share in the cost of the program. The General Fund contribution to the program has been reduced in anticipation of the system being implemented. During the current year, the shortage was partially covered with (a) \$529,000 from the Energy and Resources Fund, (b) \$215,000 from the ELPF, and (c) \$148,000 from the RRIF.

- A \$132,000 increase from the General Fund to fund a cost-of-living adjustment (COLA) for six contract counties and the U.S. Forest Service. These entities provide fire protection to state responsibility lands at an annual cost of approximately \$13 million. The Legislature deleted cost-of-living adjustments for these contracts in the 1982–83 budget.
- A \$198,000 decrease in the amount budgeted from the RRIF for department-financed watershed mapping activities. The budget proposes \$300,000 to continue this work in 1983–84.
- A \$43,000 increase from the Forest Resources Improvement Fund to finance department management of forestlands owned by the State Lands Commission.

Other changes to the budget reflected in Table 1 are for routine baseline adjustments such as those needed to offset the higher cost of equipment purchases (such as replacement of fire engines), utilities, rent, and other operating expenses (the so-called “price letters” adjustments). Also reflected in the table are (1) minor budget changes accomplished through redirection of existing funds and (2) merit salary increases (\$632,000 from various funds).

Implementation of Reductions Made in the 1982–83 Budget

The Legislature approved the deletion of \$4.45 million (\$1,438,000 General Fund) from the department’s budget for 1982–83. Part of this reduction (\$2.1 million) was allocated in the Budget Act. The balance of the reduction (\$2.35 million), however, was not allocated, and instead was left to the discretion of the CDF and the Department of Finance.

As allocated by the two departments, the \$2.35 million reduction primarily affected fire suppression activities. Implementation of the cut consisted of the following actions:

- Deletion of CDF staffing for five inmate fire crews at the Konnocti, Deadwood, and Oak Glen Conservation Camps.
- Closure of the Transfer Point and White Rock forest fire stations, except during “severe fire weather” periods.
- Permanent closure of the Blue Ridge, Pacheco, and Allen Peak fire lookouts.
- Elimination of the retroactive inflation adjustment proposed for U.S. Forest Service and contract county cooperative fire protection agreements.
- Increased salary savings of \$793,000 accomplished through delayed hiring or earlier termination of seasonal fire fighting personnel.

In addition, the department made several minor reductions in various other activities financed from the Energy and Resource Fund (\$183,000),

Forest Resources Improvement Fund (\$52,000), Environmental License Plate Fund (\$75,000), and Renewable Resources Investment Fund (\$2,000).

The \$4.45 million reduction in CDF's 1982-83 budget is continued in the budget for 1983-84. No funds have been proposed to restore any of the reductions in personnel or activities listed above.

Impact of Governor's Freeze on Fire Suppression Activities is Unclear

We recommend that the Department of Finance report during budget hearings on the impact that Executive Order D-1-83 will have on state fire protection activities, and indicate what provision is being made, (if any), for the Department of Forestry to (1) hire seasonal firefighters and (2) contract for operation of airtankers and helicopters required for the 1983 fire season.

Each year, the Department of Forestry (CDF) hires approximately 1,800 seasonal firefighters and other personnel for operation of its 219 forest fire stations, 72 fire lookouts, eight helitack units, and 13 primary air attack bases during the fire season. CDF also has hired seasonal fire prevention personnel. In addition, operation and maintenance of the department's air attack aircraft is performed by private companies under several multi-year contracts. Pilots for the CDF fleet of seven UH-1 helicopters are hired through personal service contracts.

On January 3, 1983, the Governor signed Executive Order D-1-83 which, among other things, imposed a freeze on hiring state employees, equipment purchases, and contracts for consultants and professional services. Several exceptions to the freeze were enumerated in subsequent Management Memos issued by the Department of Finance. No explicit exemption from the Order's provisions, however, has been granted for the hiring of seasonal firefighters or contracting for airtanker operations.

Although cabinet secretaries are authorized to mitigate the impact of the current executive order, no action had been taken to mitigate the Order's impact on Forestry's fire suppression program at the time this analysis was prepared. Consequently, it is possible that seasonal hiring for the program could be adversely affected by the Executive Order. In addition, existing contracts covering operation of (1) eight of the department's 16 S-2 airtankers, (2) six observation aircraft, (3) three heavy airtankers leased from private sources, and (4) one light helicopter, have expired. Prior to issuance of the Executive Order, the department planned to rebid these contracts and award new contracts before the start of the 1983 fire season.

At the present time, the department's plans with respect to these contracts are not clear. Accordingly, we recommend that the Department of Forestry report during budget hearings on the impact of Executive Order D-1-83 on its fire suppression activities.

Wildland Fire Assessment Feasibility Study

We recommend that the Legislature redirect at least \$50,000 of the amount budgeted (Item 3540-001-001) for the Forest Resources Assessment program in order to finance a feasibility study of using landowner assessments to finance wildland fire protection in California.

California's Method of Financing Wildland Fire Protection Differs From Methods Used by Other Western States. Under existing California law, all private land classified by the Board of Forestry as state responsibility is provided wildland fire protection at the General Fund's expense.

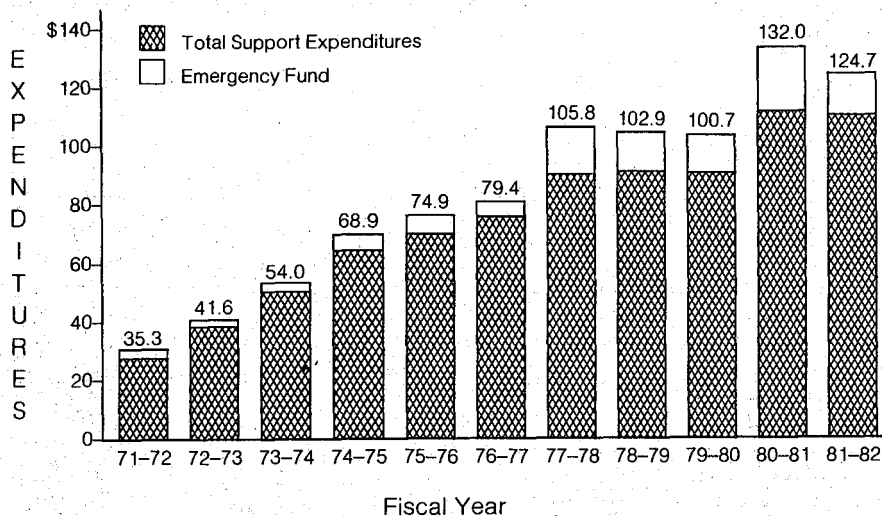
DEPARTMENT OF FORESTRY—Continued

Landowners are not required to contribute toward the state's costs of protecting their lands.

This method of financing wildland fire protection differs from the methods used by other western states, such as Oregon, Washington, Montana, and Idaho. These states also maintain forest and wildland fire protection systems for private lands, but they finance their activities through a combination of landowner assessments and state general fund support. Currently, these four western states finance between 32 percent and 63 percent of their fire protection costs through landowner assessments. The assessments range from 16 cents to 68 cents per acre, with a minimum charge of from \$5 to \$15 per parcel. Revenues are collected through the county property tax system.

Chart 1

**Department of Forestry
Support and Emergency Fund Expenditures for Fire Suppression
1971-72 through 1981-82 (in millions)**

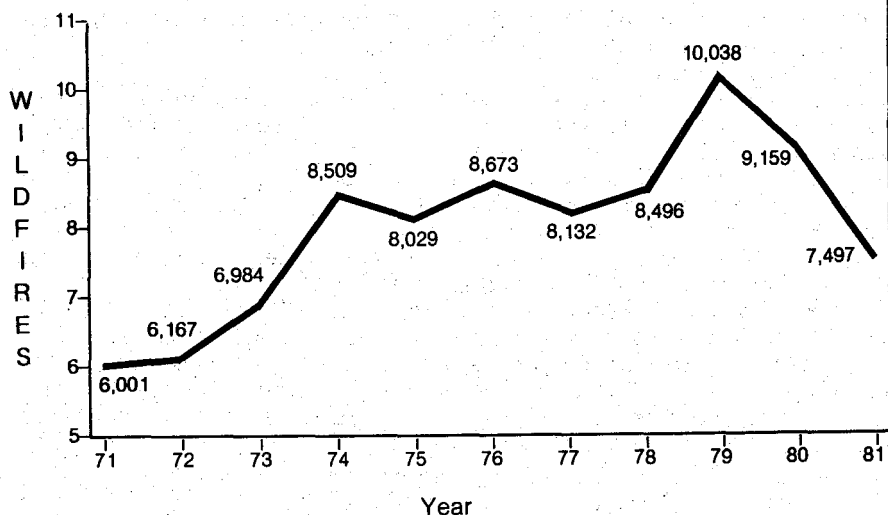


Fire Suppression Costs Increasing Sharply. Chart 1 illustrates the increase in costs for the Department of Forestry's wildland fire protection system during the last 10 years. It indicates that, during the period between 1971-72 and 1981-82, the state's cost of maintaining this system has increased by \$89.4 million, or 253 percent.

The annual costs of the CDF wildland fire protection system have increased for a number of reasons, including (1) enactment of the Fair Labor Standards Act (\$3.8 million), (2) implementation of the 72-hour duty week (\$3.4 million) for permanent (nonseasonal) fire suppression personnel, (3) the impact of inflation on operating expenses (4) the increase in salaries paid to state employees, and (5) the general increase in fire incidents. The increase in the number of fire incidents is illustrated in Chart 2. According to CDF statistics, the average number of fire inci-

Chart 2

Department of Forestry
Number of Fire Incidents, State Responsibility Area
1971 through 1981 (In thousands)



dents per year has increased from 5,205 during the decade 1961–1971 to 8,168 during the 1971–1981 period. A major reason for this increase in the number of fire incidents is the growth in population on or near state responsibility lands—particularly where this growth has resulted in the urbanization of previously rural areas, such as the western foothills of the Sierra Nevada and in the mountainous areas of southern California.

System of Landowner Financing Recommended. In our *Analysis of the 1982–83 Budget Bill*, we questioned the reasonableness of having the taxpayers pay 100 percent of the costs incurred in providing fire protection to a relatively small group of private landowners. To provide for a more equitable allocation of costs for the state's wildland fire protection system, we recommended that legislation be enacted to make CDF's program partially self-supporting through a system of landowner assessments. We estimated that if Forestry was authorized to establish such a system, and charged landowners an average of \$1 per acre, General Fund savings of up to \$33 million per year could be achieved. This is about 26 percent of the estimated cost to the state for wildland fire protection in the current fiscal year (\$124.6 million). The actual revenues that could be realized from a system of landowner assessments would depend on (1) the assessment levels established for different types of land and vegetation, (2) the amount of any minimum parcel charge, and (3) state and local administrative costs to collect the revenue.

Proposal Needs Further Evaluation. During budget hearings last year, the Department of Forestry raised several concerns regarding both the equity and feasibility of establishing a system of landowner assessments. CDF indicated that the existing method of financing wildland fire protection is appropriate because of the major public benefits that result from

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having the state protect wildland watersheds, forests and grasslands. The department also maintained that the administration of an equitable assessment system would be complex.

Redirect FRAP Funds. We continue to believe that there is merit in establishing a system of landowner assessments, and that the experience of other western states provides a useful starting point for developing such a system. At the same time, we recognize that a feasibility study is needed to evaluate the issues raised by the department.

So that the Legislature will have a better basis for determining whether a system of landowner assessments should be used to help fund the state's wildland fire protection program, we recommend that the department finance a limited feasibility study of the concept. Such a study could be funded without an increase in the budget for the department by redirecting \$50,000 (or more) from the department's Forest Resources Assessment Program (FRAP) for this purpose. The budget requests 7.2 positions and \$420,000 from the General Fund to support FRAP in 1983-84.

The FRAP was established pursuant to Ch 1163/77 for the purpose of developing a forest resources planning program for California. We believe use of funds budgeted for this program to finance the proposed feasibility study is authorized by existing legislation and would be appropriate. Consequently, we recommend that the Legislature add the following control language to Item 3540-001-001:

"At least \$50,000 of the \$420,000 appropriated by this item for the Forest Resources Assessment Program (FRAP) shall be used to finance a study evaluating the feasibility of establishing a system of landowner assessments to partially finance wildland fire suppression costs similar to those used by other western states."

We further recommend that the legislature adopt the following supplemental language to provide guidance to the department in conducting the study:

"The department shall conduct a study evaluating the feasibility of implementing a system of landowner assessments to finance a significant portion of the costs for fire protection provided to state responsibility wildlands. The study shall (1) review the funding mechanisms of existing state fire protection programs administered in Washington, Oregon, Idaho and Montana, (2) evaluate the various problems associated with establishing a similar method of financing in California, and (3) recommend an appropriate and cost-effective proposal for implementing a schedule of assessments and parcel charges for state responsibility land. The results of this study shall be submitted to the Legislature by December 15, 1983."

