RESOURCES

Overview of Resources and Environmental Protection

Resources and environmental protection expenditures for 1992-93 are essentially unchanged from the current year.

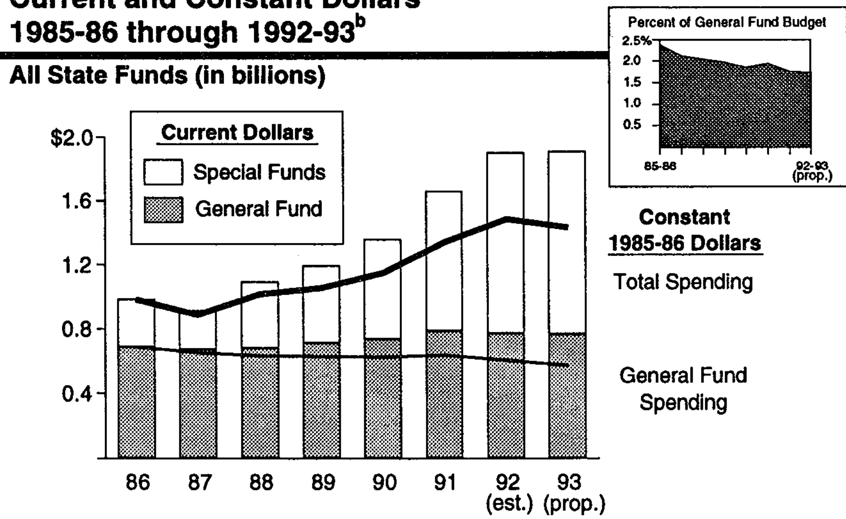
Expenditures for resources and environmental protection programs are proposed to total $1.9 billion which is 3.4 percent of all state funds and 1.7 percent of General Fund expenditures proposed in the Governor's Budget for 1992-93. This level of expenditures is an increase of only $7 million over the estimated expenditures for the current year. About 60 percent ($1.1 billion) of state support for these programs will come from special funds, including the Environmental License Plate Fund, the Motor Vehicle Account, the Public Resources Account (Proposition 99), funds generated by beverage container recycling fees, and fees for support of specific regulatory activities. The General Fund supports the remaining 40 percent ($764 million) of these expenditures.

Chart 1 shows that resources and environmental protection expenditures from all state funds increased by $929 million since 1985-86, representing an average annual increase of approximately 10 percent. General Fund expenditures increased by only about 12 percent in the last eight years. When these expenditures are adjusted for inflation, however, General Fund support for these programs has declined since 1985-86. (This overstates the actual growth rate for these programs somewhat because of the creation in the current year of the Secretary for Environmental Protection (Cal-EPA) and the transfer into the agency of several programs that had previously reported to the Department of Health Services or to the Department of Food and Agriculture.)

The following discussion of expenditures is the first of three broad overviews concerning the program resources and environmental protection area. In it we discuss spending trends for major programs and the factors driving program costs, and highlight significant issues that follow in our analyses of departmental spending plans. Then, we provide an update on the conditions of funds traditionally used to support resources and environmental programs, in order to focus attention on the general funding constraints facing the Legislature in 1992-93 in meeting resource and environmental protection priorities. Finally, we discuss a framework for deciding how to finance these priorities in light of both the constraints on various special funds and the projected shortfall in the General Fund.

Chart 1

Resources and Environmental Protection Expenditures[a]
Current and Constant Dollars
1985-86 through 1992-93[b]



[a] Includes expenditures for departments and boards under both the Resources Agency and the new Agency for Environmental Protection (Cal-EPA).
[b] Data are for fiscal years ending in year shown.

Spending by Major Programs

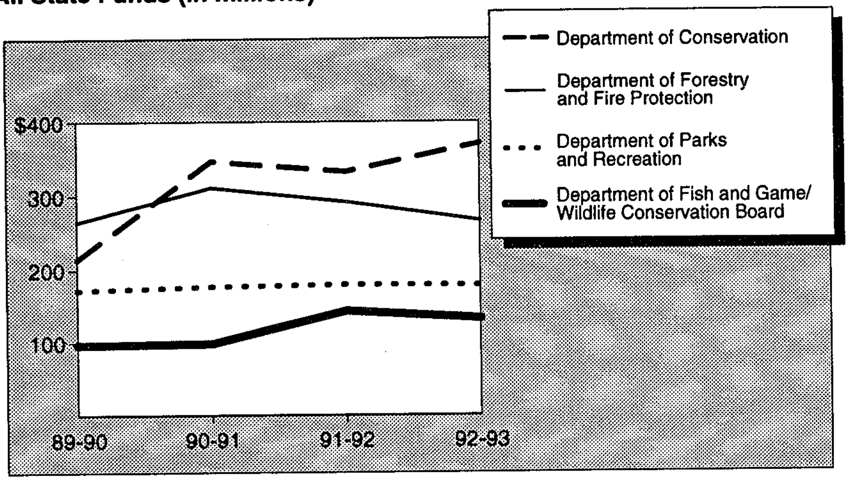
Chart 2 shows total state expenditures for four major *resources programs* — that is, those programs within the jurisdiction of the Secretary for Resources. Chart 3 shows similar information for four major *environmental protection programs* — those programs within the jurisdiction of the newly created Cal-EPA. (Until the current year, programs under the Cal-EPA reported to the administratively created Environmental Affairs Agency within the Resources Agency, and to various other departments and agencies.)

Spending for Resources Programs. As Chart 2 demonstrates, expenditures for most resources programs from 1989-90 through 1992-93 remained fairly constant. For example, funding for the Department of Forestry and Fire Protection is projected to return to 1989-90 levels in the budget year, after reaching a high in 1990-91 as a result of a severe fire season. Expenditures for both the Department of Parks and Recreation (DPR) and the Department of Fish and Game (DFG) — including the Wildlife Conservation Board — are proposed to decline slightly in the budget year. Proposed 1992-93 expenditures for the DPR are virtually identical to the department's expenditures in 1989-90, while budget-year expenditures for the DFG represent a moderate increase in funding for the program over the 1989-90 funding level. An exception to this flat-to-moderate growth trend over the four-year period is the Department of Conservation (DOC), whose expenditures are projected to increase markedly over the period (from $214 million in 1989-90 to $371 million in 1992-93). This increase is due entirely to increases in the state's beverage container recycling program.

Chart 2

Resources Expenditures By Major Program 1989-90 through 1992-93

All State Funds (in millions)

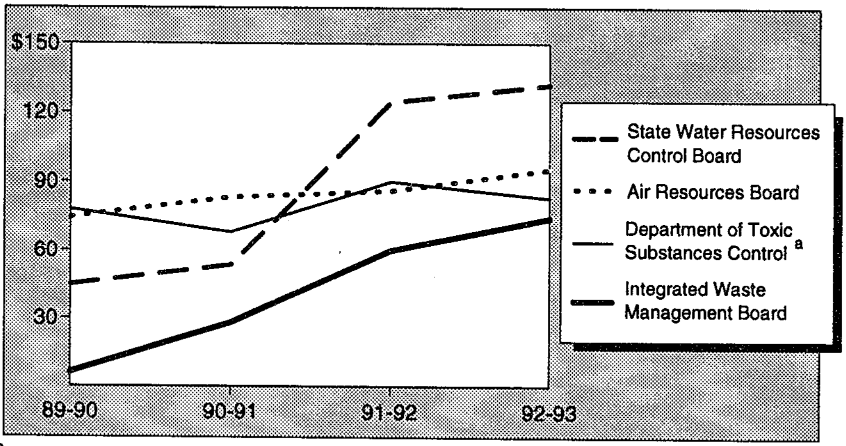


Spending for Environmental Protection Programs. In contrast to the relatively flat program growth overall for resources programs, environmental protection programs have grown markedly over the four-year period. Chart 3 shows expenditures for the four largest environmental regulatory programs — air, water, hazardous substances, and solid waste — within the Cal-EPA. (Information for the state's Department of Toxic Substances Control (DTSC) is shown for all four years, even though this department was part of the Department of Health Services until the current year.) As the chart shows, expenditure growth in two agencies — the Air Resources Board and the Department of Toxic Substances Control — was relatively flat over the four-year period, while expenditures for the State Water Resources Control Board (SWRCB) and the Integrated Waste Management Board (IWMB) increased significantly over the same period. The marked growth in the state's water quality regulatory program primarily resulted from new expenditures in the current year to pay for cleaning up leaking underground tanks (Ch 1366/90, SB 2004 — Keene).

Chart 3

Environmental Protection Expenditures By Major Program 1989-90 through 1992-93

All State Funds (in millions)



[a] Detail for 1989-90 and 1990-91 shown for illustrative purposes only. Department did not become part of the state's environmental protection agency until the current year.

Factors Driving Program Expenditures

This section examines the specific factors responsible for changes in resources and environmental protection program expenditures in recent years, which also are likely to drive expenditures for the next several years. These include:

State Policy Changes and New Environmental Requirements. The most significant increases in expenditures for resources and environmental protection have resulted from increases due to policy changes in various environmental mitigation and regulatory programs. For example, in 1986-87 the DOC implemented a statewide beverage container recycling program; in 1989-90, the state began to implement a new California Clean Air Act program (Ch 1568/88 — AB 2595, Sher); and in the current-year, the state greatly expanded the level of funding available to clean up leaking underground storage tanks. These policy changes, along with expanded responsibilities for waste management and water quality resulting from new legislative initiatives, explain much of the growth in resources programs over the past few years. The trend towards greater environmental regulation is likely to continue for some time as California's population growth continues to place increasing pressures on the state's land, air, and water resources.

Critical Natural and Man-made Conditions. Critical events, that may vary substantially from year to year, have a significant impact on expenditures in the resources and environmental protection area. These events may be caused by nature, or may result from human action. For example, at the time this analysis was prepared (late January 1992), it appeared that the state would be facing a sixth straight year of drought. The primary effect of the continuing drought on the budget probably will be to require additional expenditures for emergency wildland fire suppression. A second natural phenomenon affecting resources expenditures is the future danger of floods in many areas of the state. The 1992-93 budget includes roughly $100 million for flood control, including $97 million for state participation in local projects and $2.4 million in the capital outlay budget for work in the Sacramento area.

In addition to critical natural events, specific human-caused events can have a significant impact on resources and environmental protection expenditures. For example, the budget contains $6.6 million for the DFG to continue assessing damages resulting from the toxic spill of metam sodium into the upper Sacramento River where a Southern Pacific train derailed in July 1991. According to the department's proposal, at least some damage assessment costs will continue for 10 years.

Fund Limitations. Some program costs are supported by special funds whose revenues are declining over time. For example, wildlife habitat and recreational programs are supported partially by the Public Resources Account (PRA). The PRA receives revenues from a surcharge on the sales of tobacco products, which are declining. Similarly, some environmental protection programs are funded from fees assessed on the amount of waste product generated. These programs seek to reduce the amount of waste generated or disposed, ultimately resulting in reductions in tonnage-based fee revenue. In addition, current pressures on the General Fund have led to shifts away from support of resources and environmental protection programs.

A discussion of the condition of a number of funds used to support resources and environmental protection programs follows this overview.

Major Budget Changes

The budget proposes to shift various program costs from *state* funds (primarily the Special Account for Capital Outlay) to newly proposed bond funds, as shown in Table 1. In addition to those major changes shown in Table 1, the budget also proposes a *reduction* of over $90 million for support of local assistance by the DPR. Most of this decrease is proposed because previously approved bond measures which provided funds for assistance to local parks are depleted. The budget also proposes an *increase* of $115 million in local assistance support, primarily from federal funds, for waste water treatment and other clean water loans and grants.

Table 1

Resources and Environmental Protection Programs
Proposed Major Changes for 1992-93

Conservation	**Requested:**	**$371 million**	
	Increase:	**$38 million**	**(+11%)**
+	$38 million for Beverage Container Recycling Program due to increased recycling rates		
Forestry and Fire Protection	**Requested:**	**$266 million**	
	Decrease:	**$25 million**	**(-9%)**
−	$10 million reduction for emergency fire suppression costs		
−	$15 million reduction for telecommuncations and air fleet equipment purchases, and capital outlay project expenditures proposed to be switched to new bond funding		
Water Resources	**Requested:**	**$52 million**	
	Decrease:	**$42 million**	**(-44%)**
−	$44 million reduction in local assistance and capital outlay support for flood control projects proposed to be switched to new bond funding ($89 million in bonds)		
Integrated Waste Management	**Requested:**	**$74 million**	
	Increase:	**$13 million**	**(+21%)**
+	$12.5 million for implementation of a used oil recycling program		

LAO Assessment of Major Budget Issues

In this section, we identify some of the major issues in the Governor's Budget. In crafting a 1992-93 budget for resources and environmental protection programs, the Legislature is faced with a recurring theme: how can the Legislature best provide support for these programs given both the current condition of the General Fund and the condition of many of the special funds traditionally used to support these programs. A fuller discussion of these issues is contained in our analysis of the affected department or program which follows this overview.

Budget Proposes to Shift Firefighting Equipment Purchases to Bonds. The budget proposes to shift the Department of Forestry and Fire Protection's (CDF's) multi-year equipment replacement program to a newly proposed bond fund. In addition, the budget proposes to fund department capital outlay from this same bond. We have concerns with the bond proposal because it (1) proposes to purchase short-lived equipment with long-term bonds and (2) does not propose a long-term financing plan for the department's multi-year equipment replacement and capital outlay proposals. (See Item 3540, Department of Forestry and Fire Protection.)

Toxic Spill Assessment Costs Inappropriately Financed. The budget proposes to have the Fish and Game Preservation Fund (FGPF) pay the costs up front for damage assessment — ultimately anticipated to be repaid by the responsible party — related to the spill of metam sodium in the upper Sacramento River where a Southern Pacific rail car derailed last July. Under current law, however, revenues to the FGPF must be used for programs related to hunting and fishing. While our review indicates that the FGPF should not be the primary source of funding for the risk assessment program, the Legislature's options to fund this multi-year program from another special fund source are limited. (See Item 3600, Department of Fish and Game.)

State Parks Faced with Big Program Reduction in Current Year. Over the last two years, the state has shifted substantial support of the state park program from the General Fund to park user fees; however, the Department of Parks and Recreation has been unable to generate the fee revenue necessary to backfill for the loss of General Fund support. As a result, the department will have to make program reductions in the current year which total $23 million. The budget provides no detail on how the department will actually achieve this reduction. (See Item 3790, Department of Parks and Recreation.)

Air Quality Program May "Overuse" Scarce Motorist Funds. The budget proposes $71.4 million in Motor Vehicle Account (MVA) support for Air Resources Board (ARB) programs in 1992-93, of which $34.3 million is for support of the board's stationary source program. While some of this funding may go to support programs or activities that are somewhat related to mobile sources of pollution, it is likely that a substantial portion supports programs unrelated to motor vehicle use and emissions. Because funds in the MVA (1) may not be used for pollution control activities unrelated to motor vehicle use and (2) are in short supply in both the current and budget year, the Legislature will need to decide which ARB activities reasonably can be funded by the MVA. (See Item 3900, Air Resources Board.)

Pesticide Regulation Program May Face Shortfalls. Without further legislative action, the state's program to regulate the use of pesticides will experience a budget shortfall of $8 million in 1991-92 and $17 million in 1992-93 because the department lacks the authority to charge fees at the level assumed in the budget. The Administration proposes to (1) backfill a portion of this shortfall with General Fund support and (2) seek enactment of legislation repealing the June 1992 sunset date on a portion of the pesticide mill tax. (See Item 3930, Department of Pesticide Regulation.)

Hazardous Substance Regulation and Clean-up Faces Hard Times. Based on the Governor's Budget spending proposal, we estimate that the Hazardous Substances Account will end 1992-93 with a deficit of $5.1 million unless action is taken to reduce expenditures. This account funds the state's toxic site mitigation program. In addition, it appears the Hazardous Waste Control Account, which funds the state's hazardous waste regulatory program, faces shortfalls in both the current and budget years. It is too early, however, to estimate the magnitude of these shortfalls, or whether the department's minimal reserves will be adequate to keep the account in balance.

Fund Conditions for Resources And Environmental Protection

There are a variety of special and bond funds used to support the departments, conservancies, boards, and programs that regulate and manage the state's natural and environmental resources. In this section, we provide a brief description and status report for the major special funds and bond funds supporting these programs. For purposes of this review, we divided the funds into two categories: (1) special funds and park-related bonds and (2) bonds for water programs.

Special Funds and Park-Related Bonds

Based on our review of the status of major special funds and park-related bond funds in the resources area, we conclude that, if the Legislature approves the Governor's spending proposals, there will be little money available (1) in special funds for legislative priorities and (2) in park-related bond funds to start new park projects.

Chart 4 summarizes the totals available, the Governor's expenditure proposals, and the reserve balances available for selected special funds and park-related bond funds. Below we discuss the status of individual funds and provide some general comments.

Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund. Revenues to this fund come from royalties and other payments for oil and gas recovered from submerged federal lands that are adjacent to California. The revenue amount is determined by an agreement with the federal government. These funds can be appropriated for any purpose.

The budget proposes expenditures totaling $22.6 million from the 8(g) Revenue Fund for a variety of resources-related programs. This is an increase of $12.8 million above spending for resources programs in the current year. The increase is due primarily to the discontinuation in the budget year of a current-year transfer of $13 million to the General Fund for nonresources programs, resulting in an increase in funds available in the Section 8(g) Revenue Fund in 1992-93.

The budget proposes no transfer from the Section 8(g) Revenue Fund to the General Fund in 1992-93. Rather, the budget proposes a budget-year transfer of $8.6 million to the Fish and Game Preservation Fund. Please see our analysis of Item 3600 for a discussion of the Department of Fish and Game's proposal for use of these funds.

Chart 4

Selected Special and Bond Fund Conditions Natural Resources and Environment Based on Governor's Budget 1992-93

(in thousands)

Fund	Estimated Expenditures 1991-92	Estimated Total Available 1992-93	Governor's Proposal	
			Total Spending	Fund Balance
SPECIAL FUNDS				
Special Account for Capital Outlay[a]	$61,829	NA	$1,187	NA
Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund[a]	10,459	NA	22,656	NA
Environmental License Plate Fund	24,469	$40,302	30,412	$2,740
Transfers to the Habitat Conservation Fund (HCF)	3,451	NA	7,150	NA
Public Resources Account, Cigarette and Tobacco Products Surtax Fund (CTPSF):				
Fish and wildlife habitat	13,553	15,379	10,060	3,319
Parks and recreation	12,058	15,379	11,239	-360
Transfers to the HCF	10,087	NA	6,500	NA
Habitat Conservation Fund:				
Transfer from the Unallocated Account, CTPSF	12,788	12,363	12,363	—
Transfers from other funds	(17,507)	NA	(17,750)	NA
BOND FUNDS (by year)				
State, Urban and Coastal Park Fund (1976 Bond)	$6,639	$4,929	$4,793	$136
Parklands Fund of 1980	4,035	1,792	1,674	118
Parklands Fund of 1984	32,185	10,073	6,018	4,055
Fish and Wildlife Habitat Enhancement Fund of 1983	5,951	2,517	—	2,517
State Coastal Conservancy Fund of 1984	4,445	1,193	1,100	93
California Wildlife, Coastal, and Park Land Conservation Fund of 1988[b]	25,574	42,517	24,509	18,008
Wildlife and Natural Areas Conservation Fund of 1988	14,165	11,834	6,030	5,804
Transfers to the HCF	(1,400)	NA	(4,100)	NA
Totals, bond funds	**$92,994**	**$74,855**	**$44,124**	**$30,731**

[a] Figures are for resources-related and environmental projects only.
[b] Figures are for the bond allocations subject to Budget Bill appropriation only.

Public Resources Account, Cigarette and Tobacco Products Surtax Fund. The Public Resources Account (PRA) receives 5 percent of the revenue from the Cigarette and Tobacco Products Surtax Fund. Fifty percent of these funds must be used to support park and recreation programs at the state or local level; the remaining 50 percent must be used to support habitat programs and projects.

Proposed expenditures from the PRA total $21.3 million. This is a decrease of $4.3 million below estimated spending in the current year. The decrease is due primarily to (1) a decrease of $9.5 million in available funds due to spending down reserves in the current year and (2) a budget proposal to transfer $3.6 million *less* than in the current year to the Habitat Conservation Fund (HCF). Based on revenues and expenditures shown in the budget, the fund will have a reserve of $3 million, or 14 percent of 1992-93 expenditures, on June 30, 1993.

Environmental License Plate Fund. The Environmental License Plate Fund (ELPF) derives its funding from the sale of personalized motor vehicle license plates by the Department of Motor Vehicles. Funds from the ELPF can be used for the following purposes:

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

The budget proposes expenditures totaling $30.4 million from the ELPF, an increase of $5.9 million above estimated current-year spending. The increase in spending is due primarily to an increase of $4.6 million in available funds due to (1) a projected increase in personalized license plate sales in the budget year and (2) increases in the fees for these license plates, pursuant to Ch 821/91 (SB 514, Marks), effective January 1, 1992. The budget shows an uncommitted reserve in the ELPF of $1.2 million, or 4.1 percent of 1992-93 expenditures, on June 30, 1993.

Habitat Conservation Fund (HCF). This fund was created by Proposition 117, the California Wildlife Protection Act of 1990. The fund is guaranteed annual revenue of $30 million primarily to fund wildlife habitat acquisitions and improvements. In order to support the required annual expenditure level, Proposition 117 requires the transfer of (1) 10 percent of funds from the Unallocated Account, Cigarette and Tobacco Products Surtax Fund, and (2) additional funds from the General Fund to total $30 million. Proposition 117 allows the Legislature to substitute for the General Fund the transfer of other appropriate funds.

The transfers from the Unallocated Account to the HCF total $12.8 million in the current year and $12.4 million in 1992-93. Consequently, the amount that must be funded from the General Fund or other funds in order to total $30 million was $17.2 million in the current year and will be $17.6 million in 1992-93. (The Governor's Budget, however, transferred special funds totaling $17.5 million in the current year and proposes to transfer $17.8 million from special funds in 1992-93.)

In the current year, the Legislature funded the HCF by transferring $10.1 million from the PRA, $3.5 million from the ELPF, $2.5 million from the Section 8(g) Revenue Fund, and $1.4 million from existing bond appropriations. The 1992-93 budget relies on the ELPF ($7.2 million), the PRA ($6.5 million), and bond funds ($4 million) to fund the HCF.

Park-Related Bonds. Park development projects and land acquisition have traditionally been funded by various bonds passed by the voters since 1964. Availability of bond funds has contributed to legislative flexibility in funding its priorities during the past several years because the Legislature has been able to free up funds in the ELPF and the PRA by using bond funds to the greatest extent possible to fund various projects.

The budget proposes expenditures totaling $44.1 million from the various park-related bond funds. This amount includes (1) $28.5 million for the Department of Parks and Recreation, of which $5.2 million is for ongoing support costs, $803,000 is for local assistance, and $22.5 million is for new development projects and acquisitions, and (2) $15.6 million for acquisitions and ongoing projects of the various conservancies and other natural resources-related departments. In contrast, the budget shows current-year spending of $93 million primarily for major capital outlay ($73.4 million) and local assistance ($19.6 million). The reduction is due to spending down available fund balances.

The budget reflects available bond fund balances totaling $74.9 million at the beginning of 1992-93 and $30.7 million at the end of 1992-93. Of the several bond funds passed by the voters, only the Parklands Fund of 1984, the California Wildlife, Coastal and Park Land Conservation Fund of 1988, and the Wildlife and Natural Areas Conservation Fund of 1988 have a substantial amount of money remaining for appropriation. However, most of the money left in these funds is earmarked for development in particular geographic areas and for certain limited categories of projects.

Special Account for Capital Outlay. Funds for the Special Account for Capital Outlay (SAFCO) are derived from tidelands oil revenues. Money from the SAFCO has been appropriated for programs in many areas of state government.

The budget proposes expenditures totaling $1.2 million from the SAFCO for resources programs. This is a decrease of $60.6 million from estimated current-year expenditures for resources programs from the SAFCO. The decrease reflects the deletion of one-time spending in 1991-92. Please see our analyses of Item 9860 and Section 11.50 for additional discussion of SAFCO spending.

Summary: Little Special Fund Money is Available for Legislative Priorities. In past years the Legislature has been able to use the PRA and ELPF to fund legislative priorities after considering the Governor's proposals. However, our review indicates that, as was the case in 1991-92, little money will be available in either the PRA or the ELPF to fund legislative priorities in 1992-93 if the Legislature approves the Governor's spending proposals. This is due to several factors. First, there are continued demands on these funds. For example, the budget proposes transfers totaling $13.7 million from the ELPF and the PRA to the HCF to satisfy the requirements of Proposition 117. Second, bond funds that have been used to fund projects that might otherwise be funded from the ELPF and the PRA are depleted, leaving the Legislature very little maneuverability to shift projects to the bond funds to free up the ELPF or PRA for legislative priorities.

Little Money Available for New Park Projects. Due to the voters' rejection of the California Park, Recreation and Wildlife Enhancement Act of 1990, and to depletion of existing bond funding sources, the Department of Parks and Recreation and the various state conservancies have little money available to start any new projects in 1992-93. Virtually all money available is earmarked for specific types of projects and specific geographic areas. This problem is mitigated to some degree because under Proposition 117, $30 million is available annually in the HCF to fund a variety of habitat acquisitions. However, HCF funds (1) for the most part, cannot be used for park development and (2) are fully scheduled in the Governor's Budget.