Repeal Amador Plan Subsidy

We recommend enactment of legislation repealing provisions of the "Amador Plan" in order to improve the department's efficiency, spread the burden of financing CDF's fire protection program more equitably, and make possible program improvements, for a potential General Fund savings of from \$1.3 million to \$1.5 million per year.

Amador Plan. In recent years, the Legislature has enacted a series of statutes authorizing the department, during the winter or nonfire season, to absorb most of the costs of providing fire protection services to local government, subject to certain limitations. Ch 870/76, as amended, au-

thorizes Forestry to finance the basic salary expenses of permanent state firefighters and forest rangers who provide this local fire protection. As a result, the department currently provides state-subsidized firefighting services to residential communities and commercial structures in rural areas that are not designated as being the state's responsibility. Contracts between the state and local governments calling for the state to provide these services are commonly referred to as "Amador Plan" agreements.

Program Expansion. When first authorized in 1976, Amador Plan agreements were only available to counties with populations of 100,000 or less. At the time, 23 counties were in this category. In 1978, the population ceiling was raised to 130,000, increasing the number of eligible counties to 27. two years ago, Ch 788/81 eliminated the population limit entirely, making a total of 42 counties eligible to receive state-subsidized winter-time fire protection. At the present time the only counties that are *not eligible* to receive state subsidized fighting services are as follows: Alpine, Imperial, Inyo, Kern, Los Angeles, Marin, Mono, Orange, Plumas, Sacramento, San Francisco, Santa Barbara, Sierra, Solano, Sutter and Ventura.

Existing Program Cost. Participation in Amador Plan agreements has grown from 8 counties in 1977-78 to 19 counties in the current fiscal year. In 1981-82 (the last year for which complete information is available), the department provided the equivalent of 827 personnel-months of firefighting staff and forest ranger positions in 18 counties with active Amador Plan agreements. Based on current state salary levels, these 827 personnel-months cost the state \$1,321,184 in wages. Adding in paramedic bonuses and department administrative overhead of 10.1 percent brings the cost to \$1,533,306. Consequently, this is the amount of the subsidy being provided by state taxpayers to counties participating in the Amador Plan.

In addition to the state costs, the counties paid \$182, 477 in 1981-82 to cover fire mission salary differential, staff benefits and administrative overhead. They also paid an unknown additional amount to cover fire station operating expenses and utility costs.

Impact of Amador Plan Growth. The provisions of law authorizing "Amador Plan" agreements specify that the agreements are not to impose additional costs on the state or interfere with CDF's primary mission of protecting wildland areas during the fire season. It is not clear that the agreements, taken together, are in compliance with these restrictions. This, coupled with the growth in the number of Amador Plan agreements, justifies a reevaluation of the current policy.

Our analysis indicates that:

1. Assignment of CDF employees to local government fire protection duty during the wintertime reduces the Department of Forestry's flexibility, and makes it more difficult for the department to utilize its personnel for other high priority programs and activities, such as fire prevention inspections, vegetation management, prescribed burning operations, and timber harvest inspections required by the Forest Practice Act. In addition, the requirements imposed by these agreements make it difficult for the department to use permanent positions for facility and equipment maintenance and training activities during the nonfire season. The scope of this problem, however, is not known.

2. The Amador Plan results in favored treatment for rural areas of some counties at the expense of taxpayers in less favored counties. For example, residents of counties contracting for year-round (rather than only winter-time) fire protection (Schedule A) must pay the full cost of their own protection (including 100 percent of the salaries paid to CDF employees),

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and contribute through their taxes toward the costs of CDF employees working to protect residents in other counties covered by Amador Plan agreements.

3. During the current year, the department has had to reduce its activities because of reductions in its budget. Specifically, it has had to (a) close or reduce operation of 12 fire stations, (b) permanently close three fire lookouts, (c) delay the hiring of and accelerate the termination of seasonal firefighters, (d) reduce automotive equipment purchases to replace obsolete or damaged fire trucks, (e) eliminate inmate fire crew supervisory staff, and (e) reduce mass media fire prevention efforts. In addition, CDF has also been unable to obtain funding to replace three of its S-2 airtankers which are no longer usable due to crashes in prior years.

These reductions have reduced the level of fire protection in state-responsibility areas. The Amador Plan counties, however have continued to receive the same level of wintertime fire protection in local responsibility areas, essentially free of charge.

If the state were fully reimbursed by local governments for the cost of CDF employees committed to existing Amador Plan contracts, the additional funds would allow the department to restore a significant amount of funding deleted from programs serving a state (rather than just a local) interest. It would appear that these state responsibilities warrant a higher priority than providing subsidies to local government through Amador Plan agreements.

For the reasons given above, we recommend that legislation be enacted repealing provisions of the Amador Plan. This would allow the department to operate more efficiently, distribute the burden of supporting the department's activities more equitably, and allow improvements in fire protection services to state-responsibility lands without increasing state costs.

S-2 Airtanker Substitutes More Costly

We recommend that \$1,050,000 of the \$6,031,000 requested for automotive and other equipment purchases in Item 3540-001-001 be redirected for use in converting three S-2 airtankers that are needed to replace three aircraft which are no longer usable, so that the use of more costly substitute aircraft can be discontinued.

CDF Air Attack Program. As part of its statewide firefighting organization, the department operates an extensive fleet of airtanker and observation aircraft. This fleet originally consisted of 19 twin-engine Grumman S-2 medium airtankers, 13 Cessna C-337 observation aircraft, and one leased (privately owned) B-17. During the fire season, these aircraft normally operate from 13 air attack bases located throughout the state. They are also available on a cooperative basis to the U. S. Forest Service for fire control activities on national forest lands in California. All of the state's air attack aircraft are maintained and operated by private companies under multi-year contracts.

S-2s Leased from Navy. CDF obtained its Grumman S-2 airtankers from the U. S. Navy in 1974, pursuant to a long-term lease. Along with 19 aircraft available for operational use, the department secured 39 spare S-2s plus 60 engine cores for use as a source of parts and components for maintenance purposes. All of the 39 spare aircraft and engines are stored at the Fresno airport.

The original 19 S-2s were phased into Forestry's airtanker program during the 1970's. They replaced other World War II-vintage aircraft which had been leased by the state from private operators. Although CDF obtained the aircraft from the Navy at essentially no cost, the state incurred a one-time expense of approximately \$270,000 per aircraft to (1) perform safety inspections and modifications, (2) install rebuilt engines (as necessary), (3) install radios and tanking equipment needed to hold fire retardant, and (4) repainting. All of this conversion work was done by private firms under contract to the department.

No Funding to Replace Lost Aircraft. As a result of firefighting accidents, the department lost two S-2s in 1978-79. The two planes were replaced with larger, privately-owned DC-6 aircraft which are significantly more expensive to operate. During the 1982 fire season, a third S-2 crashed, reducing the operational fleet to 16 S-2 aircraft, two leased DC-6 airtankers, and one leased B-17. The S-2 lost last summer has not been replaced, and no funds are budgeted in 1983-84 to lease another substitute aircraft.

Although the state has received a total of \$441,000 in insurance payments for the three lost S-2s, Forestry has not been authorized to use this money to finance replacement aircraft by converting spares stored in Fresno.

The costs to the state of leasing the two DC-6 substitute aircraft is significantly higher than the cost of operating S-2 airtankers. The DC-6s cost (1) \$610 to \$620 per day for availability, and (2) \$1,043 per hour of flight time to operate. By comparison, an S-2 airtanker costs \$237 per day and \$465 per hour to operate. Furthermore, the DC-6s are too large to operate from some CDF air attack bases.

Conversion of Three S-2s Recommended. In order to (1) restore the state airtanker fleet to 19 operational S-2s, and (2) reduce the ongoing cost of aircraft under the department's air attack program, we recommend that \$1,050,000 of the \$6 million budgeted for equipment purchases be used to cover the cost of converting three spare S-2s to operational condition. This would provide \$350,000 per aircraft for engine overhaul, installation of radio and tanking equipment, painting, safety inspections and any other necessary modifications.

Conversion of these aircraft, in lieu of leasing three DC-6s, would allow the state to recover the \$1,050,000 capital investment within 3.42 years. The cost recovery would be made possible by the lower operating costs of the S-2s. This estimate assumes a 107-day period of availability and an average of 96 hours of flight time per fire season.

While conversion of the three spare S-2s appears to warranted, we do not believe a budget augmentation is needed to fund the conversion. Instead, we suggest that support be derived from a redirection of funds budgeted for equipment purposes in 1983-84, for two reasons. First, the department has not provided the comprehensive schedule of equipment expenditures to justify the \$6 million equipment request that is required by Sections 6120 and 6125 of the State Administrative Manual (SAM). Second, the replacement of the three S-2 tankers would seem to have a higher priority than the purchase of replacement automobiles and fire engines. The S-2 aircraft has proven to be effective in initial attack operations, and can extinguish or contain small wildfires in remote areas before they become major fires requiring large amounts of equipment and personnel to suppress. Allocation of \$1,050,000 for conversion of three S-2s would still leave approximately \$5 million in the budget to finance re-

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placement of critical automotive and other equipment.

To accomplish this redirection, we recommend that the Legislature add the following control language to Item 3450-001-001:

"From the amount appropriated by this item for purchase of equipment, up to \$1,050,000 shall be used to pay the costs of converting three S-2 airtankers for the air attack fleet."

Chaparral Management Program Savings

We recommend (1) the deletion of one-time funds provided in the current year for costs associated with (a) the conversion of a seventh UH1-F helicopter and (b) purchase of special equipment for the Chaparral Management Program, for a savings of \$107,000 in Item 3540-001-001 and \$153,000 in Item 3540-001-190, and (2) that the savings in Item 3540-001-190—\$153,000—be transferred from the Energy and Resources Fund to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

Two years ago, the Legislature authorized funding for acquisition and conversion of six surplus UH1-F helicopters that had been acquired from the U. S. Air Force under a long-term, low-cost lease. In 1981-82, the Department of Forestry was provided \$3.1 million from the Energy and Resources Fund (ERF) to overhaul the engines and modify these helicopters for use in suppressing wildland fires during the fire season, and for prescribed burning projects conducted pursuant to Ch 525/80 in the non-fire season. Conversion of these aircraft allowed the state to terminate leases that gave the department access to smaller helicopters during the fire season.

In the 1982 Budget Act, the Legislature provided an additional \$2,984,000 from ERF to continue helicopter operations and prescribed burning activities. This amount included (1) a \$144,000 increase from the Energy and Resources Fund, and (2) redirection of \$107,000 from the General Fund to finance the conversion of a seventh helicopter.

For the budget year, the department has requested a total of \$2,991,000 to continue the Chaparral Management Program. The program will be financed with \$2 million from the Environmental License Plate Fund and \$991,000 from the Energy and Resources Fund. The total amount is slightly higher than that provided in the current year.

The baseline budget, however, has not been adjusted to delete the \$107,000 of General Fund money appropriated last year for one-time equipment purchases associated with the seventh helicopter. Also, the budget retains in the base an additional \$153,000 from the Energy and Resources Fund provided in the current year to finance other one-time costs associated with the seventh helicopter (\$144,000) and specialized equipment purchases deferred from 1981-82 (\$9,000).

The department has not identified how the \$107,000 from the General Fund will be spent in 1983-84. The department proposes to use the \$153,000 in one-time ERF money to fund a new contract with the Department of Fish and Game (DFG). The Department of Finance has advised us that the money will permit the addition to DFG biologists to assist in the planning of prescribed burning projects, and evaluate the impact of these projects on wildlife habitat. If this is indeed how the money would be used, we believe that the Fish and Game Preservation Fund would be a more appropriate source of financing, since wildlife will benefit from the con-

trolled burns. Accordingly, we recommend the deletion of \$107,000 requested from the General Fund and \$153,000 requested from the Energy and Resources Fund. Approval of this recommendation would leave a balance of \$2,838,000 for helicopter operations and the Chaparral Management Program in 1983-84.

Leaving unappropriated funds in special purposes accounts limits the Legislature's options in allocating funds to meet high-priority needs. So that the Legislature may have additional flexibility in meeting these needs, we further recommend that any savings resulting from approval of our proposed reduction in Item 3540-001-190—\$153,000—be transferred from the Energy and Resources Fund to the General Fund.

Reduce State Liability for Prescribed Burning Escapes

We recommend the adoption of language in Item 3540-001-001 prohibiting the department from spending any funds to assist the U. S. Forest Service (USFS) in prescribed burn projects on national forest lands unless the USFS agrees, in writing, to indemnify the state for all suppression costs in the event of a fire escape.