Water Bonds

Based on our review of bond funding for water programs, we conclude that (1) there is very little money available to help water agencies comply with new federal drinking water regulations and (2) there are sufficient funds available in the short run to continue water supply and waste water treatment programs.

There are several bond fund programs that provide loans and grants to local water agencies to enhance water quality and water supply. These programs are (1) the safe drinking water program, (2) water supply programs, including programs for water conservation, groundwater recharge, and water reclamation, and (3) the waste water treatment program.

As indicated in Chart 5, the budget reflects expenditures totaling $173.6 million for these programs. These expenditures are primarily for grants and loans to local water agencies.

Chart 5

Selected Water Bond Fund Conditions Based on Governor's Budget 1992-93

(in thousands)

Fund	Estimated Total Available	Governor's Proposal	
		Total Spending	Fund Balance
California Safe Drinking Water Fund — safe drinking water	$101,360	$32,144	$69,216
State Clean Water Fund — water supply	18,898	15,009	3,899
1984 State Clean Water Fund — waste water treatment	106,888	73,832	33,156
1986 Water Conservation and Water Quality Fund — water supply	69,490	49,579	19,911
1988 Clean Water and Water Reclamation Fund — water supply	41,159	14,855	26,304
Water Conservation Fund of 1988 — water supply	43,127	22,004	21,123
Totals	**$380,922**	**$207,323**	**$173,599**

Safe Drinking Water. The budget reflects expenditures of $32.1 million in 1992-93 and a balance of $69.2 million on June 30, 1993. The Department of Water Resources (DWR) advises, however, that it has about $49 million in pending applications for these funds; thus it may have as little as $20.2 million in unobligated funds by the end of the budget year. In addition, the need for these funds has recently increased. Specifically, as of January 1991, the federal Environmental Protection Agency (EPA) implemented stricter regulations that require treatment of all surface water through filtration and disinfection before delivery. Currently, many sources of surface drinking water are not treated prior to delivery. The DWR staff estimate that the state's water systems will need from $500 million to $1 billion to comply with these regulations.

Furthermore, the Department of Health Services (DHS) indicates that over the next few years the EPA will be adopting more drinking water regulations that will result in additional costs to the state's water system. The DWR staff indicate that if no additional bond funds are made available, many of the small water agencies and districts (ranging from five to 200 service connections) will have difficulties complying with the regulations.

Water Supply. The budget reflects $101.4 million in expenditures for a variety of water supply programs. According to staff at the DWR and the State Water Resources Control Board (SWRCB), there is enough bond funding available to continue the existing water supply grant and loan programs in the short run. Staff further indicate that if no additional bond funds are made available in 1992, a variety of proposed projects probably will be delayed.

Waste Water Treatment. The budget indicates that the 1984 State Clean Water Fund, used to fund waste water treatment projects, will have a balance of $33.2 million at the end of 1992-93. In previous years this fund had considerable money available because (1) from 1984 to 1989 it was a revolving loan program that funneled all loan repayments back to the program and (2) local agencies applied for grants under the other clean water bond funds and have avoided asking for loans from the 1984 Clean Water Fund. However, in 1989 the state began using some of the money in this fund to meet the matching requirement for federal water pollution control capitalization grants. The SWRCB staff indicate that *all* of the $33.2 million balance is for projects considered to be in the pipeline.

New Process Needed for Administration of Environmental License Plate Fund

We recommend that the Secretary for Resources and the Secretary for Environmental Protection report jointly to the Legislature at the time of budget hearings concerning the process for determining expenditure priorities for the Environmental License Plate Fund, because the current system no longer reflects the organization of state government and thus may not be appropriate.

Under existing law, the Resources Agency administers the Environmental Protection Program, which consists of funding from the ELPF for the seven purposes noted earlier. The agency is required each year to recommend projects and programs for ELPF funding in the Governor's Budget. For 1992-93, the budget includes $30.4 million from the ELPF for 62 projects and programs recommended by the agency. Of this amount, the single largest share — $16.2 million — is proposed for the Department of Fish and Game.

When the ELPF was established in 1970, all the state departments and programs eligible to receive funding were under a single overseer—the Resources Agency. Last year, however, the California Environmental Protection Agency (Cal-EPA) was created, and three state entities were moved from the Resources Agency to the new agency: the Air Resources Board (ARB), the State Water Resources Control Board (SWRCB), and the California Integrated Waste Management Board. The first two of these have programs that are eligible for and have received ELPF funding in the past. The budget proposes $2 million from the ELPF for the ARB and no ELPF funding for the SWRCB in 1992-93.

In light of this recent reorganization of state environmental programs, we believe that the Legislature needs to reexamine the method with which ELPF funding is allocated in the budget. Under the proposed allocation for 1992-93, programs under the Resources Agency would receive all but $2.6 million of ELPF money available for expenditure. Consequently, we recommend that the Secretary for Resources and the Secretary for Environmental Protection jointly report to the Legislature at the time of budget hearings concerning the Administration's process for determining the relative priorities for ELPF expenditures. Based on this joint report, the Legislature may wish to consider (1) statutory changes in the ELPF funding process or (2) adoption of supplemental report language requiring coordination between the two agencies in submitting the Administration's annual ELPF funding proposal to the Legislature.

Financing of Resources and Environmental Programs

Programs to manage and protect the state's natural resources and environment historically have been funded from a combination of general tax revenues (such as the General Fund) and revenues from various user and regulatory fees. In the past, general tax revenues paid for a significant portion of the costs of natural resource and environmental protection programs. However, in recent years as the costs of these programs have grown, General Fund dollars dedicated to these purposes have remained approximately the same, while special funds have become the major source of support for resources and environmental protection programs.

Chart 1 above (please see page 4) shows that expenditures for resources and environmental protection programs have increased moderately over the last eight years. Chart 1 also shows that virtually all of this growth has come from special funds, including fees. In fact, the amount of General Fund monies used to support natural resources and environmental protection programs has declined since 1985-86, after adjusting for inflation.

The portion of resource and environmental protection programs that are paid from the General Fund, rather than fees, varies considerably from department to department. For example, in 1990-91 the Toxic Substances Control Division then within the Department of Health Services was funded almost entirely from fees, while the majority of the funding for support of the State Water Resources Control Board was from the General Fund. Although some of these variations in funding are due to the differences in departmental responsibilities, much of the variation occurs because of the application of different criteria over time for determining how to finance resource and environmental protection programs.

Legislature Faces Significant Issues in Financing Resource and Environmental Protection Programs

The Legislature will face significant policy issues related to the financing of resource and environmental protection programs in acting on the budget for 1992-93. This is because existing fee revenues for many environmental programs are declining and in some areas will not be sufficient even to maintain current program levels in the budget year. At the same time, however, the projected shortfalls in General Fund revenues in 1991-92 and 1992-93 will create increasing pressure on the Legislature to reduce the demands on the General Fund by shifting from the General Fund to fees funding for resource and environmental protection programs, or making program reductions to eliminate or reduce the General Fund support for these programs.

In order to assist the Legislature in (1) addressing the issues related to the financing of resource and environmental protection programs presented by the 1992-93 budget and (2) developing a consistent strategy for financing resource and environmental protection programs in the future, we provide below a framework for determining the most appropriate mechanism for financing these programs.

Options for Financing Resource and Environmental Protection Programs

There are three major options for the state in financing resource and environmental protection programs: (1) through the assessment of fees, (2) from general purpose funds (including the General Fund, general obligation bonds, and general environmental funds such as the Environmental License Plate Fund, and the Public Resources Account, Cigarette and Tobacco Products Surtax Fund) or (3) from a combination of fees and general funds. The appropriate financing option for any given program depends on the ultimate purpose of the program or policy that is to be funded and the extent to which a direct link exists between the state's program and a discrete group of program beneficiaries. Each of these options — fees, general funds, and a mix of fees and general funds — is discussed below. We then assess the advantages — and disadvantages — of using these various means to finance program costs.

Fees Provide Direct Link Between A Program and the Population It Serves

Two broad categories of resource and environmental protection programs often are financed through fee assessments.

User Fees. Programs that provide a direct benefit to an identifiable population or group can be financed by charging fees to the people who directly benefit from these programs. These types of fees, called user fees, require that the people who benefit from a program pay for the costs of the program. Some examples of user fees include:

- *State park fees.* People that use the state parks are charged an entrance fee. Revenue from the fees is used to offset the costs of operating and maintaining the state park system.
- *Vessel registration fees.* People who own boats or other vessels are required to register their vessels with the Department of Boating and Waterways and to pay a registration fee. Revenue from fees is used to develop and improve boating facilities and to promote boating safety.
- *Sportfishing and hunting fees.* Fishermen and hunters are required to obtain a license to fish or hunt in the state and to pay a license fee.

Revenues from the fees are used to manage fish and wildlife resources to ensure that there are huntable and fishable populations.

"Polluter Pays" Fees. The second type of fees, sometimes referred to as "polluter pays" fees, require *private* individuals or businesses who use or degrade a *public* resource (such as air, water, and wildlife) to pay all or a portion of the social costs imposed by their use of the resource.

Revenues from polluter pays fees generally are used in two ways. First, the fee revenues can be used to prevent or reduce the degradation of the public resource by regulating private activities. When fees are used in this manner, they are regulatory fees. Examples of such fees include:

- ***Waste discharge fees.*** People that discharge wastes onto land or waters are charged a fee to pay for a portion of the costs of the State Water Resources Control Board's programs for regulating the amount and kind of wastes that can be discharged.
- ***Hazardous waste fees.*** Generators and transporters of hazardous wastes, and facilities that manage hazardous wastes are required to pay various types of fees. The revenues from these fees are used to fund the Department of Toxic Substances Control's programs for regulating these activities.

Second, revenues from polluter pays fees can be used to restore or enhance a public resource after it has been degraded or used. When the revenue from the fees are used in this way, the fees are called "impact fees." An example of an impact fee is the resource impact fees required by Ch 1706/90 (AB 3158, Costa). Chapter 1706 requires developers to pay a fee for each project that is subject to environmental review under the California Environmental Quality Act (CEQA). The Department of Fish and Game is significantly involved in the review of environmental impact reports and in the formulation of mitigation measures as offsets for development projects. Rather than setting the fees only to pay for the Department of Fish and Game's costs of reviewing environmental documents, the legislation sets the fees generally to pay for a variety of natural resource protection and restoration activities. Thus, the fees act as a proxy for the costs of using the resource — in this case the taking of habitat for development, and fund some of the costs of restoring or preserving wildlife habitat in order to mitigate the impact of development.

In addition to the two usual ways in which polluter pays fees are used, these fees also can be used as an incentive to encourage a change in behavior in order to reduce the use or degradation of public resources. In this case, the primary objective is the change in behavior that results from the assessment of fees, not the revenues themselves. For example, SB 431 (Hart) proposes to impose a surcharge on people purchasing cars with greater-than-average air pollution emissions. Revenues from the surcharge would be used to administer the program and to provide rebates to individuals purchasing cars with less-than-average air pollution emissions. The surcharge in the bill is designed as an economic incentive to discourage people from buying cars that have high emissions of air pollutants and encourage people to buy less polluting cars.

Similarly, under current law, people that dispose of hazardous wastes are required to pay a surcharge based on the tonnage and toxicity of the waste. The amount of the surcharge per ton of wastes increases as the toxicity of the waste increases. Revenues from the surcharge are used to fund the cleanup of sites for which no responsible party can be identified or the responsible party is bankrupt and cannot pay the costs of cleanup. Although the surcharge does not pay for a program that benefits the disposers of hazardous wastes, the surcharge nevertheless is appropriate as a mechanism to encourage people to reduce the toxicity and tonnage of the wastes they dispose.

Support From General Funds Distributes Program Costs Broadly

General funding sources are an appropriate means for financing natural resource and environmental protection programs that benefit the entire population, regardless of whether or not they pay directly for it. This type of program is referred to by economists as a "public good." For instance, national defense is considered a public good because even if only certain individuals are taxed for national defense, the entire population benefits from protection by the armed forces. Similarly, programs that protect fish and wildlife habitat, or threatened and endangered species, also are a public good in that the public benefits from maintaining the natural diversity and ecological health of the state's environment. By funding resource and environmental protection programs from general funds, their costs are distributed to as wide a base of program supporters as possible, reflecting the collective benefit to the state's citizens.