Chaparral Management Program. Chapter 525, Statutes of 1980 (as amended), authorizes the Department of Forestry to finance at state expense up to 90 percent of the cost of conducting prescribed burning projects on private lands located in state responsibility areas, and to assume the cost of purchasing liability insurance to protect the state in the event a fire escapes from the project area causing third parties to suffer damage or loss of property. This act also exempts private landowners from being liable for state fire suppression costs under such circumstances. Ch 987/82 broadened CDF's authority by permitting the department, in certain situations, to finance prescribed burning projects on *any* lands which are *contiguous or adjacent* to state responsibility areas.

The department has approximately \$2.9 million budgeted (all sources) to finance the Chaparral Management Program in 1983-84, including (1) operation of its seven UH1-F helicopters, (2) headquarters, and field administrative staff, and (3) miscellaneous expenses. The department also maintains its regular fire suppression personnel, equipment and inmate camp crews in a standby capacity to suppress any burn that escapes from the project area. These standby resources are budgeted as part of the department's state responsibility fire protection program, and are not paid from the \$2.9 million.

The department also assists federal agencies, such as the U.S. Forest Service, in carrying out similar projects on federal lands in California. This assistance may take the form of providing a CDF helicopter to serve as a helitorch or furnishing standby fire crews.

The department's statutory authority to expend state funds in support of controlled burns conducted on federal land is not clear. Specifically, it is not clear that the state can (1) provide financial assistance to these projects on a non-reimbursable basis, or (2) assume the liability for the costs of suppressing fires that escape from the project area.

Chalk Reservoir Fire (Shasta-Trinity National Forest). Last summer the department incurred \$353,427 in suppression costs connected with a prescribed burn on federal land. These costs resulted from the department's efforts to control a 3,800-acre fire near Fall River Mills which resulted from the escape of a prescribed burn on Shasta-Trinity National Forest lands conducted under the direction of the Forest Service. Although the fire started on national forest land, it also burned a total of 1,710

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acres of private, state responsibility area (SRA), and 1,930 acres of Bureau of Land Management (BLM) land. It took CDF three days to control the fire (August 24–26, 1982), and required the efforts of 22 CDF-engine crews, 16 inmate camp crews, several airtankers, and 1,456-hours of pickup labor. In the process, the department spent \$101,347 for rented equipment and \$19,776 for fire retardant.

Control of this fire became CDF's responsibility for two reasons. First, this area of national forest is protected by the Department of Forestry, pursuant to a long-standing interagency agreement with the U.S. Forest Service. The state cost for providing this service is offset against the amount CDF pays the Forest Service each year for protecting 4 million acres of SRA land that are within or contiguous to other national forest land elsewhere in California.

Operationally, the state became responsible for controlling the Chalk Reservoir Fire because the department cooperated in the development of an escape contingency plan and agreed to provide contingency or standby fire suppression forces for the prescribed burn. These forces consisted of a fire boss, three fire engines, and two hand crews. CDF also provided the helicopter and helitorch which were utilized, under the direction of the Forest Service, to start the fire. In the event of a fire escape, the contingency plan provided for all suppression forces to be under the command of the CDF fire boss.

State's Efforts to Obtain Reimbursement from Federal Government Have Been Unsuccessful. In December 1982, CDF attempted to recover reimbursement for the costs it incurred in suppressing the Chalk Reservoir Fire. It did so by billing the BLM for \$179,506 and the Forest Service for \$13,350. BLM, however, has advised this office that it does not intend to pay any portion of this bill because it was not involved in planning the prescribed burning project, and the fire resulted from Forest Service negligence. At the time this analysis was prepared, no information was available on the Forest Service's willingness to pay the amount billed to it by the state. It now appears that most of the \$353,427 in suppression costs incurred by the state in containing this fire will ultimately be financed from the General Fund. These costs are part of the \$10 million in unanticipated 1982–83 costs for which a deficiency appropriation has been requested.

Existing state law does not specifically authorize the department to assume liability for the cost of suppressing fires that result from the escape of prescribed burns conducted on public lands, particularly when the burn is under the direction of a federal agency. To ensure that the state does not incur such costs in the future, we recommend that the CDF be prohibited from participating in controlled burns on Forest Service or BLM lands unless those agencies agree, in writing, to indemnify the department for any suppression expenses incurred by the state in the event a fire escapes.

Specifically, we recommend adding the following language to Item 3540-001-001:

"No funds appropriated to the Department of Forestry by this or any other act shall be used to provide assistance in planning or carrying out prescribed burning projects conducted on U.S. Forest Service or Bureau of Land Management lands unless those agencies agree, in writing, to indemnify the state for all suppression costs incurred in the event the fire escapes."

Increase in BLM Contract Payments Not Reflected in Budget

We recommend that the Department of Forestry report, prior to budget hearings, on the increase in suppression payments it expects to receive from the Bureau of Land Management during 1983-84 under its newly revised contract with the bureau.

Background. The Department of Forestry has a variety of cooperative agreements with the federal government calling for the state to provide fire protection to federal lands that are intermingled with, or adjacent to, private lands which the state is responsible for protecting. One of the more significant of these contracts is with the Bureau of Land Management (BLM). Pursuant to this agreement, CDF protects 2,291,765 acres of Bureau land, while BLM protects 442,469 acres of state responsibility lands. Thus, the department protects 1.85 million more acres for the BLM than the BLM protects for Forestry.

Under its existing agreement with the BLM, the state is reimbursed for the department's actual costs in suppressing fires on BLM lands. In addition, BLM pays the department a presuppression (standby) payment of \$823,000 per year. This standby payment has not been increased since 1972 to reflect the higher costs incurred by CDF as a result of increases in state employee salaries and operating expenses.

Legislature Directs CDF to Revise Agreement With BLM. Language included in the 1982 Budget Act directed the department to revise its existing cooperative agreement with BLM so that the contract provides for appropriate inflation adjustments in the amount of presuppression payments made by BLM to the state. The Legislature directed that this adjustment take into consideration the current level of CDF salaries and operating expenses, relative to the levels in effect during 1972. In addition, the department was directed to report quarterly to the Legislature on its negotiations with BLM on these matters.

No Change in CDF-BLM Agreement Reflected in the Budget. The budget does not reflect any change in the size of the BLM's presuppression payment to the state. CDF's schedule of reimbursements again include \$823,000 from BLM for contract protection—the same amount as in 1972. In contrast, a similar contract between the department and the U.S. Forest Service (USFS), calling for the Forest Service to protect state responsibility lands located within or adjacent to national forest land, will cost the state \$3,245,000 in 1983-84. This is \$1.8 million, or 122 percent, more than the amount paid to USFS in 1972.

We have been advised by department staff that BLM and Forestry are working to complete a *draft* proposal for revising the BLM-CDF contract. No agreement over the terms of a new contract, however, has been approved by either the regional director of the BLM or the Department of Forestry. Furthermore, the agencies have not agreed on a formula for use in revising the annual presuppression payments made to CDF.

Continued State Subsidy of the BLM is Not Warranted. We see no basis for the CDF to continue subsidizing the BLM, especially since other federal agencies require the department to make periodic increases in contract payments. In the absence of a significant increase in the amount of presuppression payments made by BLM to CDF, the Legislature may wish to consider reducing the level of service provided to BLM lands.

Recommendation. In the event that the CDF and the BLM reach agreement on a new contract, we recommend that the department prior to budget hearings advise the Legislature on (1) the details of the new agreement, and (2) the amount of additional presuppression payment

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that the state can expect to receive in 1983–84.

If no agreement is reached prior to budget hearings, we plan to recommend a reduction in the level of state-subsidized services provided to the BLM.

Emergency Fire Assistance Provided to Federal Lands

We recommend that:

1. *The department be directed to charge the costs of all emergency fire suppression services provided to the U.S. Forest Service and the Bureau of Land Management (BLM) as reimbursements.*

2. *The General Fund appropriation that would normally be charged for these services be reduced by \$2 million (Item 3540-001-001) and reimbursements be increased by a corresponding amount.*

3. *Language be added to Item 3540-001-001 requiring that:*

(a) *Any reimbursement for fire suppression assistance provided on behalf of a federal agency shall become due and payable 60 days following submittal of the invoice by the department.*

(b) *The department shall charge the federal agency penalty interest, at the same rate earned by deposits in the Pooled Money Investment Fund, on any reimbursable amount unpaid after 60 days.*

(c) *If any reimbursement must be temporarily paid from a deficiency appropriation, the payment shall be made in the form of a loan from the Department of Finance to the Director of Forestry for the amount of the deficiency.*

The Department of Forestry routinely assists the U.S. Forest Service and the Bureau of Land Management (BLM) on a reimbursable basis in controlling brush and forest fires occurring on national forest and public domain lands in California. It does so by providing state fire engines and crews, bulldozers, California Conservation Corps (CCC), California Youth Authority (CYA), and Department of Corrections handcrews, rental equipment, vehicles, airtankers, and other support, as requested.

CDF Billing Deficiencies. In both the 1981 and 1982 *Analyses*, we described the department's poor record in billing federal agencies for the cost of cooperative emergency fire suppression provided to the Forest Service and BLM. Specifically, we called attention to the fact that the department's billing process for recovering the state's costs of providing fire suppression services was slow, inaccurate, and did not assure full recovery of these costs. Failure to recover full costs on a timely basis results in the payment of the uncollected costs from a deficiency appropriation. This makes the cost an expense to the General Fund.

In response, the Legislature included language in the 1981 and 1982 Budget Acts requiring the department to submit invoices to federal agencies no later than 120 days after a fire on federal land is suppressed. Exceptions to this requirement were permitted, but only if CDF provided written notification to the Chairman of the Joint Legislative Budget Committee.

Review of Accounts Receivable. Our recent review of CDF's new procedures for billing the Forest Service and the BLM found that the process has been expedited and accuracy improved. Nevertheless, significant amounts due the state still have not been recovered from the federal government, even though the fires for which the billings were made occurred several years ago. As of early December 1982, the department

has outstanding accounts receivable totaling approximately \$4,789,000. Of this amount, only \$37,068 is attributable to fires that occurred in 1982. The balance—\$4,717,912—is attributable to fires that occurred prior to 1982.

CDF was unable to advise us when the state can expect to receive payment for these overdue invoices. Furthermore, it is not apparent that anyone within accounting services or departmental management is actively attempting to secure payment of these overdue accounts. In this regard, we believe it is significant to note that last year Forestry agreed to become subject to a new penalty charge on any fires *billed to the state* by the federal government which are not paid within 60 days. However, no reciprocal provision was instituted by CDF to penalize federal agencies for unpaid bills over 60 days old.

The accounts receivable from the U.S. Forest Service include an unpaid bill for \$525,970. This bill is for the cost of services provided to the Cleveland National Forest during the Lakeland, Indian and Turner fires which occurred between November 16–25, 1980. During hearings on the 1981 Budget Bill, the department advised the Legislature that it expected the state to be reimbursed for approximately \$3.16 million of the costs associated with these fires. However, the invoice submitted to the Forest Service in December 1981 (13 months after the state incurred these costs) sought to recover only \$939,628 of the \$3.16 million. This invoice subsequently was challenged by the federal government, and during the summer of 1982 CDF reduced the billing to \$525,970. This amount is still unpaid. We are advised that the Forest Service is now refusing to reimburse CDF for *any* of these costs.

Recommended Legislative Action. By (1) initiating new procedures for tracking billable fires and (2) expediting the preparation of invoices, the department has made major improvements in both the accuracy and timing of invoices submitted to the federal government for recoverable fire costs. Timely submittal of these billings, however, does not assure that the state will be paid. Usually, it is necessary for the state to pursue payment after bills have been submitted to the appropriate federal agency.

Our analysis indicates that the department does not have the incentive to actively pursue overdue payments from the federal government, for two reasons. First, the department is able to finance the entire cost of providing emergency fire suppression assistance to the federal government by charging these costs to the General Fund as an emergency fire expense. Any deficit resulting from such expenditures is financed through the department's annual deficiency appropriation. Second, any cost recoveries received by CDF from the federal government are deposited in the General Fund and are not available for departmental use.

To relieve the General Fund from the unnecessary burden of providing working capital or loans to the federal government, we recommend that the Legislature take the following actions:

1. Reduce the department's General Fund support budget by \$2 million.
2. Add language to Item 3540-001-001 providing that the first \$2 million in payments received from federal agencies for 1983–84 fires shall be treated as a reimbursement. (This is the average amount of money collected by CDF from the Forest Service and Bureau of Land Management during the last five fiscal years.) Specifically, we recommend that the following language be added to Item 3540-001-001:

“The sum of \$2 million recovered by the department for billable fire

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suppression services provided to the U.S. Forest Service and Bureau of Land Management during 1983-84 is hereby appropriated for expenditure as a reimbursement in schedule (f)."