In addition, support from general funding sources is appropriate for programs that address past actions of polluters where there is no reasonable means to connect these past polluters to current groups. For example, General Fund or bond funds would be appropriate to clean up hazardous waste sites in which chemicals were dumped decades ago and where the responsible party no longer exists or cannot be identified. Therefore, this program could be appropriately financed from general funds or from the current mechanism of charging a polluter pays surcharge on hazardous waste disposal to encourage people to reduce the tonnage and toxicity of the wastes they dispose.

General funds also may be the practical default funding option for programs where (1) the benefits are widespread but not universal and (2) to "tag" each benefitting group for its share of program cost would be administratively burdensome and inefficient.

Mixed Funding Recognizes Direct and Indirect Beneficiaries

Many resource protection programs provide benefits to a specific group or set of groups as well as to the general population. These types of programs are best financed from a combination of user fees and general funds. For example, as discussed earlier, state parks provide a direct benefit to the people that use the parks. Therefore, it is appropriate to charge a fee for using the parks and to use the resulting revenues to fund the operation and maintenance of the parks. However, the preservation of state park lands also provide a benefit to all of the people in the state by maintaining the natural diversity and ecological health of the state, and by preserving significant historical, cultural, and natural resources for both their intrinsic and their educational value. Accordingly, it is also appropriate to finance a portion of the acquisition and operation of the state parks from general funds, because preservation of these resources benefits the general population.

Similarly, the Department of Fish and Game acquires and operates various wildlife areas throughout the state. The wildlife areas are operated to provide hunters an opportunity to take waterfowl. As a result, the costs of the acquisition and operation of these areas can appropriately be paid from hunting fees. However, the wildlife areas also provide habitat for a variety of waterfowl and other wildlife that are not hunted and the wetlands act as a filter and cleanser for water that ultimately is used by people. As a result, the general public also benefits from the acquisition and operation of these lands because it helps to remove organics from drinking water and to fulfill broad state policy goals of protecting threatened and endangered species. Accordingly, part of the costs of acquiring and managing these lands could appropriately be paid from general funding sources.

Advantages and Disadvantages of Various Financing Options

The three major financing options for resources and environmental protection programs each have advantages — and disadvantages — associated with them. Chart 6 provides a comparison of the major advantages and disadvantages of the financing options. As the chart shows:

- The major advantage of fee financing for a program is that it requires individuals who receive the benefit from the program to pay the entire cost. An offsetting disadvantage is that fees may act as a barrier to access by individuals of limited means.
- The major advantage of General Fund or other broad financing is that it results in the broadest possible revenue base supporting programs of general public benefit. An offsetting disadvantage — other than the relative scarcity of the General Fund these days — is that the general public may end up subsidizing programs that regulate private actions.

Chart 6

Advantages and Disadvantages of Three Approaches To Financing Resource and Environmental Protection Programs

	Advantages	Disadvantages
Fees	■ Provide direct linkage between services and recipients; people not benefiting from program do not have to pay for the program ■ Free up General Fund monies for other priorities ■ In some cases, provide revenue stability for programs	■ May conflict with broader state policy goals to provide certain basic services at reasonable cost ■ At the margin, have a disproportionate impact on small businesses or individuals of limited means ■ Increase administrative costs to collect fees ■ Potentially make programs subject to undue constituent pressure
Revenues From General Funds	■ Distribute costs of public goods among general population ■ Result in virtually no additional administrative costs ■ May yield a higher level of administrative and legislative oversight	■ May result in subsidy by general taxpayers of programs addressing specific needs ■ Potentially limited funding available to many programs ■ May result in reduced programs during periods of recession
Combined Fees and Revenues From General Funds	■ Share costs among private beneficiaries and public beneficiaries ■ May create funding stability due to potentially more stable funding source ■ Reduce demands on the General Fund, while potentially yielding a higher level of administrative and legislative oversight	■ Increase administrative costs ■ May deny access to individuals of limited means

- The major advantage of mixed financing is that, in general, mixed financing can be structured to mitigate the disadvantages of relying either solely on fees or solely on general funds. In addition, in times of General Fund scarcity, it allows the Legislature to make dollars go farther for programs that have a substantial public benefit.

A difficulty, however, with mixed financing is that it requires the Legislature to determine the proper distribution of costs between fees and general funds. Ultimately, this requires the Legislature to determine who benefits from a program and to what degree they benefit.

Deciding Which Funding Mechanism Makes Sense

In our view, the Legislature's choice of which general funding mechanism to choose for support of resources and environmental protection programs should not rest solely on the current availability of funds. Instead, the Legislature, as part of its annual deliberations on the budget, should assess the extent to which the goals of the programs which it has put in place are helped or hindered by the current way in which the programs are financed. Then, the Legislature should start taking steps — through the budget and through enactment of any necessary legislation — to switch program funding to the source — including the General Fund — that ultimately makes the most programmatic sense. One potential outcome is that this would result in the Legislature needing to reevaluate its broader expenditure priorities for the General Fund across the budget — resulting in increased or decreased General Fund expenditures on resources and environmental protection programs.

Conclusion. In the following analyses of the proposed budgets for natural resource and environmental protection programs, we have applied the framework described above to identify the most appropriate mechanism for financing a number of resource and environmental protection programs, and make recommendations for changing the proposed funding to be consistent with this framework.

Sea Grant Program
Item 3110

Expenditures

Requested 1992-93	$589,000
Estimated 1991-92	589,000
Actual 1990-91	609,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

Through the Sea Grant Program, the state provides matching funds required to receive full federal funding under the National Sea Grant College Program Act of 1966. These funds are used to support marine resources research programs at University of California campuses and the University of Southern California.

Overview of the Budget Request

The budget proposes funding the Sea Grant Program at the current-year level.

Chapter 1617, Statutes of 1988 (AB 3223, Mojonnier), extended this program through 1993-94 and specified that the program should receive $525,000 annually in state support. The budget proposes $589,000 in state support for the Sea Grant Program in 1992-93 with no changes from the estimated expenditures in the current year. The total includes $489,000 from the General Fund and $100,000 from the Environmental License Plate Fund (ELPF). The ELPF funding provides for education and information dissemination activities related to Sea Grant projects.

This program, along with many others, was subject to an unallocated reduction of 4.1 percent from the General Fund in 1991-92. (This reduction is 3.4 percent of the program's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Tahoe Regional Planning Agency
Item 3110

Expenditures

Requested 1992-93	$1,492,000
Estimated 1991-92	1,710,000
Actual 1990-91	1,461,000

Requested decrease $218,000 (-12.7 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Tahoe Regional Planning Agency (TRPA) was established by an interstate compact approved by the California Legislature, the Nevada Legislature, and the U.S. Congress. California's contribution to the agency's support is twice that of Nevada's. The TRPA also receives funds from local governments and various other sources. Under the compact, TRPA is responsible for the development of a coordinated land use plan and enforceable regulations to preserve and enhance the environment and resources of the Lake Tahoe basin.

Overview of the Budget Request

The budget for the TRPA includes several program changes resulting in a minor decrease from the agency's current-year funding level.

The budget proposes two appropriations totaling $1.5 million as California's share of support for the TRPA in 1992-93. This amount consists of $910,000 from the General Fund and $582,000 from the Environmental License Plate Fund (ELPF). This is a decrease of $218,000, or 13 percent, from the amount provided by California in the current year.

The budget proposes a net reduction of one-time 1991-92 costs totaling $218,000 from the ELPF for various programs, primarily the Tahoe Environmental Geographic Information System (TEGIS). The budget proposes continued ELPF funding of $114,000 for the TEGIS in 1992-93.

This agency, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 4 percent from the General Fund in 1991-92. (This reduction is 2 percent of the department's total budget from all California state funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

California Tahoe Conservancy
Item 3125

Expenditures

Requested 1992-93	$4,193,000
Estimated 1991-92	4,444,000
Actual 1990-91	2,745,000
Requested decrease $251,000 (-5.6 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Tahoe Conservancy acquires environmentally sensitive and other undeveloped lands in the Lake Tahoe Basin with funds from the Tahoe Acquisitions (1982 Bond) Fund. The conservancy also (1) acquires developed and partially developed lands and (2) improves and develops acquired lands to provide public access and recreation and to protect the natural environment and wildlife habitat.

Overview of the Budget Request

The budget proposes no significant workload or program changes for the conservancy.

The conservancy's budget proposes expenditures totaling $4.1 million for support and local assistance in 1992-93. This is a decrease of $251,000, or 5.6 percent, from estimated current-year expenditures. The decrease is due primarily to a decrease in local assistance grants for soil erosion control.

The conservancy, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 11 percent from the General Fund in 1991-92. (This reduction is 4 percent of the department's total support budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Capital Outlay

The Governor's Budget proposes appropriations totaling $7.2 million in Item 3125-301 for capital outlay expenditures by the conservancy. Please see our analysis of that item in the capital outlay section of the *Analysis* which is in the back portion of this document.

California Conservation Corps
Item 3340

Expenditures

Requested 1992-93	$48,054,000
Estimated 1991-92	51,454,000
Actual 1990-91	56,457,000
Requested decrease $3,400,000 (-6.6 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Conservation Corps (CCC) provides on-the-job training and educational opportunities to California residents aged 18 through 23 with projects that conserve and enhance the state's natural resources and environment. The CCC headquarters in Sacramento operates 16 residential base centers, 30 satellite centers, and a corps member training academy in Camp San Luis Obispo. The CCC also develops and provides funding for nine community conservation corps in neighborhoods with large concentrations of minority youth and high youth unemployment.

Overview of the Budget Request

The budget reflects discontinuation of one-time drought impact funding.

The budget proposes expenditures totaling $48 million in 1992-93. This amount consists of (1) $32 million from the General Fund, (2) $232,000 from the Public Resources Account, (3) $6 million from the Energy Resources

Programs Account, and (4) $9.8 million in reimbursements, including payments from non-General Fund-support departments for work done by the CCC. This is $3.4 million, or 6.6 percent, lower than estimated current-year expenditures. The reduction is primarily due to decreases in workload and training related to discontinuation of one-time drought impact funding provided in the current year ($2.7 million).

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent from the General Fund in 1991-92. (This reduction is 11 percent of the department's total budget from all funds, including reimbursements.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Energy Resources Conservation and Development Commission

Item 3360

Expenditures

Requested 1992-93	$73,518,000
Estimated 1991-92	114,725,000
Actual 1990-91	58,992,000
Requested decrease $41,207,000 (-35.9 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Energy Resources Conservation and Development Commission (or California Energy Commission — CEC) is responsible for siting major electric power plants, forecasting energy supplies and demands, developing energy conservation measures, and conducting a program of research and development involving energy supply, consumption, conservation, and power plant siting technology.

Overview of the Budget Request

The budget proposes a significant reduction in funding for the commission, due primarily to a reduction in the school bus demonstration program.

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION—Continued

The budget proposes expenditures totaling $73.5 million from various state funds, federal funds, Petroleum Violation Escrow Account (PVEA) funds and reimbursements for support of the Energy Commission in 1992-93. This is a net decrease of $41.2 million, or 36 percent, from estimated current-year expenditures. This decrease is due primarily to a reduction in funding for the purchase of fuel-efficient school buses (Ch 1426/88, AB 35 — Katz). The commission indicates that this reduction results from the elimination of one-time funding from phase two of the program in the current year. Table 1 summarizes expenditures for the commission for the past, current, and budget years.

Table 1

California Energy Commission Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Regulatory and planning	$17,691	$17,020	$19,469	14.4%
Energy resources conservation	17,875	28,978	19,542	-32.6
Development	23,225	68,433	34,507	-49.6
Policy, management, and administration	8,598	8,965	8,611	-3.9
Distributed administration	-8,397	-8,671	-8,611	-0.7
Loan repayments	-3,185	-2,518	-2,778	10.3
Totals	**$55,807**	**$112,207**	**$70,740**	**-37.0%**
General Fund	—	*$25*	*$25*	—
Energy Resources Program Account, General Fund	*$34,807*	*34,229*	*35,371*	*3.3%*
Petroleum Violation Escrow Account	*3,756*	*12,867*	*16,647*	*29.4*
Katz Schoolbus Fund	*5,403*	*45,296*	*7,339*	*-83.8*
Other state special funds	*10,106*	*17,555*	*9,533*	*-45.7*
Federal funds	*1,433*	*1,800*	*1,390*	*-22.8*
Reimbursements	*302*	*435*	*435*	—
Personnel-Years	**427**	**461**	**481**	**4.3%**

This commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 4.4 percent from the Energy Resources Program Account, General Fund in 1991-92. (This reduction is 1.6 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Colorado River Board
Item 3460

Expenditures	
Requested 1992-93	$927,000
Estimated 1991-92	923,000
Actual 1990-91	788,000
Requested increase $4,000 (+0.4 percent)	
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The Colorado River Board is responsible for protecting the state's rights to water and power resources of the Colorado River, which is a major source of water for southern California. The board seeks to protect California's water rights by (1) representing California's interests concerning allocation of Colorado River resources among Mexico and the six other states claiming a portion of the supply and (2) implementing water development and management activities to enhance the efficient use of the water. Six water agencies support approximately three-quarters of the board's budget and the state provides the remainder.