3. Add control language to the Budget Bill directing CDF to advise federal agencies that bills seeking recovery of state costs in providing emergency fire suppression assistance are due and payable within 60 days following submittal of the invoice. Any bills unpaid after 60 days would be treated as loans and subject to penalty charges at the same interest rate as earnings deposited in the Pooled Money Investment Fund. Specifically, the following language should be added to Item 3540-001-001:

"The Department of Forestry shall advise the federal government that the cost of all emergency fire suppression assistance provided to the U.S. Forest Service or Bureau of Land Management is due and payable within 60 days following submittal of the invoice by the state. Any such costs remaining unpaid after 60 days and paid from a deficiency appropriation shall become a loan by the Director of Finance to the Department of Forestry subject to penalty interest charges at the same rate as surplus money deposits in the Pooled Money Investment Fund."

Reduce Forest Service Payments by Amounts Owed to State

We recommend a reduction of \$879,000 in Item 3540-001-001 from the amount requested to pay for cooperative fire protection provided by the U.S. Forest Service (USFS) to state responsibility lands. We further recommend that this amount be withheld from the state's payment to the USFS as a means of securing payment for (1) \$526,000 in state costs incurred in connection with the 1980 Lakeland, Indian, and Turner Fires in the Cleveland National Forest and (2) \$353,000 in emergency fire expenditures incurred by the state in connection with the East Ridge prescribed burn escape, (Chalk Reservoir Fire) in the Shasta-Trinity National Forest during 1982.

We have previously discussed (1) CDF's lack of success in recovering costs incurred in suppressing fires on federal lands from prior years and (2) emergency fire suppression expenses incurred by the state due to the escape last summer of a federally-supervised prescribed burn from the Shasta-Trinity Forest.

We estimate that the Forest Service owes the state (1) \$679,459 for reimbursable fire suppression assistance provided by CDF on fires occurring in 1981 and earlier years, (2) \$12,537 for similar services provided on 1982 fires, and (3) \$353,427 for state suppression costs resulting from the escape last summer of the Chalk Reservoir prescribed burn. The Department of Forestry, however, is unable to provide assurances that the state will ever be reimbursed by the Forest Service for any of these General Fund expenditures.

Included in the department's budget request is \$3,221,000 from the General Fund (Item 3540-001-001) to pay the U.S. Forest Service for fire protection services provided to 4,009,865 acres of private land located within or adjacent to various national forests in California. These lands are state responsibility areas protected by the Forest Service pursuant to a long standing cooperative agreement with CDF. The amount CDF pays for this service is based on an estimate of what it would cost the state to protect the lands itself. The money is distributed to individual national forests and finances part of the Forest Service's costs for specified fire

crews, lookouts and fire prevention personnel.

Because the Forest Service refuses to pay the department for amounts due for some of these fires, the only apparent way for the state to recover these costs is by reducing its \$3.2 million payment to the Forest Service. Accordingly, we recommend that \$879,397 be deleted from Item 3540-001-001. This would reduce the amount appropriated for cooperative fire protection provided by the Forest Service in 1983-84 to \$2,341,603.

Funding for Forest Practice Corrective Work Deleted

We recommend that the unexpended balance of the \$100,000 appropriation from the Environmental License Plate Fund made by the 1982 Budget Act be reappropriated to provide funds for corrective work made necessary by violations of the Forest Practice Act.

Both the 1981 and 1982 Budget Acts appropriated \$100,000 from the Environmental License Plate Fund to finance corrective actions taken by the department to (1) dispose of logging slash, (2) complete erosion control work, (3) conduct stocking surveys, and (4) replant seedlings at understocked timber harvest sites. This work must be undertaken when a violation of the Forest Practice Act has occurred and the landowner or timber operator has failed or refused to take legally required corrective action.

Existing law authorizes the department to spend state funds to perform the corrective work and to recover the cost by recording a lien on the affected property. Prior to 1981-82, CDF did not budget for corrective actions, and financed any corrective work it undertook by redirecting funds from other legislatively authorized activities.

Pending Workload. At the time this analysis was prepared, the department had 40 cases pending which could require corrective work. This included (1) 18 notices for failure to conduct stocking surveys to determine whether the site of a previous timber harvest has adequately regenerated, and (2) 22 stipulated agreements, notices of intent to take varying corrective actions or orders to replant understocked land and complete follow-up work. Depending on the findings of the 18 delinquent stocking surveys, and other surveys voluntarily submitted by landowners during the current and budget years, additional stocking orders or state planting of seedlings may be necessary.

No Funding Budgeted for 1983-84. The potential cost of corrective work in connection with the 40 pending cases is unknown. The cost will depend on the willingness of forest landowners to do the work themselves as ordered, the time allowed by the department for compliance, and any legal delays encountered by CDF. One corrective action recently performed by Forestry cost approximately \$11,000 to complete. CDF also indicates that replanting costs for an understocked 20-acre timber site can go as high as \$20,000. For planning purposes, the department estimates an annual, ongoing cost of \$50,000 for corrective work under the Forest Practice Act.

Despite the demonstrated need for funds to finance corrective actions pending recovery from private parties, no funding for this purpose is proposed in the budget for 1983-84. Without additional funding, CDF's ability to properly enforce the Forest Practice Act could be jeopardized, since some violations would have to be left uncorrected. Alternatively, legislative control of the budget could be weakened if CDF chooses to redirect funds from legislatively authorized programs to finance this work.

Reappropriate Unexpended Balance. To ensure that any necessary

DEPARTMENT OF FORESTRY—Continued

corrective work can be performed in 1983–84, we recommend that CDF be authorized to spend next year any unencumbered balance remaining from its current-year Environmental License Plate Fund appropriation on June 30, 1983. The department estimates that it will spend approximately one-half of the amount appropriated for the current year, which will leave about \$50,000 available for reappropriation in 1983–84. Accordingly, we recommend that the unencumbered balance be reappropriated.

To implement these recommendations, we recommend that the following language be added to the Budget Bill:

Item 3540-490. Any unencumbered balance of the \$100,000 appropriated by Item 3540-001-140, Budget Act of 1982, for purposes of corrective reforestation work pursuant to the Forest Practices Act is hereby reappropriated for the same purpose during the 1983–84 fiscal year.

CFIP Expenditures Exceed Anticipated Revenues

We recommend:

1. *Reduction of \$507,000 from Item 3540-001-928 so as to keep proposed expenditures for the Forest Improvement Program within current revenue estimates; and*

2. *Adoption of language limiting administrative expenditures for the program to \$741,000.*

The budget proposes a \$3,761,000 appropriation from the Forest Resources Improvement Fund (FRIF) for reforestation grants, related administrative staff, wood energy operations, and other miscellaneous projects and interagency activities financed under the California Forest Improvement Program (CFIP).

Revenue Shortfall. The department's budget assumes that the Forest Resources Improvement Fund will receive revenues of \$5,627,000 from state forest timber sales during 1983–84. During January, however, CDF state forest management staff supplied revised estimates which indicate that the department now expects to receive only \$4,502,000 in revenues during the budget year. This consists of \$2.9 million in payments due from 1982 timber sales, and \$1.6 million in anticipated revenues from new sales which will be bid this spring. The portion due from last year's sales assumes that no contract extensions and payment deferrals are approved by CDF and that no defaults occur.

The \$1.6 million from new sales assumes harvesting over two logging seasons. At the time this analysis was prepared, other department management personnel were giving consideration to (1) making these one-year sales and (2) increasing the amount of the prepayment deposit required on new sales awarded in 1983. These changes could either increase or decrease the amount of revenue received in 1983–84 and 1984–85. Either change would, however, be a significant departure from the way state forest timber sales have been administered by the department in the past. Furthermore, there is no experience which would permit us to judge the fiscal effect of these changes. Consequently, we believe that the most reliable estimate of revenues in 1983–84 is the \$4,502,000 which is based on past experience.

Impact of Revenue Reduction. After deducting \$1,248,000 to pay the department's cost of operating the state forests, only \$3,254,000 will be available for CFIP expenditures. This is \$507,000 less than the amount proposed for appropriation in the budget. As in prior years, this will proba-

bly reduce the amount allocated for reforestation grants, because CDF tends to treat other expenditures budgeted under the Forest Improvement Program, such as the cost of administrative staff, as fixed costs.

Last year, the department originally budgeted \$2.64 million from FRIF for reforestation grants and \$943,000 for support staff (21.5 personnel-years) in 1982-83. Because state forest timber revenues during the current year will be less than anticipated, due to general economic conditions and other changes, sufficient revenues will not be available to fund the budgeted program. In response, the amount available for reforestation grants was reduced to \$1,373,000—a reduction of 52 percent from the amount budgeted. These grant monies were fully allocated during the first quarter of fiscal 1982-83. No adjustment, however, was made in the amount budgeted for grant administration, despite the 52 percent decrease in grant funds.

Excessive Administrative Costs. The current level of administrative support is not justified. In recent years, the amount spent for reforestation grants has been decreasing sharply, while program overhead has been increasing. As a result, the amount proposed for grant administration in the budget year (\$1,080,000), is 52 percent *more* than what it was in 1980-81, while amount of grant money to be distributed is 78 percent *less* than what CDF initially anticipated it would distribute in 1980-81.

While we are unable to determine the specific amount needed for administrative support of the reforestation grants program in the budget year, we believe that a significant reduction from the level proposed by the administration is warranted. Reducing the amount budgeted for administrative support by \$339,000 would return the support level to what it was in 1980-81—\$741,000.

In order to more nearly balance anticipated revenues in 1983-84 with budgeted expenditures, we recommend that Item 3540-001-928 be reduced by \$507,000. We also recommend that the following control language be added to Item 3540-001-928 to limit administrative costs for rural reforestation grants:

“Administrative support for rural reforestation grants funded under the Forest Improvement Program shall be limited to \$741,000 of the amount appropriated by this item.”

Excessive Use of State-Owned or Leased Aircraft

We recommend adoption of supplemental language:

- 1. Prohibiting the use of CDF-owned or leased aircraft for transport of department executives to destinations within a two-hour driving distance or well-served by commercial airlines.*
- 2. Requiring that the department bill all use of CDF-owned or leased aircraft by other state agencies or departments in order to recover Forestry's cost of providing this service, including pilot expenses.*
- 3. Directing the Department of Finance to revise the State Administrative Manual (SAM) to impose management control on the use of state-owned aircraft operated and used for transportation of state personnel.*

Increased Aircraft Available for Executive Use. The Department of Forestry currently operates (1) three Cessna Skymasters and (2) one Beechcraft Baron aircraft from the Sacramento Executive Airport. These aircraft were obtained for support of the department's airtanker program and helicopter operations. In addition, however, they have been used extensively for executive transportation. To supplement its fleet of state-owned aircraft, the department also periodically leases private aircraft.

DEPARTMENT OF FORESTRY—Continued

Originally, the department had only one Cessna C-337 Skymaster based at the Sacramento Executive Airport. This aircraft was purchased several years ago by exercising a purchase option in connection with a lease. This aircraft is the civilian version of the Cessna 0-2 which CDF uses extensively for observation purposes in its air attack program. Recently, the department has obtained two more Skymasters at no cost. These aircraft were declared surplus by the U.S. Customs Service. Last summer the department also obtained its fourth aircraft, a twin-engine Beechcraft, which was declared surplus by the U.S. Forest Service.

The department has not responded to our request for information identifying how much is (1) being spent in the current year and (2) budgeted in 1983-84, for support of aircraft operations out of the Sacramento Executive Airport. In lieu of the cost data, however, the department has provided copies of certain internal records (primarily extracted from flight logs) showing the dates, destinations, purposes, passengers, aircraft type, and flight time covering the use of its own and chartered aircraft in 1980, 1981, and 1982 (through November). It has also provided us with a copy of an internal 1980 study on the use of rented and state-owned aircraft.

Use of CDF Aircraft. The 1980 study shows that in calendar year 1980 (before CDF obtained the two additional Cessnas and the Beechcraft Baron from the federal government), the department logged a total of 630 flight hours, costing \$77,541. This consisted of 490.9 hours involving the use of leased aircraft costing between \$85 and \$170 per hour, and 139.2 hours involving the use of state-owned aircraft. The average cost of using the department's Cessna 337 Skymaster in 1980 was \$119 per hour. None of these costs, however, include the expense for pilot services because the aircraft were flown by qualified CDF air operations staff.

According to the department, 86 percent (\$66,156) of the 1980 flight time was for support of air operations, and 14 percent (\$11,105) was for "administrative (executive) transportation." Part of the 14 percent was attributed to air transportation services provided to other personnel and state agencies on a reimbursed basis. Comparable cost information for aircraft use during calendar years 1981 and 1982 has not been calculated by the department. However, utilizing flight log information supplied by CDF air operations staff, we have estimated that aircraft use in 1981 totaled 470 hours of flight time, at a cost of \$54,215. For calendar year 1982, we estimate that the department utilized 647 hours of flight time, at a cost of \$78,236. The estimate for 1982 was made by projecting costs during the first 11 months of the year through December (54 hours per month at \$121 per hour). None of the expenditure information includes the cost for maintenance of the four state aircraft or hangar rental at Sacramento Executive Airport.