Overview of the Budget Request

The budget proposes funding the Colorado River Board at the current-year level, except for small increases in funding for salinity control and personnel.

The total 1992-93 budget proposed for the board from all sources is $927,000, an increase of $4,000 or 0.4 percent, above estimated current-year expenditures. The amount requested consists of $254,000 (27 percent) in state funds and $673,000 (73 percent) in reimbursements from six water agencies.

COLORADO RIVER BOARD—Continued

The state funds consist of $244,000 from the General Fund and $10,000 from the Environmental License Plate Fund.

This board, along with many departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 14 percent from the General Fund in 1991-92. (This reduction is 4.4 percent of the department's total budget from all funds, including reimbursements from local jurisdictions.) The water agencies increased reimbursements to compensate for most of this General Fund reduction. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Department of Conservation
Item 3480

Expenditures

Requested 1992-93	$373,250,000
Estimated 1991-92	334,950,000
Actual 1990-91	348,598,000
Requested increase $38,300,000 (+11.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs concerning: geology, seismology, and mineral resources; oil, gas, and geothermal resources; agricultural and open-space land; and beverage container recycling.

Overview of the Budget Request

The budget projects a significant increase in recycling revenues, and proposes minor workload and administrative increases in the department's nonrecycling programs, all from special funds.

The department proposes expenditures totaling $373.3 million in 1992-93, an increase of $38.3 million, or 11 percent, from current-year estimated expenditures. The proposed increase is due primarily to program increases totaling $37.8 million in the beverage container recycling program (mostly from an increase in projected recycling revenues). Table 1 displays the expenditures and staffing levels for the DOC from 1990-91 through 1992-93.

Table 1

Department of Conservation Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Geologic hazards and mineral resources conservation	$12,881	$14,133	$14,751	4.4%
Oil, gas, and geothermal protection	9,068	9,988	9,903	-0.9
Land resource protection	1,313	1,362	1,363	0.1
Beverage container recycling and litter reduction	325,336	309,467	347,233	12.2
Administration (distributed to other programs)	4,597	6,025	5,975	-0.8
Totals	**$348,598**	**$334,950**	**$373,250**	**11.4%**
General Fund	*$14,519*	*$14,292*	*$14,211*	*-0.6%*
California Beverage Container Recycling Fund (CBCRF)	*288,045*	*261,437*	*297,683*	*13.9*
Redemption Account, CBCRF	*32,424*	*14,150*	*22,500*	*59.0*
Glass Processing Fee Account, CBCRF	*4,867*	*33,880*	*27,050*	*-20.2*
Other state funds	*7,123*	*9,189*	*9,432*	*2.6*
Federal funds	*422*	*510*	*516*	*1.2*
Reimbursements	*1,198*	*1,492*	*1,858*	*24.5*
Personnel-Years	**513**	**562**	**564**	**0.4%**

Proposed expenditures in 1992-93 primarily consist of (1) $14.2 million from the General Fund, (2) $9.4 million from various special funds, (3) $347.2 million from various beverage container recycling funds, and (4) $1.9 million in reimbursements.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 7.5 percent from the General Fund in 1991-92. (This reduction is 0.4 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Status Report: Beverage Container Recycling Program

California's Beverage Container Recycling Program (BCRP) began in October 1987 after enactment of Ch 1290/86 (AB 2020, Margolin). The original goal of the program was to reach an overall beverage container recycling rate of 80 percent. By July 1991, the state's overall recycling rate had reached 75 percent. The department estimates that this rate will reach over 80 percent in 1991-92.

The program was significantly modified in 1991 by Ch 908/91 (AB 2212, Sher). Under the previous program, beverage distributors paid the department two cents for each redeemable container they sell in the state (called "redemption payments"). In turn, consumers could redeem any two eligible containers (including beer, soda, wine and distilled spirit cooler, and other containers) for a five-cent "refund value." However, this policy of "four cents paid in for every five cents paid out," coupled with the increased overall recycling rate meant that in the current year the department faced a likely shortage of funds in the Beverage Container Recycling Fund (BCRF) to pay refund values. Chapter 908 increased the redemption payment by distributors to match the refund value of five cents for two containers effective March 1, 1992.

In addition, Chapter 908 attempted to address the BCRF shortfall by (1) reducing litter abatement and education grants by $500,000 annually and convenience incentive payments by $3.5 million annually and (2) limiting the department's 1991-92 advertising budget to $2.8 million. These programs are funded by unclaimed recycling revenues (that is, from redemption payments on unrecycled containers) which are deposited in the Redemption Account in the BCRF.

At the time this analysis was prepared, the department expected the provisions of Chapter 908 to allow the BCRF to remain solvent in the current and budget years. (The budget projects that the Redemption Account will have a reserve of $62.9 million in 1992-93.) However, there was still some uncertainty because recycling rates could continue to increase prior to the redemption payment increase on March 1, 1992. Thus, the department advised that it may need to request a General Fund loan in the current year to cover this potential shortfall in the BCRF.

1992-93 Budget Proposal for the BCRP

The 1992-93 Governor's Budget shows program expenditures of approximately $347.2 million, including $321.8 million in funds continuously appropriated to the department for various activities, and an appropriation of $25.4 million for program support costs. According to the department, the continuously appropriated funds will be used to (1) pay refund values and non-glass processing-fee payments ($272.3 million), (2) support recycling incentive, contract and grant payments ($22.5 million), and (3) make glass processing fee and market development payments ($27.1 million). (Processing fees are paid to processors to cover the difference between the costs of recycling a container and the scrap value of the container. Market development payments are paid to container manufacturers and processors to promote the use of recycled crushed glass.)

The proposed budget for support of the BCRP reflects a net decrease of $144,000, or 0.6 percent, from estimated current-year expenditures. This is due primarily to the conversion of eight limited-term and contract positions to permanent positions, offset by various workload and administrative adjustments.

Department of Forestry and Fire Protection
Item 3540

Expenditures

Requested 1992-93	$378,622,000
Estimated 1991-92	386,006,000
Actual 1990-91	399,652,000
Requested decrease $7,384,000 (-1.9 percent)	

Fiscal Recommendations

Total recommended reduction	$13,016,000
Net increased General Fund revenues	5,326,000

MAJOR ISSUES

- **Fire Protection Fees.** The administration's proposal for fire protection fees has significant policy and fiscal implications for the Legislature to consider.
- **Timber Harvest Fees.** The Legislature can free up $5.3 million from the General Fund and $2.6 million from other funds by requiring the timber industry to pay the costs of regulation.
- **Equipment Replacement.** The department's multi-year project to upgrade fire protection equipment lacks a cohesive and sensible funding plan.

Findings and Recommendations

Analysis Page

1. **Fire Protection Fees Assumed.** The General Fund may face a shortfall of $12 million if legislation which would enact fire protection fees for state responsibility areas fails to pass. 42
2. **Timber Harvest Permit Fees. Net increased General Fund Revenues of $5.3 Million and Reduced Special Fund Costs of $2.6 Million. Increase Item 3540-001-001 by $2,610,000, and** 43

decrease (1) Item 3540-001-140 by $2,094,000 and (2) 3540-001-235 by $516,000. Recommend enactment of legislation to impose fees on timber operators to cover the state's costs of administering the Forest Practice Act, because industry which benefits from the regulation should pay the costs of such regulation.

3. **Bond Funds for Equipment Replacement Not Justified. Reduce Item 3540-001-786 by $13,016,000.** Recommend a reduction of $13 million because, based on the little information available on the proposed bond issue and expenditure plans, the funding source appears inappropriate. 44

General Program Statement

The California Department of Forestry and Fire Protection (CDF), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberland, rangeland, and brushland owned privately or by the state or local agencies. In addition, CDF (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

Overview of the Budget Request

The budget for the CDF proposes several changes in funding sources, including a new bond issue, to lessen reliance on general funds.

The budget requests $379 million from the General Fund ($254.4 million), various other state funds ($31.8 million), federal funds ($5.9 million) and reimbursements ($86.5 million) for support of the CDF in 1992-93. This is a decrease of $7.4 million, or 1.9 percent, from estimated current-year expenditures. Table 1 shows the department's expenditures by program, staffing levels, and funding sources for the past, current, and budget years.

Table 2 identifies, by funding source, proposed budget changes for the department in 1992-93. The major components of the net decrease in funding primarily consist of:

- A reduction of $10.5 million for one-time, nonemergency fire suppression costs in 1991-92 related to the drought.
- A reduction of $1.7 million due to elimination of one-time costs, the full-year effect of salary reductions for managers and other adjustments.
- $4.9 million for program changes, including $3.7 million for equipment, $490,000 for a new biological diversity program, $921,000 for workers' compensation increases, and a decrease of $100,000 in funding to combat Dutch Elm disease.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued

Table 1

Department of Forestry and Fire Protection Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Wildland fire protection and prevention	$153,796	$167,408	$166,304	-0.7%
Cooperative fire protection	98,372	112,200	105,954	-5.6
Conservation camps	50,486	53,431	53,564	0.2
Emergency fire suppression	70,825	22,000	22,000	—
Subtotals, fire protection and prevention	($373,479)	($355,039)	($347,822)	(-2.0%)
Forest practice regulation	6,744	8,064	8,046	-0.2
Other resource management programs	19,429	22,903	22,754	-0.7
Administration (costs distributed)	(25,930)	(25,213)	(25,289)	(2.0)
Totals	**$399,652**	**$386,006**	**$378,622**	**-1.9%**
General Fund	*$295,460*	*$264,680*	*$254,385*	*-3.9%*
Special Account for Capital Outlay	*8,044*	*10,530*	*1,187*	*-88.7*
Environmental License Plate Fund	*4,223*	*5,913*	*8,030*	*35.8*
California Wildland Protection Improvement and Modernization Bond Fund	—	—	*13,016*	—[a]
Other state special and bond funds	*7,023*	*10,161*	*9,575*	*-5.8*
Federal funds	*11,170*	*7,094*	*5,898*	*-16.9*
Reimbursements	*73,732*	*87,628*	*86,531*	*-1.3*
Personnel-Years	**4,441**	**4,648**	**4,507**	**-3.0%**

[a] Not a meaningful figure.

Table 2

Department of Forestry and Fire Protection Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	Special Funds	Federal Funds	Reim-bursements	Total
1991-92 Expenditures (Budget Act)	$255,415	$38,778	$7,094	$87,875	$389,162
Emergency Fund savings	-10,000	—	—	—	-10,000
Deficiencies					
Drought augmentation	18,355	—	—	—	18,355
Lack of fee legislation — fire protection	6,000	-6,000	—	—	—
Lack of fee legislation — forest practice	2,950	-2,950	—	—	—
Other adjustments					
Reduction per Sections 1.20 and 3.90	-8,021	—	—	—	-8,021
Air fleet replacement savings	—	-2,700	—	—	-2,700
Allocation for forest practice legislation	—	-500	—	—	-500
Miscellaneous	-19	-24	—	-247	-290
1991-92 Expenditures (revised)	$264,680	$26,604	$7,094	$87,628	$386,006
Baseline adjustments					
Assume operating costs of new conservation camps	$2,017	—	—	-$2,148	-$131
Drought augmentation for fire suppression, other one-time costs and adjustments	-10,639	-$532	-$1,196	130	-12,237
Subtotals, baseline adjustments	(-$8,622)	(-$532)	(-$1,196)	(-$2,018)	(-$12,368)
Program changes					
Increased funding for telecommunications and air fleet equipment	—	$3,673	—	—	$3,673
Reduced funding for Dutch Elm disease	—	-100	—	—	-100
Workers' compensation increase	—	—	—	$921	921
Biological diversity agreement	—	490	—	—	490
Operation of demonstration state forests fund shift	-$1,673	$1,673	—	—	—
Subtotals, program changes	(-$1,673)	($5,736)	(—)	($921)	($4,984)
1992-93 Expenditures (proposed)	$254,385	$31,808	$5,898	$86,531	$378,622
Change from 1991-92 (revised)					
Amount	-$10,295	$5,204	-$1,196	-$1,097	-$7,384
Percent	-3.9%	19.6%	-16.9%	-1.3%	-1.9%

The budget proposes several changes in funding sources for various programs. A multi-year equipment replacement program previously funded from the Special Account for Capital Outlay (SAFCO) is proposed to be funded in 1992-93 from a new bond fund proposed for the 1992 ballots. The Environmental License Plate Fund (ELPF) is proposed to fund the portion of the forest practice regulatory program previously funded from the Public Resources Account. The budget proposes to fund operation of state demonstration forests directly from the Forest Resources Improvement Fund (FRIF) instead of reimbursing General Fund expenditures from FRIF.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 6 percent ($15 million) from the General Fund in 1991-92. (This reduction is 4 percent of the department's total support budget from all funds, including reimbursements.) Of this amount, more than half ($7.9 million) was restored permanently in the current year through the Section 27.00 deficiency process to maintain fire protection services. The remaining reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Budget Assumes Legislature Will Enact Fire Protection Fees

The department is considering several options for raising revenue to partially offset the cost of fire protection services. The budget assumes fees will generate $12 million in revenues to the General Fund.