Findings. Based on the information supplied by CDF, we estimate that use of aircraft decreased by 25 percent in 1981 and increased by 38 percent, or 179 hours of flight time, in 1982. The 1982 increase in flight time resulted in a 44 percent increase in expenditures (up \$24,021) for operation of state-owned and leased aircraft. This increase occurred despite action by the Legislature to reduce travel costs by 25 percent.

The increased use of aircraft by the department appears to have occurred, in part, because of the three aircraft added to the department's fleet. The three planes increase the availability of aircraft to department management in Sacramento.

Our review also found numerous instances in which state-owned or

leased-airplanes were used for executive transportation to areas of the state that (1) are within one-to-two hours' driving distance, or (2) are well served by commercial airlines. For example, we found that Forestry has frequently used its own or leased aircraft (piloted by CDF personnel) for flights costing hundreds of dollars that transported one or two executives to destinations such as Eureka, Redding, Napa, Oroville, Oakland, San Jose, Monterey, Fresno, and the Los Angeles area. One-way commercial plane fares to all of these destinations are less than \$100.

In the course of our review, we also identified instances in which state-owned or state-leased aircraft were made available to the Resources Agency, other state departments and commissions, and other persons with no apparent charge. To the extent that CDF has not billed the responsible agency or department for the costs of these trips, it is likely that these costs were improperly charged to Forestry programs, such as air attack operations.

State Policy Unclear. In our judgment, the State Administrative Manual (SAM) does not provide adequate guidance concerning use of state-owned aircraft. The only limitation on such use is contained in Section 747 which authorizes the rental of aircraft (1) only when it is clearly necessary or in the best interest of the state and (2) subject to the approval of the head of the agency renting the airplane. Advance approval by the Governor's office is required if the rented aircraft is (1) multi-engined, (2) single-engined with in excess of 250 horse power, or (3) a special type of aircraft, such as a helicopter or seaplane. Agency requests for approval must be submitted in memo form to the Governor's office, and must clearly explain the nature, cost, and necessity for the aircraft rental.

No limitations, however, are provided by SAM with respect to *use of state-owned aircraft*.

The Department of Forestry has authorized the use of department-owned or leased aircraft for 17 specified purposes, including fire detection, airtanker operations or coordination, reconnaissance of wildfires, air transport of fire crews, technical supervision and coordination of the CDF air program, and training, among others. CDF policy also authorizes use of aircraft "to carry out the department's responsibilities to respond to emergencies." No written policy, however, governs the use of aircraft by air operations staff or for executive and other transportation purposes. We are advised, however, that the department has an *informal* policy requiring that all trips within a two-hour driving distance be made by vehicle.

Recommended Action. In our judgment, neither the SAM nor CDF's internal policies are sufficient to effectively limit the use of aircraft for executive and other travel. This conclusion is borne out by the fact (1) available records appear to indicate excessive use of state-owned and state-leased aircraft, and (2) despite the provisions included in the 1981-82 Budget Acts aimed at reducing state travel by 25 percent, we could find no evidence that the department's use of aircraft for executive transportation has been reduced in any way. If anything, executive and other uses of departmental aircraft appear to be on the increase.

We believe that the department needs to (1) reduce or eliminate use of aircraft for executive transportation purposes, particularly to destinations within short driving distances or those that are well-served by commercial airlines, and (2) require reimbursements for all aircraft transportation provided to employees of other state agencies and departments. In addition, it appears that the existing provisions of the State Administrative Manual are inadequate in controlling use of state-owned

DEPARTMENT OF FORESTRY—Continued

aircraft. We recommend therefore that the Legislature adopt the following supplemental report language:

"1. The Department of Forestry shall not utilize leased or state-owned aircraft for transportation of its executives to destinations within a two-hour or less driving distance or well-served by commercial airlines. This limitation shall not apply to air operations staff in performance of their official responsibilities for the airtanker or helitack programs. All use of aircraft by other state agencies or departments shall be billed by the department at full cost, including the expense of any pilot services provided. Such use of aircraft by other than air operations personnel within the department shall be charged to the appropriate program or activity.

2. The department shall report to the Joint Legislative Budget Committee by October 1, 1983, on the measures it has taken to (a) reduce aircraft use for executive transportation purposes, (b) secure reimbursement for all use of CDF-owned or leased aircraft by other state agencies and departments, and (c) ensure that these aircraft are not used to transport individuals on personal or nonstate business.

3. The Department of Finance shall revise the State Administrative Manual (SAM) to provide management control and guidance for uses of state-owned aircraft for transportation of personnel."

DEPARTMENT OF FORESTRY—CAPITAL OUTLAY

Item 3540-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. R 70

Requested 1983-84	\$2,300,000
Recommended approval	356,000
Recommendation pending	\$1,944,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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|--|-----|
| 1. Region II Headquarters, Redding. Withhold recommendation on \$251,000 for preliminary plans and working drawing funds, pending an agreement with the federal government providing for long-term use of federal property. | 564 |
| 2. Forest Fire Station—Redding. Withhold recommendation on construction funds of \$981,000, pending completion of preliminary plans. | 565 |
| 3. Air Attack Base Reconstruction—Redding. Withhold recommendation on \$76,000 for preliminary plans and working drawing funds for airport repairs pending an agreement with the federal government providing for long-term use of federal property. | 565 |
| 4. Air Attack Base—Columbia. Withhold recommendation on \$243,000 for working drawings and construction of improvements to the loading area, pending completion of preliminary plans. | 566 |

5. Auto Shop Replacement—Perris Headquarters. Withhold 566
recommendation on \$393,000 for construction of new auto
shop repair facilities, pending completion of preliminary
plans.

ANALYSIS AND RECOMMENDATIONS

The budget proposes \$2,300,000 from the General Fund, Special Account for Capital Outlay, for various projects for the California Department of Forestry (CDF). Table 1 summarizes the department's 1983-84 capital outlay program and our recommendations.

Table 1
Department of Forestry
Capital Outlay Projects 1983-84
Item 3540-301-036
(in thousands)

<i>Project Title</i>	<i>Location</i>	<i>Phase^a</i>	<i>Budget Bill Amount</i>	<i>Analyst's Proposal</i>	<i>Estimated Future Cost^b</i>
(a) Fernwood Helitack Base	Humboldt Co.	a	\$35	\$35	—
(b) Redding Region II Headquarters	Shasta Co.	pw	251	pending	unknown
(c) Redding Forest Fire Station	Shasta Co.	c	981	pending	—
(d) Redding Air Attack Base Recon- struction	Shasta Co.	w	76	pending	\$659
(e) Columbia Air Attack Base loading area	Tuolumne Co.	wc	243	pending	—
(f) Perris Headquarters Autoshop	Riverside Co.	c	393	pending	—
(h) Opportunity Purchases	Statewide	a	15	15	—
(i) Minor Projects	Statewide	pwc	306	306	—
Totals			\$2,300	pending	\$659

^a Phase symbols indicate: a = acquisition, p = preliminary plans, w = working drawings and
c = construction

^b Department estimate

Fernwood Helitack Base

We recommend approval of acquisition funds for the Fernwood Helitack base.

The budget includes \$35,000 under Item 3540-301-036 (a) for acquisition of a site in Humboldt County for the Fernwood Helitack base. These funds would replace \$35,000 appropriated in the 1980 Budget Act that were reverted in the 1982 Budget Act in order to help avoid a General Fund deficit. The acquisition is needed because the previous helitack base site was inaccessible and foggy. A replacement site has been leased since 1980, at a cost of \$2,400 annually. The \$35,000 will be used to purchase the site in 1983-84.

Our analysis indicates that the proposed acquisition is needed, and we therefore recommend approval of the requested funds. We note, however, that deferral of this project has resulted in additional costs to the state. The lease agreement on the existing site contains a purchase option provision which would have allowed the state to buy the property for \$29,400 on September 1, 1982. Although acquisition funds were appropriated so that the state could exercise the option, these funds were subsequently reverted at the request of Department of Finance, on the basis that acqui-

DEPARTMENT OF FORESTRY—CAPITAL OUTLAY—Continued

sition could be deferred without adverse consequences. Contrary to the Department of Finance's stipulation, however, the state can no longer purchase the property at the previously negotiated option price. The property must now be acquired through negotiations with the lessor, at an additional cost to the state.

In the future, we recommend the Department of Finance advise the Legislature of projects which involve exercising purchase options, and indicate the *option dates* so that the Legislature can assure that the state takes advantage of these options *at the proper time* and thereby minimize acquisition costs.

Region II Headquarters Planning Funds

We withhold recommendation on Item 3540-301-036(b), \$251,000 for preliminary plans and working drawings for a new Region II headquarters in Redding, pending receipt of additional information assuring the availability of the federal property on which this facility is to be located.

Currently, the Department of Forestry's Region II headquarters is located in facilities leased from the City of Redding. The lease expires in June 1985 and the city will not renew it. The budget proposes \$251,000 for preliminary plans and working drawings to construct a new Region II headquarters at the Redding airport, as part of a joint administrative complex with the U. S. Forest Service. The estimated future cost for constructing the state portion of the proposed joint facility is \$1,319,000. The department indicates that co-locating with the Forest Service will allow establishment and operation of a joint dispatch and emergency command facility. Such joint facilities currently are operating at the Inyo-Mono Ranger Unit headquarters and at the Region VI headquarters in Riverside. The existing joint facilities have proven beneficial in coordinating activities of state and federal agencies.

Given the fact that the existing Region II headquarters must be relocated, the department's proposal to co-locate with the U. S. Forest Service is a cost-effective solution, as well as one which will enhance program delivery. The department however, has not provided adequate information to assure the Legislature that (1) the federal property is available for long-term state use, (2) adequate federal funds are available to pay for site improvements necessary to make the state-funded project operable, and (3) the cost of the proposed facility is reasonable.

Property Should Be Available Under Long-Term Lease. It is unfortunate that the department is unable to renew the lease on the existing Redding facility. The department should insure that a similar situation does not occur in the future with respect to the federal property where the proposed facility is to be located. A lease of at least 25-years' duration should be negotiated with the federal government to protect the state's investment.

State Project Dependent on Federally Funded Improvement. The state-funded project assumes that the federal government (presumably through the U. S. Forest Service) will pay for all—or some portion of—necessary landscaping, parking, utilities, and the common building areas to be used by both CDF and Forest Service personnel. The exact cost sharing arrangement will be subject to negotiation. If the jointly funded work is not accomplished, CDF would not be able to occupy the new state-funded building. We have asked the department to provide an ex-

ecuted agreement with the U. S. Forest Service, indicating that federal funds are available to pay for the needed improvements.

Project Cost Uncertain. Finally, the department indicates that the design of the proposed facility has not been completed, and that the Office of State Architect currently is reevaluating its proposed schematic design. This may result in an adjustment to the proposed cost for this facility.

Pending completion of an agreement with the federal government allowing construction of the proposed state facility and development of schematic budget plans for the proposed facility, we withhold recommendation on the request for preliminary plan and working drawing funds. The department indicates that the needed information will be available prior to legislative hearings on the budget.

Redding Forest Fire Station

We withhold recommendation on Item 3540-301-036(c), \$981,000 for construction of a new forest fire station in Redding, pending receipt of (1) information assuring availability of federal property for this facility and (2) completed preliminary plans.

The budget includes \$981,000 under Item 3540-301-036(c) for construction of a new forest fire station in Redding. Preliminary plans and working drawing funds in the amount of \$55,000 were appropriated for this project in the 1982 Budget Act. The existing Redding forest fire station is leased from the City of Redding, and the city will not renew the lease agreement. Construction of a new facility at the Redding airport, on land leased at no cost from the federal government is proposed.

We have the same concerns regarding this project as we have with respect to the proposed Redding Region II headquarters project. An agreement with the federal government making the land available for long-term state use is needed to protect the state's investment.

Moreover, we have not received adequate information to substantiate the requested construction funds. Preliminary plans, however, are scheduled to be completed prior to legislative budget hearings.

We withhold recommendation on Item 3540-301-036(c), pending receipt of the needed additional information.

Redding Air Attack Base Reconstruction

We withhold recommendation on Item 3540-301-036(d), \$76,000 for preliminary plans and working drawings to reconstruct the air attack base at Redding, pending receipt of an agreement permitting long-term state use of facilities to be improved at state expense.

The Department of Forestry jointly operates an air attack base with the U. S. Forest Service at the Redding airport. The CDF and the Forest Service use the storage tanks, mixing and pumping equipment, loading pits, and parking areas for aircraft assigned to the facility. The department proposes construction of various improvements, including \$1,035,000 for new paving of taxiways and parking to accommodate 10 large airplanes (such as C-130's), \$132,000 for improvements to existing water, sewer, electric, and telephone systems, \$133,000 for a shop and hangar facility, and \$20,000 in miscellaneous improvements. Architectural and engineering services related to these facilities are estimated at \$150,000, indicating a total project cost of \$1,470,000. The department proposes that the project be jointly funded, with the state and federal governments participating on a 50-50 basis. The estimated state share for the total project is \$735,000. Item 3540-301-036(d) includes \$76,000 for preliminary planning and working drawings.