The budget indicates that legislation will be introduced to establish a fee that will partially offset the cost of fire protection in areas for which the state bears primary responsibility. These lands, known as state responsibility areas (SRAs), generally consist of all forestland, watersheds, and rangelands that are not owned by the federal government or located within the jurisdiction of a city. The budget assumes that the fee will generate $12 million, or about 5 percent of total proposed General Fund expenditures for fire protection services in 1992-93. The revenue appears in the CDF's budget as a transfer to the General Fund; therefore, failure to enact the legislation would pose a threat to the General Fund, not to the department's budget.

Recent attempts to pass legislation enacting fire protection fees have failed. Policy debates generally concern (1) whether exemptions should be given to property owners in the SRA who already pay fees to local fire districts, (2) what proportion of total fire protection costs the fees should cover, and (3) whether fees should be collected on the basis of acreage or level of improvements, or both. Most recently, the Legislature passed the

1991 Budget Act based on the assumption that fees would generate $12 million, of which $6 million would go to the General Fund and $6 million directly to the department for fire suppression activities. However, proposed legislation giving the department the authority to collect fees based on parcel size and improvements failed to pass, leaving a $6 million gap in the CDF's fire protection budget for 1991-92. The administration intends to fill this gap with General Fund monies through the Section 27.00 deficiency process.

At the time this analysis was prepared, the department had not decided on the specific approach for the new fee proposal for the budget year. According to the department, several options were under consideration, including alternatives to fees. The department advised that it was concerned with (1) the cost of implementation and (2) the potential inequities of a program of property assessments. As one alternative to property assessments, the department was considering the application of a surcharge on fire insurance premiums. Until the Legislature has more information concerning the approach that the department will take, there is no basis to evaluate either the merits of the proposal or the extent to which fire protection fees actually will result in the level of General Fund revenues projected in the Governor's Budget. A $12 million General Fund shortfall is likely without new revenues.

Timber Harvest Permit Fees

We recommend the enactment of legislation imposing fees or tax surcharges on timber operators to cover the department's cost of administering the Forest Practice Act. (Increase General Fund revenues by $7.9 million; reduce Item 3540-001-140 by $2.1 million and Item 3540-001-235 by $516,000).

Last year, we recommended the enactment of legislation imposing fees on timber operators to cover the General Fund costs of administering the Forest Practice Act. The Forest Practice Act prohibits timber harvesting unless harvest operations comply with a timber harvesting plan (THP) prepared by a registered professional forester and approved by the CDF director. The THP covers such matters as harvest volume, cutting method, erosion control measures, and special provisions for unique areas or wildlife that would be affected by harvesting operations. The CDF reviews THPs and conducts field inspections.

As part of the 1991-92 budget solution, the Legislature adopted a budget for the CDF that reflected this recommendation. Subsequent to passage of the budget, however, the legislation authorizing the fees to offset General Fund costs was not enacted.

Budget-Year Proposal. The 1992-93 budget proposes expenditures of $8 million for the forest practice regulatory program, including $5.3 million from the General Fund, $2.1 million from the Environmental License Plate Fund, and the remainder from various special funds and license fees. In addition, the budget states the administration's intent to (1) pursue legislation enacting timber harvest reform — currently referred to as the "Grand Accord" — and (2) fund the *incremental* cost of this reform from a surcharge on the timber yield tax. The budget does not propose, however, to fund the *base* costs of timber harvest regulation from the timber yield tax or from fees on THPs.

Fees or Surcharge to Cover Base Program Costs Still Justified. Our review indicates that the administration's 1992-93 funding proposal for timber harvest regulation does not go far enough in making the direct program beneficiaries — timber harvesters — pay for the full costs of the program.

If the department adopted a system of fees based on the acreage and type of timber covered by a THP, an average fee of around $24 per acre would raise sufficient revenue to offset 1992-93 General Fund and special funds costs for the base program. A fee of this magnitude would be relatively small compared to the revenue generated from harvesting timber.

Our analysis indicates, however, that based on a 1981 Attorney General opinion, the department currently does not have the authority to charge these fees. Consequently, we recommend enactment of legislation that would (1) provide the department with the authority to impose the fees (or timber yield tax surcharges) and (2) be consistent with the Legislature's actions in requiring that the cost of similar regulatory programs administered by other state agencies, such as the Department of Food and Agriculture and water quality control boards, be fully or partially reimbursed through industry fees and assessments. The General Fund revenues from fees would be $7.9 million annually; savings to special funds would total approximately $2.6 million annually.

General Obligation Bond Financing Proposal Incomplete

We recommend deletion of $13 million in new bond funds for telecommunications and air fleet equipment because the department's proposal does not (1) identify funding for its multi-year equipment replacement plan, (2) target bond expenditures to equipment whose use will exceed the life of the bond, and (3) provide sufficient detail to evaluate the appropriateness of bond expenditures for its fixed-wing replacement program. (Reduce Item 3540-001-709 by $13,016,000.)

We further recommend that the Legislature consider continuing to fund this program on a pay-as-you-go basis, in the absence of a reasonable bond proposal.

The budget proposes to issue $13 million in general obligation bonds to (1) replace two aircraft in the CDF's fixed-wing air fleet ($5 million), (2) retrofit three helicopters ($1.5 million), and (3) replace radio and telephone equipment and add additional equipment to the department's telecommunications network ($6.5 million). These requests represent one year of multi-year plans to renovate the department's air fleet and telecommunications system at a total cost of over $150 million.

Background. In 1990-91, the department proposed to purchase telecommunications equipment and replace a portion of its air fleet through revenue bonds. The department's justification for this proposal was that this equipment was similar to a capital good in that it had an extended life. At that time, however, our analysis identified two problems with the proposal. First, the type of bond which the department proposed to sell in order to purchase the equipment substantially increased the acquisition costs (due to the need to pay interest on the bonds) above other purchasing options, and the only "revenue" to pay off the bonds would be future General Fund appropriations. Second, some of the equipment proposed for purchase would be obsolete before the bonds were fully paid. Consequently, the CDF would likely be in the position of purchasing new equipment while continuing to pay for the old equipment. The Legislature rejected the department's revenue bond proposal and instead has been funding telecommunication and air fleet equipment purchases primarily from the Special Account for Capital Outlay (SAFCO).

Budget-Year Proposal. For 1992-93, the budget shifts funding of the equipment replacement program to the California Wildland Protection and Modernization Bond Fund, a general obligation bond measure proposed by the Administration for the November 1992 ballot. According to information available from the Administration, the entire bond proposal for CDF would total $20 million. In addition to $13 million in bonds for equipment, the budget proposes expenditures of $6.6 million in bond funds for capital outlay. (Our discussion of the capital outlay portion of this proposal is included in our analysis of the department's capital outlay budget). We have the following concerns with the Administration's bond proposal for CDF equipment.

Bond Issue for One Year of Multi-Year Plan Does Not Make Sense. The Administration has not provided details on the amount or terms of the proposed bond issue. As mentioned above, however, it is our understanding that the entire bond may not exceed $20 million, while the department's equipment proposals alone exceed $150 million. The budget reflects an amount sufficient only for the 1992-93 expenditures, and this amount would fully deplete the bond in one year. In our view, a bond proposal that funds only one year of a large multi-year program may result in no funds available to continue the program in future years. This is because, given the demands on SAFCO and other funds, once these funds have been deleted from the department's budget, it may prove difficult to get these funds in the future. Consequently, if the Administration proposes to permanently shift the equipment replacement program to bonds, the bond measure should be sized appropriately to pay the costs of the full replacement program.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—Continued

Some Equipment Will Be Obsolete Before Payments End. Our analysis indicates that only a portion of the equipment proposed to be acquired with bond proceeds is appropriate for bond fund purchase. Specifically, the budget proposes bond fund expenditures of (1) approximately $3 million for the purchase of radio towers, radio vaults and generators and (2) $1.5 million for retrofitting helicopters. This equipment has an expected useful life span of more than 20 years. Because the expected life of the equipment exceeds the usual term of the bond, purchase of this equipment with bond funds would be appropriate. The budget also proposes, however, $2.4 million for radios and mobile command centers, which have a useful life of only about 10 years. Because bonds generally are issued with a 20-year term, the department would pay for this equipment for twice as long as it could be used. Moreover, the CDF would have to purchase replacement equipment at additional cost while it continues to pay for the 1992-93 purchases. Consequently, our analysis indicates that bonds are not an appropriate source for purchase of this short-lived equipment.

Proposal for Fixed-Wing Air Fleet in Flux. At the time this analysis was prepared, the CDF indicated that it was in the process of revising the proposed fixed-wing aircraft replacement plan. The department has discarded its original plan, developed in 1989, to spend a total of $30 million over six years to purchase 17 new air tankers, 15 new air attack planes, and one high-altitude reconnaissance aircraft with infrared scanning equipment. After testing, the aircraft tankers and attack planes were found to be unacceptable. Under the revised plan, the department intended to spend a total of $43.8 million over 10 years to (1) retrofit 14 S-2 air tankers, (2) remanufacture 15 O-2 air attack planes and equip them with infrared cameras and telecommunications equipment, and (3) buy the high-altitude aircraft. The CDF planned to spend $2.3 million (SAFCO) in the current year for work on one air tanker and two air attack planes, and $5 million (bond funds) in 1992-93 for work on two air tankers.

Since that plan was developed, however, the CDF has been looking at alternatives which include (1) full-service contracts for planes, pilots, and service and (2) a mix of retrofitting aircraft, purchasing military surplus aircraft and contracting for pilots and service. The department indicates that it will issue a revised plan in early February.

Although bond financing is more expensive than pay-as-you-go financing, the use of general obligation bonds makes sense for purchasing or remanufacturing aircraft with a useful life of at least 20 years. However, our analysis indicates that bond funds are unlikely to be appropriate sources of funding for contract services. Without further details, the Legislature has no basis for determining whether bond financing is appropriate for the fixed-wing program.

Conclusion. Although the request for new telecommunications, rotary-wing, and fixed-wing equipment appears reasonable programmatically and has been funded previously by the Legislature on a pay-as-you-go basis, we find the current financing proposal inadequate in several respects. Consequently, we recommend that the Legislature reject the department's proposal and reduce the CDF's 1992-93 equipment replacement budget by $13 million. In recognition that the purchases proposed by the CDF are, in general, justified on a programmatic basis, we recommend that the Legislature consider continuing to fund the equipment replacement program on a pay-as-you-go basis, until such time as the Administration is able to design an appropriate bond program. Appropriate fund sources for a pay-as-you-go program include SAFCO, the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund, and the General Fund.

Capital Outlay

The Governor's Budget proposes an appropriation of $6.9 million in Item 3540 for capital outlay expenditure in the CDF. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

State Lands Commission
Item 3560

Expenditures

Requested 1992-93	$18,301,000
Estimated 1991-92	18,487,000
Actual 1990-91	19,473,000
Requested decrease $186,000 (-1.0 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The State Lands Commission is responsible for the management of sovereign and statutory lands that the state has received from the federal government. These lands total more than four million acres and include tide and submerged lands, swamp and overflow lands, the beds of navigable waterways and vacant state school lands.

STATE LANDS COMMISSION—Continued

Primarily, the commission: (1) leases land under its control for the extraction of oil, gas, geothermal, and mineral resources; (2) exercises economic control over oil and gas development of the tidelands granted to the City of Long Beach; (3) oversees management of other state lands, including school lands; and (4) administers regulations and policies for operation of marine facilities in the state to protect against oil spills.

Overview of the Budget Request

The budget proposes only minor workload and program changes for the State Lands Commission.

The budget proposes expenditures totaling $18.3 million for support of the State Lands Commission in 1992-93. This is a decrease of $186,000, or 1 percent, from estimated current-year expenditures. The decrease is the net result of (1) baseline reductions totaling $884,000 and (2) workload, administrative, and program increases totaling $698,000. Most of the increases are for the marine facilities management program, which is funded entirely from oil industry fees.