DEPARTMENT OF FORESTRY—CAPITAL OUTLAY—Continued

While we agree that it is beneficial for the department to operate joint facilities with the federal government, we do not believe that it is prudent for the state to invest substantial funds in *repairing* facilities which are not owned by the state unless there is a long-term use permit covering the facilities. The department is negotiating such an agreement with the federal government for other state facilities at this site. The agreement with the U. S. Forest Service should also cover use of the Redding airport.

Pending receipt of an appropriate agreement, we withhold recommendation on the \$76,000 proposed under Item 3540-301-036(d).

Architectural Planning Underway for Two Projects

We withhold recommendation on construction funds proposed for projects at Columbia and Perris because preliminary plans for these projects, funded in the 1982 Budget Act, have not been completed.

The budget includes a total of \$636,000 in construction funds for two projects:

Columbia Air Attack Base. \$243,000 is proposed under Item 3540-301-036(e) for construction of improvements to the Columbia air attack base in Tuolumne County. The department indicates that the use of larger fire fighting aircraft has resulted in damage to the asphalt paving at this base. The project proposes installation of new storm water drains and replacement of the asphalt surface with a material capable of withstanding the weight of the heavier aircraft. The 1982 Budget Act included \$20,000 for preliminary plans and working drawings for this project.

Perris Auto Shop. \$393,000 is proposed under Item 3540-301-036(f) for construction of a new auto shop facility at the Perris headquarters in Riverside County. The existing structure is inadequate to meet the department's needs for servicing vehicles assigned to this area. Preliminary plans and working drawings funds for this project were included in the 1982 Budget Act, in the amount of \$21,000.

We have not received adequate information to evaluate the construction funds requested in the budget. The department indicates that preliminary plans for these projects currently are being prepared, and that the plans should be completed in February 1983. Accordingly, we withhold recommendation on the construction funds proposed under Items 3540-301-036(e) and (f) pending receipt of preliminary plans and updated cost estimates for these projects.

Land Acquisition, Opportunity Purchases

We recommend approval.

The budget proposes \$15,000 in Item 3540-301-036(h) for land acquisition by the Department of Forestry. These funds would be utilized to purchase property included in the department's capital outlay program. Appropriation of these funds would allow the department to proceed with these acquisitions as property becomes available. The proposed land acquisitions must be approved by the State Public Works Board.

Minor Capital Outlay

We recommend approval.

The budget proposes \$306,000 in Item 3540-301-036(i) for 14 minor capital outlay projects (\$150,000 or less per project). The proposed projects

involve facilities for the Fernwood Helitack Base (\$45,000), additional paving at air attack bases (\$50,000) and minor improvements (such as barracks improvements, emergency generators, etc.) at various forest fire stations (\$211,000). Our analysis indicates that the proposed projects are reasonable, and we recommend approval.

Projects by Descriptive Category

In *The Budget for 1983-84: Perspectives and Issues*, we identify a number of problems that the Legislature will confront in attempting to provide for high-priority state needs within available revenues. To aid the Legislature in establishing and funding its priorities, we have divided those capital outlay projects which our analysis indicates warrant funding into the following seven descriptive categories:

1. Reduce the state's legal liability—includes projects to correct life threatening security/code deficiencies and to meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.
7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

We have recommended a total of \$356,000 in capital outlay for the Department of Forestry. The major capital outlay projects recommended for funding are to improve programs (category 3) and the minor capital outlay projects fall generally under category 7.

Resources Agency STATE LANDS COMMISSION

Item 3560 from the General

Fund

Budget p. R 72

Requested 1983-84	\$7,498,000
Estimated 1982-83	7,655,000
Actual 1981-82	7,328,000
Requested decrease (excluding amount for salary increases) \$157,000 (-2.0 percent)	
Total recommended reduction	None
Recommendation pending	\$346,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Preleasing studies. Withhold recommendation on \$346,000 requested for environmental and geologic studies related to potential leasing of additional tidelands for oil development until the commission provides additional information about the amount, cost, and timing of the proposed work. 574
2. Acquisition of Federal Lands. Recommend adoption of Budget Bill language to prohibit the commission from spending the money designated for administration of federal oil-producing properties transferred to the state until the transfers are completed and the receipt of sufficient revenues from these lands to cover the state's cost of administration is reasonably assured. 576
3. Reduction of Legal Staff. Recommend that the commission report to the Legislature on the effect of reducing its legal staff by 7.5 positions (\$346,000). 578

GENERAL PROGRAM STATEMENT

The State Lands Commission is composed of the State Controller, the Lieutenant Governor, and the Director of Finance. It is responsible for the management of sovereign statutory lands which the state has received from the federal government. These lands total more than 4,000,000 acres, and include tide and submerged lands, swamp and overflow lands, the beds of navigable waterways, and the state school land grant.

The commission has the following major responsibilities:

1. It leases land under its control for the extraction of oil, gas, geothermal, and mineral resources.
2. It exercises economic control over the oil and gas development of the tidelands granted to the City of Long Beach.
3. It determines boundaries and ownership of tide and submerged lands.
4. It oversees other land management operations, including appraisals, surface leases, and timber operations, and maintains records concerning state lands.
5. It administers tideland trusts granted by the Legislature to local governments.

The commission's headquarters are in Sacramento. Oil, gas, and other

mineral operations are directed from an office in Long Beach. The commission has 250 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$7,498,000 from the General Fund for support of the State Lands Commission in 1983-84. This is a decrease of \$157,000, or 2.0 percent, from current-year expenditures estimated on a comparable basis. (The estimate of current-year expenditures has not been adjusted to reflect the 2 percent General Fund unallotment mandated by Executive Order D-1-83.) The decrease in funding reflected in the budget makes no allowance for the cost of any salary or staff benefit increases that may be approved for the budget year.

The commission proposes total expenditures from all sources of \$10,719,000 in 1983-84. This amount is \$241,000, or 2.0 percent, less than the \$10,960,000 which the budget estimates the commission will spend during the current year. In addition to the proposed appropriation from the General Fund, the budget includes \$3,221,000 in expenditures from reimbursements. Of this amount, \$2,818,000 is for the cost of overseeing oil and gas operations at Long Beach. Chapter 138, Statutes of 1964 (First Extraordinary Session) authorizes the commission to fund its Long Beach operations directly from tidelands oil revenue. This reduces the amount of tidelands oil and gas revenue available for distribution to various state funds pursuant to Section 6217 of the Public Resources Code. The other major reimbursement anticipated by the commission in 1983-84 is \$320,000 from the Department of Forestry (Forest Resources Improvement Fund) to enhance the productivity of forested land parcels administered by the commission.

Significant Budget Changes. Table 1 summarizes the commission's proposed budget changes for 1983-84, by funding source. Each of the major changes is discussed below.

Preleasing Studies Expenditures in the current year include \$425,000 for environmental and other studies in anticipation of leasing state tide and submerged lands between Point Conception and Point Arguello for oil and gas exploration and development. These studies were used to prepare the environmental impact report adopted by the commission in connection with its decision to hold a lease sale for these lands. The budget proposes \$250,000 for preleasing studies of the area between Point Arguello and Point Sal in 1983-84. In addition, the budget includes one additional petroleum geologist and \$50,000 of contract funds for the analysis of seismic data gathered by the oil industry under prospecting permits issued by the commission.

Federal Oil and Gas Properties. Chapter 1030, Statutes of 1982, appropriated \$450,000 from the General Fund to the commission to contract for appraisals of federal oil and gas properties within California, and to hire additional staff to manage these properties if they are transferred to the state. The commission is seeking to acquire, on behalf of the state, these oil- and gas-producing properties from the federal government in lieu of lands within the Elk Hills Naval Petroleum Reserve to which the state has held an entitlement as state school lands, but which have been retained by the federal government. As of January 1983, the Department of the Interior had not yet agreed to transfer any of these parcels to the state, and the State Lands Commission had not spent any of the \$450,000 appropriated by Ch 1030/82. The budget includes \$250,000 for 7 positions to

STATE LANDS COMMISSION—Continued

Table 1
State Lands Commission
Proposed Program Changes by Funding Source
1983-84
(in thousands)

	General Fund	Reim- bursements	Other	Total
1982-83 Budget (Revised)	\$7,655	\$3,164	\$141	\$10,960 ^a
1. Completion of preleasing scientific studies for oil development between Point Conception and Point Arguello.....	-425	—	—	-425
2. Commencement of preleasing studies for oil development between Point Arguello and Point Sal				
a. Geological hazard surveys	250	—	—	250
b. Petroleum geologist and contract funds to evaluate seismic data provided by industry..	96	—	—	96
3. Potential transfer of Federal Oil Properties to the State				
a. One-time appropriation in 1982-83 for appraisals of federal oil properties to be transferred to the state. ^b	-200	—	—	-200
b. Continuation of 7 positions to manage federal oil properties when transferred to the state. ^c	(250)	—	—	(250)
4. Add 2 inspectors to monitor increased drilling activity on state tidelands	79	—	—	79
5. Expiration of federal funds for wetlands boundary determination (-3 PY)	—	—	-75	-75
6. Completion of Tahoe Shorezone Study	—	—	-66 ^d	-66
7. Reduce legal staff (-7.5 PY)	-240	-106	—	-346
8. Merit Salary increases	100	44	—	144
9. Price increases and minor adjustments	183	119	—	302
Total 1983-84 Proposed Changes	-\$157	\$57	-\$141	-\$241
Total 1983-84 Proposed Budget.....	\$7,498	\$3,221	—	\$10,719

^a Does not reflect the 2 percent General Fund unallotment mandated by Executive Order D-1-83.

^b Funds appropriated by Ch 1030/82.

^c Funds for 1982-83 appropriated by Ch 1030/82 and proposed for continuation in 1983-84 by the budget, so that no change in expenditure occurs.

^d California Environmental License Plate Fund.

manage the oil properties received by the state in the event agreement is reached. The budget, however, does not include any contract funds for appraisals of the federal oil and gas properties in 1983-84. The money appropriated for this purpose by Ch 1030 will not be available in 1983-84.

Workload Increase to Monitor Drilling. Two inspectors and \$20,000 for additional helicopter transportation are being proposed so that the commission can monitor increased drilling activity on state tide and submerged lands in the Santa Barbara channel. Based on the number of drilling permits it has issued, the commission expects the number of drilling vessels operating on state lands in the Santa Barbara channel to increase from one in 1982-83 to three in 1983-84. The commission staff makes daily inspections of the exploratory drilling operations.

Federal Funds Expire. The budget reflects the discontinuation of fed-

eral funding for wetlands boundary determinations which the U.S. Fish and Wildlife Service has been providing to the commission.

Reduction of Legal Staff. The budget proposes to reduce the commission's legal staff by 5 attorneys and 2.5 clerical positions. The commission's legal office currently has 13 attorney positions and 8.2 support and clerical positions, for a total of 21.2 positions. Therefore, the proposed reduction would eliminate approximately one-third of the staff of the legal office. This reduction would result in a savings of \$346,000 in 1983-84, of which \$240,000 would accrue to the General Fund and the remaining \$106,000 would take the form of a reduction in reimbursements from Long Beach oil revenues.

Commission Oil and Gas Revenues

The commission receives substantial revenue from the development and extraction of oil, gas, geothermal energy, and other minerals on state lands. Most of this revenue is from oil and gas production on state tide and submerged lands along the coast of southern California. Table 2 shows the actual tidelands oil revenue received in 1981-82, and estimates of the revenue that will be received during 1982-83 and 1983-84. The table also includes figures on oil production, and illustrates how the state's revenue is determined.

Long Beach Oil Production

The largest portion of the state's oil revenue comes from tidelands granted to the City of Long Beach. The city oversees the day-to-day operations of the consortium of oil companies which produce the oil under the acronym of THUMS. The state receives the net profits from the sale of the oil after operating expenses, taxes, investments, and distributions to the oil companies and the city are deducted. In order to protect the state's substantial financial interest at Long Beach, the commission has the authority to approve development and operating plans and budgets.

The commission's estimate indicates that the revenues from the Long Beach tidelands will be \$243.1 million in 1983-84, a decrease of \$113.6 million from estimated current-year revenues of \$356.7 million. There are three reasons for this reduction.

First, refunds of past windfall profit tax payments have the effect of increasing current-year revenues by \$53.8 million, compared with revenues in 1983-84. We discuss these refunds separately in the next section of this analysis.

Second, the commission's estimate assumes a \$1 per barrel decrease in the price of oil in January 1983, and an additional \$1 per barrel decrease in July 1983. The effect of these reductions is to reduce the average price received at Long Beach by \$1.62 per barrel in 1983-84, compared with the average price in the current year. This results in a revenue reduction of \$39.7 million.