Proposed expenditures consist of $11.4 million from the General Fund, $4.7 million from state special funds, and $2.2 million in reimbursements. The proposed General Fund appropriation overstates the General Fund's commitment to this program. This is due to existing law and provisions in the Budget Bill that entirely offset the General Fund appropriations to the commission with transfers to the General Fund of tidelands oil revenues ($10.2 million) and state school lands revenues ($1.2 million). The commission's cost, therefore, actually is at the expense of the Special Account for Capital Outlay (SAFCO) and the State Teacher's Retirement Fund (STRF), which otherwise would receive these revenues. The transfer from tidelands oil revenues covers the cost of overseeing oil and gas operations on state lands and the commission's general activities. The transfer from school lands revenues covers the cost of managing those lands.

The commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. (This reduction is 11 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Tidelands Oil Revenues

The commission generates significant state revenue from the development and extraction of oil, gas, geothermal energy, and other resources on state lands. Most of this revenue is from oil (and some gas) production on state tide and submerged lands along the coast of southern California.

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 for production of oil. The state receives the net profits from the sale of the oil after deductions for operating expenses, taxes, investments, and distributions to the oil companies and the city. 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 associated with the oil production there.

Until recently, oil production at Long Beach was carried out by a consortium of oil companies known as THUMS. Chapter 941, Statutes of 1991 (AB 227, O'Connell), authorized the commission to negotiate a new contract for an "optimized waterflood" program to recover an increased amount of oil from the granted tidelands. The commission reports that it has negotiated a contract with the Atlantic Richfield Company (ARCO), which now is sole owner of THUMS, to manage the Long Beach oil field. Pursuant to the intent of Chapter 941, ARCO also has dropped its $1 billion lawsuit against the state regarding the development of oil leases at Coal Oil Point near Santa Barbara. The commission is working with ARCO to implement the optimized waterflood program at Long Beach.

Royalty Production. In addition, the state has leased tidelands for oil production along the coasts of Orange, Ventura, and Santa Barbara Counties. On these statewide leases, the lessees pay a royalty to the state, based on the value of the oil produced.

Revenues in 1991-92. The budget estimates that the state will receive $263 million in tidelands oil and gas revenues in the current year. This estimate is based on the state's receiving (1) $202 million in one-time settlement payments from oil antitrust suits and other litigation and (2) $61 million in new tidelands oil revenues in 1991-92. The budget's current-year estimate is $59 million lower than the new oil revenues reflected in the 1991 Budget Act.

Revenues in 1992-93. The budget projects that tidelands oil and gas revenues will total $66 million in the budget year. This projection is based on the state's receiving (1) $8.5 million in one-time settlement payments from oil price-fixing litigation and (2) $57.5 million in new tidelands revenues in 1992-93. The new revenues are based on Long Beach and Santa Barbara oil prices of $15 per barrel and $12 per barrel, respectively. In addition, these revenues reflect the assumption that tidelands oil production will continue to decline by at least 8 percent from 1991-92 to 1992-93, a rate consistent with past experience.

Commission staff advise that, because of events in the Middle East and other factors that can affect oil prices, the future prices are uncertain. (Recent prices reflect the unstable nature of this market; the actual Long Beach oil price has ranged from $10.50 per barrel in July 1990 to $30 in October 1990, then back down to $11.20 in January 1992.) Staff indicate that the commission will update its tidelands oil revenues estimates for both the current and budget years at the time of the May revision.

We discuss the proposed allocation of tidelands oil and gas revenues in our analysis of Section 11.50 of the Budget Bill, in the back portion of this document.

School Lands Revenues

The commission estimates that it will receive $4.3 million in revenues from geothermal and other royalties and from land rentals in 1992-93 from "state school lands" — that is, lands that were granted by the federal government to the state in 1853 to help support public education. Essentially, all revenues from school lands, less the commission's cost to manage the lands, are deposited into the STRF. The budget proposes to deposit $1.2 million of this revenue in the General Fund to cover the commission's cost of managing the state school lands in 1992-93. The remaining $3.1 million will be deposited in the STRF.

Elk Hills Settlement. The budget also reflects the state's receipt of $45 million in new oil revenues from the federal government. These revenues are attributed to a proposed settlement of longstanding litigation against the federal government over title to school lands within the Elk Hills Naval Petroleum Reserve in Kern County. Any settlement first would require approval by the U.S. Congress and the President.

Under existing law, any revenues received as a result of the state's claim on these lands are to be deposited in the School Land Bank Fund, with the interest on these deposits to be transferred to the STRF. The budget proposes, however, to transfer the $45 million in settlement funds to the General Fund in 1992-93, through unspecified legislation. At the time this analysis was prepared, it appeared unlikely that the state actually would receive this $45 million from the federal government in the budget year. (Please see our analysis of Item 1920, the State Teachers' Retirement System, for additional discussion of this issue.)

Seismic Safety Commission
Item 3580

Expenditures

Requested 1992-93	$1,702,000
Estimated 1991-92	1,349,000
Actual 1990-91	1,294,000
Requested increase $353,000 (+26.0 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Seismic Safety Commission was established to improve earthquake preparedness and safety in California. The commission is responsible for providing a consistent policy framework for earthquake-related programs throughout state government. The commission performs policy studies, reviews programs, investigates earthquake incidents, and conducts hearings on earthquake safety.

Overview of the Budget Request

The commission's budget for 1992-93 reflects various workload changes of a one-time nature, resulting in a net increase of $353,000 (26 percent). These changes include the following:

- An increase of $478,000 from reimbursements and 1 personnel-year to revise and distribute a homeowner's guide to earthquake safety booklet, as required by Ch 699/91 (AB 200, Cortese).
- An increase of $174,000 from reimbursements and 1 personnel-year to develop and distribute a commercial property owner's guide to earthquake safety booklet required by Ch 859/91 (AB 1968, Areias).
- A transfer of $100,000 from the Earthquake Safety and Public Building Rehabilitation (bond) Fund of 1990 to the Earthquake Emergency Investigations Account, Natural Disaster Assistance Fund, for investigations in the immediate aftermath of damaging earthquakes.
- A decrease of $481,000 due to the one-time expenditure in the current year of monies from the earthquake safety bond fund for research related to the purposes of the bond act.

SEISMIC SAFETY COMMISSION—Continued

The commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Department of Fish and Game
Item 3600

Expenditures

Requested 1992-93	$167,588,000
Estimated 1991-92	165,363,000
Actual 1990-91	118,328,000
Requested increase $2,225,000 (+1.3 percent)	

Fiscal Recommendations

Total recommended reduction	$2,570,000

MAJOR ISSUES

- **Revenue Projections.** The department's revenue projections are much improved over previous years, but without legislative action, the department could end the budget year in deficit.
- **Cantara Loop Spill Damage Assessment.** The budget proposes that the Fish and Game Preservation Fund undertake the risk of funding the costs ($8.6 million for 1991-92 through 1992-93) of damage assessment related to a major chemical spill, although these costs should be supported by other funds. It is uncertain when — and if — the state will recover these costs from the responsible party.

Continued

► **Natural Communities Conservation Planning.** The Department of Fish and Game is proposing a pilot project for a new bioregional approach to species protection which tries to do too much too soon, at a cost of $1.8 million to the Environmental License Plate Fund.

Findings and Recommendations

Analysis Page

1. **Revenue Picture for the Budget Year.** The department's current-year revenues are tracking well with projections, but positive fund conditions depend on legislative action for the current and budget years. 57
2. **Cantara Loop Spill Damage Assessment.** The Legislature has two alternatives to more appropriately fund damage assessment costs related to the spill in a way that avoids an inappropriate use of the Fish and Game Preservation Fund (FGPF). Both options involve difficult choices for the Legislature. 59
3. **Natural Communities Conservation Planning. Reduce Item 3600-001-140 by $1,750,000.** Recommend deletion of $1,750,000 from the Environmental License Plate Fund (ELPF) for a major new initiative because the proposal does not provide for cost reimbursement, as required by law, and does not meet the criteria for a pilot project. 61
4. **County Payments in Lieu of Taxes. Reduce Item 3600-001-200 by $520,000.** Recommend (1) deletion of $520,000 from the FGPF for in lieu payments to counties for real property acquisitions and (2) enactment of legislation repealing the requirement for these payments because no other property-holding state agency is required to pay fees in lieu of property taxes. 63
5. **Marine Facilities Inspection Program. Reduce Item 3600-001-320.** Recommend a reduction of $100,000 from the Oil Spill Prevention Account fund for an additional marine facility inspector because the duties already are performed by another agency. 64
6. **Oil Spill Program.** Recommend adoption of Budget Bill language prohibiting the Department of Fish and Games's use of funds for programs that duplicate the activities of the State Lands Commission. 64

DEPARTMENT OF FISH AND GAME—Continued

7. **Salton Sea Study. Reduce Item 3600-001-200 by $50,000 and Item 3600-001-890 by $150,000.** Recommend deletion of funds for a contract study of fish survival in saline conditions because the costs are not justified. 65

General Program Statement

The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish and wildlife resources of the state. The Fish and Game Commission sets policies to guide the department in its activities, and regulates the sport taking of fish and game. The department currently manages approximately 160 ecological reserves, wildlife management areas, habitat conservation areas, and interior and coastal wetlands throughout the state.

Overview of the Budget Request

Deletion of significant one-time costs (primarily related to the drought) and increases for several major new program initiatives will leave the department's overall expenditure level virtually unchanged in the budget year.

The budget proposes total expenditures of $168 million from all sources for support of the DFG in 1992-93. This is an increase of $2.2 million, or 1.3 percent, over estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 21 percent from the General Fund in 1991-92. (This reduction is less than 1 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Table 2 shows the changes in the department's budget for 1992-93. As the table shows, the budget proposes program changes totaling $22.4 million, offset by baseline reductions totaling $20.2 million. Among the major new and enhanced program proposals are:

- Increased spending ($3.8 million) for damage assessment work (primarily studies) related to the Southern Pacific railcar spill of metam sodium into the upper Sacramento River at the Cantara Loop bridge in July 1991.

Table 1

Department of Fish and Game Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Enforcement	$24,710	$29,602	$30,482	3.0%
Administration (distributed to other programs)	22,669	24,834	27,021	8.8
Licensing	3,334	—	—	—
Wildlife and Natural Heritage Management	(24,896)	24,375	31,931	31.0
Wildlife management	16,086	—	—	—
Natural heritage	8,810	—	—	—
Fisheries Management	(50,659)	60,771	63,857	5.1
Inland fisheries	17,487	—	—	—
Anadromous fisheries	23,593	—	—	—
Marine resources	9,579	—	—	—
Environmental Services	10,226	36,658	29,048	-20.8
Oil Spills Prevention and Response	4,382	13,835	12,149	-12.2
Loan Repayment	121	121	121	—
Totals	**$118,328**	**$165,363**	**$167,588**	**1.3%**
Fish and Game Preservation Fund (FGPF)	*$59,487*	*$68,657*	*$80,056*	*16.6%*
Dedicated	*(7,960)*	*(11,235)*	*(11,293)*	*0.5*
Nondedicated	*(51,527)*	*(57,422)*	*(68,763)*	*19.8*
General Fund	*4,837*	*17,054*	*4,187*	*-75.4*
Environmental License Plate Fund	*16,377*	*12,588*	*15,969*	*26.9*
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	*6,335*	*4,687*	*6,864*	*46.4*
Oil Spill Prevention and Response Fund	*4,382*	*13,836*	*12,149*	*-12.2*
Federal funds	*17,862*	*24,515*	*26,991*	*10.1*
Other special funds (includes bond funds)	*1,872*	*8,098*	*4,258*	*-47.4*
Reimbursements	*7,536*	*15,928*	*17,114*	*7.4*
Personnel-Years	**1,658**	**1,961**	**2,104**	**7.3%**

DEPARTMENT OF FISH AND GAME—Continued

Table 2

Department of Fish and Game Proposed 1992-93 Budget Changes

(dollars in thousands)

	Fish and Game Preservation Fund	State Special Funds and General Fund	Federal Funds & Reimbursements	Total
1991-92 Expenditures (Budget Act)	$66,995	$42,482	$40,128	$149,605
Adjustments 1991-92				
Drought funding and other legislation	400	14,009	120	14,529
Cantara Loop spill damage assessment	2,000	500	252	2,752
Miscellaneous adjustments	-738	5	-57	-790
Unallocated reductions	—	-733	—	-733
1991-92 Expenditures (rev.)	$68,657	$56,263	$40,443	$165,363
Baseline adjustments				
Back-out drought funding and other legislation	-400	-14,009	-120	-14,529
Restore baseline funding	582	—	—	582
Other baseline adjustments	-158	-1,519	-4,593	-6,270
Subtotals, baseline adjustments	($24)	(-$15,528)	(-$4,713)	(-$20,217)
Program changes				
Increase damage assessment — Cantara Loop spill	$4,571	-$500	-$252	$3,819
O&M of departmental lands	1,200	1,056	—	2,256
Fund in-lieu payments to counties	1,811	—	—	1,811
Natural communities conservation planning	—	1,750	—	1,750
Trinity River restoration	—	1,500	—	1,500
Oil spill program changes	—	1,300	—	1,300
Comprehensive wetlands program implementation	—	500	$650	1,150
Bay protection and toxic cleanup	—	—	1,500	1,500
EIR preparation and CEQA review	605	275	—	880
Hatchery augmentation	580	—	—	580
Miscellaneous program changes	2,608	-3,189	6,477	5,896
Subtotals, program changes	($11,375)	($2,692)	($8,375)	($22,442)
1992-93 Expenditures (prop.)	**$80,056**	**$43,427**	**$44,105**	**$167,588**
Change from 1991-92 (rev.)				
Amount	$11,399	-$12,836	$3,662	$2,225
Percent	16.6%	-22.8%	9.1%	1.3%

- Increased funding ($2.3 million) to provide greater staffing and maintenance of department-managed lands.
- New funding totaling $1.8 million to "catch up" on the department's required payments to counties in lieu of property taxes for lands acquired by the department.
- Funding of $1.8 million to implement a new natural communities conservation planning program authorized by Ch 765/91 (AB 2172, Kelley) as part of the Governor's biodiversity management initiative.