Third, the commission estimates that oil production at Long Beach will decrease by 700,000 barrels in 1983-84, which reduces revenue by \$16.5 million.

Together, these three factors account for a difference of \$110 million between revenues in the current year and revenues in 1983-84.

Windfall Profit Tax Refund. Federal law generally exempts oil produced on behalf of the state from the windfall profit tax. However, most of the oil companies at Long Beach have been paying the tax on that portion of the oil production which they receive as a reimbursement for the cost of operating and developing the field (cost recovery oil). Because

STATE LANDS COMMISSION—Continued

Table 2
State Lands Commission
Tidelands Oil Revenue^a

	1981-82 <i>Actual</i>	1982-83 <i>Estimated</i>	1983-84 <i>Estimated</i>
<i>Long Beach Operations (Net Profits)</i>			
Oil production from state lands (millions of barrels)	25.4	25.2	24.5
Price per barrel ^b	\$26.13	23.62	\$22.00
Gross oil Revenue (in millions)	\$663.5	\$595.3	\$539.6
Gas Revenue (in millions)	10.6	13.0	13.0
Total Gross Revenue	\$674.1	\$608.3	\$552.6
Less (in millions):			
Operating expenses	-159.2	-169.3	-173.7
Investment in production facilities	-52.4	-65.2	-63.6
City and State Administrative Costs ^c	-12.4	-11.9	-8.2
Subsidence reserves and payments to city ^d	-7.8	-2.2	-16.6
THUMS profit and overhead	-22.5	-22.1	-18.3
Local Taxes	-16.4	-15.4	-15.7
Windfall Profit Tax	-34.3	48.5 ^e	-5.3
City share of profit	-8.0	-8.0	-7.0
Adjustments9	-6.0 ^f	-1.1
Net Revenue to State (in millions) ..	\$362.0	\$356.7	\$243.1
<i>Statewide Leases (royalty)</i>			
Oil production (millions of barrels)	14.7	14.5	14.0
Price per barrel ^b	\$26.40	\$23.54	\$21.91
Average state royalty ^b	25.0%	26.8%	17.6%
Oil Revenue to State (in millions)	\$96.9	\$91.6	\$84.8
Gas and Other Mineral Revenue (in millions)	6.7	6.3	6.3
Total Revenue (in millions)	\$465.6	\$454.6	\$334.2

^a Revenues subject to distribution under Section 6217 of the Public Resources Code. Based on State Lands Commission estimate of January 4, 1983.

^b Weighted average.

^c Includes reimbursements to the City of Long Beach and the State Lands Commission, a 1-percent pro rata charge paid to the city on operating and investment costs of the Long Beach Unit, and assessments paid to the State Division of Oil and Gas.

^d Includes annual payment of \$2 million into a subsidence contingency reserve.

^e This is a net revenue rather than a cost, due to the refund to the state of past Windfall Profit Tax payments on the state's share of "cost recovery oil."

^f Will be used to purchase additional drilling and production equipment pursuant to agreements with the Department of Energy, in lieu of penalties for alleged violation of previous price regulations.

the state receives about 96 percent of the net profits from the oil production, in effect, the state pays for 96 percent of the production costs and therefore bears 96 percent of the windfall profit tax payments on cost recovery oil. Table 2 indicates that windfall profit tax payments reduced state revenue by \$34.3 million in 1981-82 (including payments by the oil companies on their share of profits from the oil production).

The Technical Corrections Act of 1982 (HR 6056) revises federal law to eliminate (retroactively) this windfall profit tax liability on the cost recovery oil attributable to the state. During the remainder of the current fiscal

year, the state will receive a "refund" of past windfall profit tax payments from THUMS. The THUMS companies will reduce their companywide withholding payment to the federal government by the amount of past payments attributable to the state's share of cost recovery oil. THUMS will transfer this savings to the state, which will receive it as additional oil revenue. The net impact of the federal legislation on state oil revenues is to increase 1982-83 revenues by about \$80 million, and increase annual revenues in 1983-84 and in subsequent fiscal years by about \$25 million. These additional revenues are included in Table 2.

Santa Barbara Production

In addition to Long Beach, the state has leased tidelands for oil production at Huntington Beach and along the Ventura and Santa Barbara coast. On these existing leases, the lessees pay a royalty to the state based on the value of the oil produced. The commission estimates that state revenue from these leases will be \$84.8 million in 1983-84, a decrease of \$6.8 million from estimated revenue in the current year. Projected oil price reductions account for \$6.3 million of this revenue reduction.

The commission has approved 11 permits for exploratory drilling on existing leases along the Santa Barbara coast and 2 permits for exploratory drilling along the Ventura coast. Although most of these leases already have wells drilled on them, the new exploratory operations will test new formations and locations. One of these exploratory operations has resulted in a major oil find by ARCO off Coal Oil Point in Santa Barbara County. ARCO estimates that it has found 60 million barrels of new oil reserves and the company is considering the installation of two additional offshore platforms to produce this oil. Production could begin as soon as June 1985.

1982-83 Revenue Ahead of Estimate. The January 1983 price reduction of \$1 per barrel assumed in the commission's revenue estimate did not take place. Actual revenue receipts to date have been running ahead of the estimate. The commission received during the first half of the year 68 percent of the total Long Beach revenues and 58 percent of the total royalty revenues estimated for the year as a whole. If these trends continue and oil prices stay constant, 1982-83 tidelands oil revenues will be about \$116 million higher than anticipated. However, the world oil market is very unstable, and price reductions greater than those projected by the commission are also possible.

Under these circumstances, we believe the commission probably will receive at least the amount of revenue estimated for 1982-83, but the uncertainty surrounding the 1983-84 estimate may be as great as plus or minus \$100 million.

Commission Approves New Leasing. On December 23, 1982, the State Lands Commission approved a bid package to lease 40,000 acres of state tide and submerged lands between Point Conception and Point Arguello for oil exploration and development. The schedule adopted by the commission called for bids to be received in August 1983, and for the leases to be awarded within 90 days after receipt. Winning bidders will be selected on the basis of the highest percentage of net profits promised to the state. Instead of bonus payments, the winning bidders will be required to make fixed rental payments to the state in each of the first three years of the leases. These payments will total \$102 million over the three-year period, assuming that all eight parcels are leased. The rental payments are divided into three annual installments totaling \$34 million each. Therefore, tideland oil revenues may increase by up to \$34 million in each of fiscal years

STATE LANDS COMMISSION—Continued

1983–84, 1984–85, and 1985–86. This amount is not shown in Table 2.

The state probably will not begin to receive any net profit income from these leases until at least 1989. This is because a minimum of four years will probably be needed to do the exploratory drilling and to construct and install platform and production wells. After production begins, initial revenues will be used entirely to pay the oil companies for their exploration and development costs (including accumulated interest). Only after the lessees recover all of their exploration and development investments will the state begin to realize any income from net profits. The state will not receive *any* income other than the initial rental payments if oil is not found in commercial quantities. The commission staff estimates that stipulations included in the proposed leases to reduce the hazard of oil spills and to mitigate various environmental impacts will reduce net profits by approximately \$83 million over the 20-year life of the leases.

Geothermal Revenues. In addition to tidelands oil revenues, the commission receives about \$13 million in land rentals and revenue from "state school lands." These are lands which were granted by the federal government to the state in 1853 to help support education costs within the state. These revenues are deposited directly into the General Fund.

The largest component of these General Fund revenues comes from geothermal leases on former state school lands at The Geysers, where the state sold the land but retained the mineral rights. The commission estimates that its geothermal revenues will be \$9.7 million in 1983–84, an increase of \$1.1 million from estimated revenues of \$8.6 million during the current year.

Commission Plans Additional Leasing

We withhold recommendation on \$346,000 (one position and \$300,000 of contract funds) requested for environmental and geologic surveys and analyses related to the potential leasing of additional tide and submerged lands for oil production, until the commission provides additional information about the amount, cost, and timing of the work to be done.

During 1983–84, the commission plans to begin work to lease the northernmost 70,000 acres of state tide and submerged lands along the Santa Barbara County coast between Point Arguello and Point Sal. Oil companies now are conducting a considerable amount of exploratory drilling on federal leases outside of the state's three-mile jurisdiction from Point Conception northward to areas offshore southern San Luis Obispo County. Chevron and Texaco have made major discoveries on their federal leases between Point Conception and Point Arguello. Some of the oil-bearing structures in this area may straddle the boundary between state and federal waters, so that wells drilled in the federal waters could drain oil lying underneath state lands. The state can seek equity agreements with the federal government to share the revenue from oil-bearing structures that cross the three-mile limit, but the state's share of oil production would be difficult to determine without adequate information from wells drilled on state lands.

The budget includes \$250,000 for geohazard and cultural surveys of the area between Point Arguello and Point Sal in 1983–84. These are shallow seismic surveys (as opposed to deep seismic surveys, which are designed to locate oil-bearing formations), and are intended to locate faults or unstable bottom conditions which could pose a hazard to drilling opera-

tions, and to locate any shipwrecks or other objects of historic interest. It is not clear whether the amount requested will be sufficient to perform all of the work. The cost of a similar survey covering the 40,000 acres between Point Conception and Point Arguello was \$225,000. If the cost per acre remains constant, the commission will need almost \$400,000 to survey the 70,000 acres between Point Arguello and Point Sal.

The budget proposes to defer biological surveys of the area until 1984-85. These surveys are needed to complete the environmental impact report which the commission must adopt prior to a decision to lease. The commission estimates that the biological survey will cost \$200,000, and that preparation of the new environmental impact report will cost an additional \$400,000, so that a total of \$600,00 of additional money will be needed in 1984-85 or later to complete the environmental, geohazard, and historic surveys and analyses required prior to leasing.

The budget also includes \$96,000 for the analysis of data from industry seismic surveys. The \$96,000 will provide one additional petroleum geologist to the commission and \$50,000 of contract funds to hire outside consultants to analyze the data. Anyone conducting seismic or other geophysical studies to locate minerals on state lands must obtain a permit from the commission. These permits require the permittees to share the data they gather with the commission on a confidential basis. However, permittees do not provide the commission with their interpretation of the data.

The commission uses the results of deep seismic surveys for two purposes: (1) to establish lease parcel boundaries that are consistent with the locations of the potential oil-bearing structures and (2) to estimate the potential oil reserves in the lease area so that it can decide whether leasing is justified and establish a minimum bid.

Quitclaim Parcels. In addition to the new leases north of Point Conception, the commission is also preparing to lease four other offshore parcels which previously were leased but have been quitclaimed by the original lessees. Three of these parcels are between Point Conception and Santa Barbara, and the remaining parcel is south of Oxnard. These parcels were quitclaimed in the early 1960s and 1970s. However, subsequent increases in the price of oil may make these parcels economically attractive now. Moreover, the previous lessor did not test a formation (the Monterey Zone) that is now known to be a major oil producer.

The commission currently plans to lease these parcels on the basis of the highest bonus bid, with a fixed royalty scale. However, leasing cannot proceed until environmental impact reports are completed for each of the parcels. The commission estimates that approximately \$250,000 will be needed to complete these reports and associated studies. Money available in the current year may be used to fund this work. Approximately \$225,000 remains unexpended in the current year from the \$425,000 appropriated for preleasing studies of the area between Point Conception and Point Arguello. The budget does not include any money in 1983-84 for leasing the quitclaimed parcels.

We withhold recommendation on the \$346,000 requested for the leasing program, pending further discussions with the State Lands Commission to resolve the following issues:

1. Whether the \$250,000 provided by the budget is sufficient to complete the geohazard and historic survey work for the area between Point Arguello and Point Sal.
2. Whether the biological survey could be conducted in 1983-84 in or-

STATE LANDS COMMISSION—Continued

der to accelerate the leasing schedule and provide the state with additional oil revenues at an earlier time.

3. How the commission will conduct the leasing of the four quitclaimed parcels.

Acquisition of Federal Lands

We recommend adoption of Budget Bill language to prohibit the expenditure of funds available to the commission for the management and administration of federal oil- and gas-producing lands unless (1) these lands have been transferred to the state and (2) the receipt of sufficient revenue from these lands to cover the commission's cost of administration is reasonably assured.

The State Lands Commission currently is negotiating with the Bureau of Land Management and the Department of the Interior to acquire 32,000 acres of nonmineral federal lands and an additional 30,000 acres of federal lands with identified mineral potential. These lands would be acquired by the state at no cost, in lieu of other lands which the state was at one time entitled to receive from the federal government. In 1853, the federal government generally granted the state two sections of every township for the support of schools. Whenever these sections of land were retained by the federal government or were otherwise legally unavailable to California, the state was entitled to select other federal lands in lieu of the withheld parcels. Prior to congressional action during the 1960s, however, federal law made this in-lieu selection difficult.

During the mid-1970s, the State Lands Commission inventoried the lands withheld by the federal government in California and began negotiations with the Department of the Interior to make in-lieu selections from other federal lands, primarily lands administered by the Bureau of Land Management. The commission and the department have agreed that the state is entitled to at least 32,000 acres of nonmineral land. The classification of the in-lieu lands between mineral and nonmineral depends on whether the lands that were withheld from the state have identified mineral resources. Although the state is entitled to 62,000 acres of federal land, the total value of the in-lieu lands cannot be greater than the value of the parcels that were withheld, so that the total acreage acquired by California may be less than the amount of acreage withheld.

As a result of this selection process, the commission will acquire from the Bureau of Land Management in February 1983, 6,500 acres of timber land near Covelo in Mendocino County, and approximately 1,300 acres of land leased for the production of geothermal steam at The Geysers. The Union Oil Company has drilled commercial wells on the geothermal lands, but the state will not begin to receive royalty revenue from the land until a power plant is built to use the steam.

Elk Hills Parcels. Two of the sections of land which were retained by the federal government are located within the Naval Petroleum Reserve at Elk Hills in Kern County. These lands contain an estimated 60 million barrels of oil reserves worth \$1.5 billion at a price of \$25 per barrel. The commission has proposed to the Department of the Interior that other federal lands which have been leased for oil production should be transferred to the state in lieu of the Elk Hills parcels. In order to receive lands equal in value to the Elk Hills parcels, the state would take over federal leases producing approximately 90 percent of the total amount of oil pro-

duced on all federal leases in California (excluding offshore federal leases).

Under existing federal law, the state now receives one-half of the revenue received by the federal government from mineral leases in California. The budget estimates that the state will receive \$23,890,000 of federal oil and gas revenues in 1983-84. Although this money is deposited in the State School Fund pursuant to Section 12320 of the Education Code, the effect is the same as if it were deposited in the General Fund. This is because the federal oil and gas revenues reduce the amount of money transferred from the General Fund to the State School Fund on a dollar-for-dollar basis. If the State Lands Commission acquires these federal leases, the state will receive all, rather than one-half, of the revenue they produce. The result would be an increase of about \$24,000,000 in General Fund revenues annually. In-lieu lands acquired by the commission take on the character of state school lands. All of the revenue produced by state school lands is deposited in the General Fund pursuant to Section 6217.5 of the Public Resources Code.

Chapter 1030, Statutes of 1982, appropriated \$450,000 from the General Fund to the commission for the appraisal, selection, and management of oil- and gas-producing federal lands which the commission expected to receive in lieu of the Elk Hills parcels. The commission intended to use approximately \$200,000 of the amount appropriated to pay for appraisals, and the remaining \$250,000 to hire up to 10 additional people to administer the oil and gas properties after the commission took possession of them.

The commission is requesting \$250,000 in 1983-84 for seven positions to manage these oil and gas lands. Our analysis indicates that this request is premature. The Department of the Interior has not agreed that the commission is entitled to select *producing* mineral lands in lieu of mineral lands which were withheld from the state school land grant. The department has agreed to the commission's selection of geothermal lands at The Geysers because there is no power plant to use the steam from the wells on this property and, therefore, there is no current production.

As of January 1983, the commission had not spent any of the appraisal money or hired any of the new staff. At the time this *Analysis* was prepared, the commission still was seeking an agreement with the Department of the Interior.

We cannot judge the likelihood that the commission and the department will reach an agreement to transfer producing federal oil and gas properties to the state. If the transfer does take place, the commission will need the additional staff, and the additional cost of this staff will be greatly outweighed by the additional revenue received from the transferred lands. Otherwise the money should not be expended. Therefore, we recommend that the Legislature adopt the following Budget Bill language for Item 3560-001-001 to ensure that none of the money for the requested new positions is spent unless the proposed transfer is consummated:

"Provided that \$250,000 of the amount appropriated by this item shall be expended only for the management and administration of producing oil and gas properties transferred to the state by the federal government in lieu of lands withheld by the federal government from the state school lands grant.

"Provided further that the commission shall not spend any of this money until a transfer has been completed and the expected increase in net annual revenue to the General Fund from the transferred lands exceeds the amounts to be expended by the commission for management of the land."

STATE LANDS COMMISSION—Continued**Reduction of Legal Staff**

We recommend that the commission report to the Legislature prior to budget hearings on the effect that the proposed reduction in its legal staff will have on the commission's operations.

The budget proposes to reduce the commissions legal staff by 5 lawyers and 2.5 support positions, for a savings of \$346,000. Of this amount, approximately \$240,000 is a savings to the General Fund and \$146,000 will take the form of a reduction in reimbursements to the commission from tidelands oil revenue. (The budget does not specifically distribute the reduction among funding sources, so we have prorated the reduction, based on the proportion of the commission's total budget supported by each of these two funding sources.) This reduction would eliminate about one-third of the commission's current legal staff of 13 lawyers and 8.2 support staff.

Some functions of the legal staff relate to negotiating leases and contracts which produce revenue and to litigation which protects the state's economic interests in disputes which arise from the commission's revenue-producing activities. In addition, the legal staff takes part in the settlement of title and boundary disputes and the preservation of the public trust over state lands. No budget change proposal or other evaluation of the effect of this proposed reduction was available at the time this *Analysis* was prepared. Therefore, we recommend that the commission report to the Legislature on the effect of the reduction.

SEISMIC SAFETY COMMISSION

Item 3580 from the General

Fund and the California Environmental License Plate Fund

Budget p. R 78

Requested 1983-84	\$649,000
Estimated 1982-83 ^a	1,778,000
Actual 1981-82	951,000
Requested decrease (excluding amount for salary increases) \$1,129,000 (-63.5 percent)	
Total recommended reduction	None

^a The total estimated expenditure for 1982-83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83.

1983-84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
3580-001-001—Support		General	\$379,000
3580-001-140—Support		California Environmental License Plate	270,000
Total			\$649,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysis
page

1. Earthquake Education Program. Recommend enactment of legislation to extend termination date of pilot program delayed by contracts freeze. 580

GENERAL PROGRAM STATEMENT

The Seismic Safety Commission was established to improve earthquake safety in California. It does so by providing a consistent policy framework for earthquake-related programs, and by coordinating the administration of these programs by governmental agencies. The 17-member commission performs policy studies, reviews programs, and conducts hearings on earthquake safety. It advises the Legislature and the Governor on legislative proposals, state budgets and grant proposals related to seismic safety, and advises federal agencies on the scope, impact and priorities of national earthquake research and hazard reduction programs. The commission also advises the Division of Mines and Geology relative to the Alquist-Priolo Special Studies Zone Act and the Strong Motion Instrumentation Program. Existing law calls for the commission to cease operations in January 1986.

The commission has 23 authorized positions in the current year. This includes 16 limited-term positions which expire on June 30, 1983.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of \$379,000 from the General Fund and \$270,000 from the California Environmental License Plate Fund for support of Seismic Safety Commission activities in 1983-84. This is a decrease of \$1,129,000, or 63 percent, from estimated current-year expenditures. This does not make any allowance, however, for any salary or staff benefit increases that may be approved for the budget year. Table 1 summarizes the funding changes proposed for the commission in 1983-84. The major proposed changes are discussed below.

Limited-Term Programs Concluded

Two of the commission's programs are scheduled to be completed by the end of the current fiscal year, and no funds are included for these programs in the 1983-84 budget.

Southern California Earthquake Preparedness Project. Chapter 1046, Statutes of 1980 (AB 2202), requires the commission to initiate, with the assistance and participation of other state and federal government agencies, a comprehensive program to prepare the state for responding to the prediction of a major earthquake. The program has been implemented on a prototypical basis in a five-county metropolitan area in southern California. The project has focused on developing a planning process for earthquake preparedness and prediction. Planning partnerships, which will serve as models for future efforts, have been formed with local governmental agencies and the private sector. Work has also been done on warning and communication systems and education and information programs. It is anticipated that a total of \$750,000 in General Fund money and \$1,050,000 in federal funds will have been spent by the end of the program's three-year life. Current-year expenditures for the project include \$343,000 from the General Fund and \$644,000 in federal funds. Publication of project results is scheduled to occur between March and June of 1983.

SEISMIC SAFETY COMMISSION—Continued

Table 1
Seismic Safety Commission
1983-84 Budget Changes
(in thousands)

	<i>General Fund^a</i>	<i>Federal Funds</i>	<i>Environmental License Plate Fund</i>	<i>Totals^a</i>
1982-83 Expenditures, Revised.....	\$895	\$644	\$239	\$1,778
Baseline Adjustments:				
Personal services adjustments.....	10	—	—	10
Price increases	5	—	—	5
CALSTARS implementation	7	—	—	7
Completion of limited-term programs	-538	-644	-239	-1,421
Proposed Program Changes:				
Earthquake Education Program	—	—	250	250
Statewide Pro Rata	—	—	20	20
1983-84 Expenditures, Proposed	379	—	270	649
Change 1983-84 over 1982-83				
Amount.....	-516	-644	31	-1,129
Percent	-57.7%	-100.0%	13.0%	-63.5%

^a The total estimated expenditure for 1982-83 does not reflect the 2 percent unallotment directed by Executive Order D-1-83.

Emergency Task Force on Earthquake Preparedness. The Emergency Task Force on Earthquake Preparedness was established in 1981, and was funded for 1981-82 through the Office of Emergency Services' (OES) budget. During its first year, the task force focused its efforts on identifying the issues and determining the magnitude of the problems associated with an earthquake catastrophe.

The 1982 Budget Act transferred the task force's responsibilities and funding (\$195,000 General Fund) from OES to the Seismic Safety Commission. Under the guidance of the commission, the task force has been concentrating on the questions of where and why response and recovery mechanisms will fail under specific earthquake assumptions, and what should be done to remove the deficiencies in existing response capability. Interim reports were due to the steering committee of the task force on February 1, 1983, but were unavailable for review prior to when this *Analysis* was prepared. Final task force recommendations for improving the state's response capabilities will be issued in June 1983.

Earthquake Education Program

We recommend the enactment of legislation extending the termination date for the earthquake education program so that the pilot project, which has been delayed by an administrative freeze on the signing of contracts, can be completed.

The budget proposes the expenditure of \$250,000 from the California Environmental License Plate Fund for the second phase of work under the Earthquake Education Program.

The California Earthquake Education Act of 1981 (Ch 785/81) appropriated \$250,000 from the license plate fund and established pilot projects in Los Angeles, Alameda and Contra Costa Counties to develop, test and evaluate programs for earthquake safety education. The pilot projects are

intended to make informational material readily available to the general public through community education and school systems. The act expresses legislative intent that following testing and evaluation in the pilot communities, the program should be expanded statewide.

Of the \$250,000 from the Environmental License Plate Fund appropriated by the act, \$11,000 was spent in 1981-82 and \$239,000 will be spent in 1982-83. The commission has contracted with the Lawrence Hall of Science of the University of California to develop a five-part program including introductory exhibits, "hands-on" instructional packages, checklists for home and community use, leadership training manuals, and limited testing and evaluation of the prototype components. This work should be concluded by June 1983.

The \$250,000 proposed in the budget for this program in 1983-84 is intended to complete the pilot projects established by Ch 785/81. The funds proposed for the budget year would be used to further test and reproduce the products developed in phase one, to develop additional components, to produce films and videotapes on the causes and effects of earthquakes, and to develop dissemination strategies to ensure that the information reaches the target audiences.

While the first phase of the pilot project will result in clearly definable products, we agree that further testing and evaluation should be done before the program is implemented statewide. The phase one products have received only limited testing in Alameda and Contra Costa Counties. The funds proposed for the budget year would allow testing in Los Angeles County, as well as additional trials in the Bay Area. The funds would also be used to revise and expand the exhibits, instructional packages and checklists, based on the results of this testing. Additional leadership seminars will be held to train individuals to organize, plan and oversee program implementation.

The phase two effort will also include the production of 10 films of varying length which will explore the scientific aspects of earthquakes, methods for studying earthquakes, their impact on rural and urban populations, and ways of preparing one's home to resist seismic damage. These films will be made available to school and community groups, and to cable and community television outlets.

We recommend approval of the funds so that the program envisioned by the Legislature in enacting Ch 785/81 can be completed.

Under the provisions of the Earthquake Education Act of 1981, the program ceases to exist on January 1, 1984. Implementation of the pilot project, however, was delayed for six months in 1982 due to an administrative freeze on certain contracts. We believe it is unlikely that the second phase of the work contemplated by the Legislature can be completed before January 1, 1984. For this reason, we recommend that legislation be enacted to extend the termination date for the program to July 1, 1984.

Legislatively-Mandated Report

The commission is required to report annually to the Governor and to the Legislature on its findings, progress and recommendations relating to earthquake hazard reduction. Recent reports issued by the commission have described the commission's accomplishments, its ongoing activities for dealing with existing earthquake problems, and the tasks it anticipates performing in the next year. These reports have also contained reviews of all state agency expenditures related to seismic safety.

Our analysis indicates that the report provides information that can be useful in evaluating the commission's progress and performance.