Analysis and Recommendations

Revenue Picture for the Budget Year

The budget estimates of the fee and tax revenues used to support the DFG are reasonable, but the budget's estimates of positive year-end fund conditions rely on legislative action to (1) extend increased commercial fishing fees and (2) approve a loan to the Fish and Game Preservation Fund for extraordinary one-time costs. Without these actions, the department could end the budget year with a negative fund condition.

About half of the department's budget is supported by the Fish and Game Preservation Fund (FGPF). This fund receives revenues from hunting and fishing licenses and taxes, commercial fishing permit fees, and environmental review fees paid by project proponents. Most of these revenues are deposited in the nondedicated account of the FGPF (known as the FGPF-ND), which primarily is used to support programs related to hunting and fishing, but also supports some environmental programs as a result of revenues from environmental review fees.

Reliability of Revenue Estimates. In the past, we have criticized the department for not providing reliable revenue estimates on which the Legislature could base expenditure decisions. However, the department initiated a new revenue estimate methodology in May 1990, which has overcome its past practice of generally overestimating revenues in order to support expenditures proposals. Nevertheless, our analysis indicates that there remains enough uncertainty in the DFG's revenue estimates that shortfalls could occur. Under certain circumstances, these shortfalls could be significant enough to result in an end-of-budget-year deficit in the FGPF-ND, given the Governor's proposed spending plan. We discuss below the two types of revenue which are particularly vulnerable to shortfalls.

Commercial Fishing Revenue Projections Assume Extension of Fee Authority. According to departmental data, commercial fishing revenues have come in slightly lower (1.3 percent) than projected through November 1991. The current structure of commercial fishing licenses is a result of recent legislation [Ch 1703/90 (AB 2126) and Ch 80/91 (AB 63), both Felando].

Therefore, revenue projections are more difficult for this revenue category because the department does not have baseline data from which to make direct estimates. Our review indicates that, while the department has developed a reasonable approach for estimating these revenues in the absence of solid historical trend data, a great deal of uncertainty still exists as to whether actual revenues will track to departmental estimates.

The most immediate risk to the DFG's revenue estimates concerns the expiration of the current license structure for commercial fishing. Fee authority enacted in AB 2126 generally expired January 1, 1992, and commercial fish business license fees extended in AB 63 sunset in January 1993. The Governor's Budget, however, assumes that the commercial fishing license structure in place in December 1991 continues through the budget year. If legislation is not enacted to extend the department's fee authority, the department will experience a $1.8 million revenue shortfall over the current and budget years. This amount includes (1) $591,000 in lost AB 2126 revenues in both 1991-92 and 1992-93 and (2) $663,000 in estimated commercial fish business license fees under AB 63.

Environmental Review Fee Revenue Estimates May Be High. Chapter 1706, Statues of 1990 (AB 3158, Costa), allows the department to charge proponents of projects or activities subject to review under the California Environmental Quality Act a fixed fee to cover the costs of conducting the department's environmental reviews as well as engaging in general resource protection. The department projects that it will receive $4.8 million in environmental review fee revenue in the budget year. Our review indicates that the department's estimating methodology is generally reasonable, but may lead to overly optimistic revenue estimates for budgeting purposes, given the fee's brief revenue history and the significant problems the department has encountered in implementation and enforcement of the fee. In addition, the DFG's estimate relies on expected payment of fees — accounts receivable — which could create cash flow problems for the department. According to DFG staff, there frequently is a 30- to 80-day time lag between the time a Notice of Determination (NOD) for a project is filed and receipt of the filing fee by the DFG. Thus, while the department counts as revenue in the current year all fees expected to be owed for projects with NODs through June 30, 1992, much of this revenue may not be received until well into the budget year. The same is true for revenues in 1992-93.

Consequently, despite the department's progress in implementing the fee, there is significant uncertainty that the revenues will actually materialize as the department anticipates. Our review of the cumulative cash receipts and accounts receivable statements indicates that a more conservative projection would be approximately $4.4 million in revenues each year, or $400,000 less than the DFG estimates ($800,000 less over the two-year period).

One-Time Infusion of Funds Proposed From 8(g) Fund. The Governor's Budget proposes a one-time transfer of $8.6 million from the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund (known as the 8(g) Fund) to the FGPF in 1992-93. (The purpose of this transfer is covered in more detail below in our discussion of the department's damage assessment proposal for the Cantara Loop spill.) In the absence of this transfer, the department's proposed budget year expenditures ($71.2 million from the FGPF-ND) would result in the fund ending 1992-93 with a deficiency of about $3.8 million. This potential deficit is partially a result of the department's plans to initiate or expand FGPF-supported programs by over $11 million in 1992-93.

Conclusion. In general, the department's revenue estimates have improved. However, the positive fund condition proposed in the Governor's Budget is due partially to optimistic assumptions on the part of the department for statutory changes and timely fee collections. If these assumptions do not prove true, the department could face revenue shortfalls of up to $2.6 million through the budget year. Assuming adoption of the department's proposed expenditure plan, this would leave the FGPF-ND with budgeted reserves of only $2.1 million, or 3 percent, at the end of 1992-93 — in our opinion too low a level given the volatile nature of this fund over the last several years. Moreover, to the extent that the Legislature does not approve the transfer of monies from the 8(g) Fund to the FGPF-ND, an actual gap between revenues and expenditures could occur. At its worst, this gap could total as much as $6.5 million and would require approximately $10 million in program reductions to bring the budget into balance and establish a reserve totaling 5 percent of expenditures.

State to Shoulder Major Up Front Costs for Legal Response to Rail Spill

The Legislature has two options for funding damage assessment costs related to the Cantara Loop spill in a way that avoids an inappropriate use of the FGPF.

The DFG is the lead agency for response to the chemical spill, known as the Cantara Loop spill, that damaged aquatic life along 45 miles of the Sacramento River above Lake Shasta. The spill occurred last summer after a Southern Pacific train derailed at the Cantara Loop bridge in Siskiyou County spilling the chemical metam sodium directly into the river. The DFG already has incurred immediate cleanup and response costs for which the Southern Pacific Transportation Company has provided partial reimbursement.

In addition to clean-up activities, the DFG is the lead agency for (1) assessing the damage to natural resources and (2) overseeing restoration of these resources. The lead agency also shoulders the burden of costs incurred in recovering damages from the responsible party. The department estimates that completing the damage assessment and planning for restoration will cost a total of $17.4 million over as much as 10 years, with the majority of the costs incurred in the first three years. The $17.4 million includes $3.9 million for staff costs and $13.5 million for contract studies.

Current-Year Budget Impact. The department proposes to begin the damage assessment process in the current year through deficiency funding totalling $2.5 million from the FGPF-ND ($2 million) and the Fish and Wildlife Pollution Cleanup and Abatement Account ($500,000). These funds would be used to add 12 permanent positions, purchase equipment, and contract for damage assessment studies.

Budget-Year Proposal. For 1992-93, the Governor's Budget proposes total expenditures of $6.6 million from the FGPF-ND for the department's damage assessment efforts. This amount consists of approximately $800,000 for support of department staff and $5.8 million for continued support of contract studies. The budget proposes a loan of $8.6 million from the 8(g) Fund to the FGPF-ND in 1992-93, to cover the department's FGPF costs in the current and budget years related to the spill. The budget does not provide, however, for a specific repayment schedule. Without this loan, the department would need to reduce other 1992-93 proposed augmentations by at least $7.4 million (assuming a 5 percent reserve in the FGPF-ND), or cut base expenditures by a like amount.

Proposed Funding Mechanism Flawed. Since the transfer of funds from the 8(g) Fund to the FGPF-ND in the budget year is a loan, the FGPF-ND ultimately would bear responsibility for repaying the loan to the 8(g) Fund. Due to the FGPF's restricted uses and declining revenue base it does not appear reasonable to rely on this fund to (1) support all of the up front deficiency costs or (2) bear the full burden of risk in the event that Southern Pacific does not reimburse the state for the full costs of damage assessment. Under current law, the FGPF must be used to support programs primarily of benefit to hunters and fishers. However, the damage created by the spill was not limited to game species. The spill affected wildlife and vegetation generally in the area. Also, hunting and fishing revenues to the FGPF are declining over time which means there will be less money in the fund in the future to repay the loan from the 8(g) Fund should Southern Pacific not pay the full costs. Therefore, it seems more appropriate that the Legislature take one of two alternative approaches:

- ***Fund the damage assessment program from the Hazardous Substance Account (HSA).*** The HSA, administered by the Department of Toxic Substances Control (DTSC), provides funds for, among other things, (1) the clean-up of sites where hazardous substances have been released and (2) the costs of damage assessments related to a hazardous substance release. Our review indicates that on a programmatic basis, this is an appropriate fund to finance the Cantara Loop spill damage assessment costs. We estimate, however, that based on the Governor's

Budget proposal, the HSA will end 1992-93 in the red. Consequently, to fund the DFG's Cantara Loop spill costs from this source, the Legislature would have to make even deeper cuts in the DTSC's budget than it already must make. (For more information on the condition of the HSA, please see our analysis of Item 3960 — The Department of Toxic Substances Control.)

- ***Fund the costs directly from the 8(g) Fund.*** Alternatively, the Legislature, rather than providing a loan to the FGPF-ND from the 8(g) Fund for these costs, could fund the costs of the Cantara Loop spill damage assessment directly with an appropriation from the 8(g) Fund. Presumably, when and if Southern Pacific makes damage payments to the state, the 8(g) Fund would be repaid.

Budget Proposes Special Funds — Not Fees — For Support of Major New Initiative

We recommend deletion of $1.8 million from the ELPF proposed to fund development of the state's first natural community conservation plan because (1) the department does not include a cost-reimbursement schedule as required in legislation and (2) the proposed spending plan exceeds the parameters of a pilot project. (Reduce Item 3600-001-140 by $1,750,000.)

Background. Chapter 765, Statutes of 1991 (AB 2172, Kelley) — known as the Natural Community Conservation Planning Act — authorized the DFG to assist public and private agencies in preparing and implementing natural community conservation plans (NCCPs) to provide protection for wildlife species in areas proposed for development. The plans are intended to provide frameworks early in the proposed development process for protection of species and their habitats that make up a natural community. The measure authorizes the DFG to adopt non-regulatory guidelines for the development and implementation of the plans. The measure does not exempt projects from the requirements of the CEQA, although the measure is designed, in the long run, to shorten the CEQA process for individual projects. Chapter 765 requires that the DFG be fully compensated for its costs in assisting the NCCP process.

For the current year, the DFG and the Resources Agency absorbed the initial costs of implementing the program. Current-year activities involved (1) organizing interested parties for a "pilot project" in Southern California, (2) appointment of a scientific review panel and an advisory committee, (3) appointment of legal counsel, and (4) signing of a cooperative agreement between the DFG and the U.S. Fish and Wildlife Service.

Budget Year Proposal. For 1992-93, the budget requests $1.8 million from the Environmental License Plate Fund and 29 permanent positions (27.5 personnel-years) for (1) resources inventory and preliminary planning, (2) mitigation negotiations and agreements, (3) scientific monitoring and threat assessment, and (4) statewide coordination and oversight. According to the department, these costs are associated with implementing a pilot project that focuses on coastal sage scrub habitat stretching along the coast from the Mexican border into Ventura County. We have the following two concerns with the department's proposal.

Contrary to Statute, Proposal Does Not Provide for Cost Reimbursement. Chapter 765 requires that the DFG be fully compensated for its actual costs to participate in the preparation and implementation of an NCCP. These costs may include: consultation; compiling and providing habitat data; plan review and approval; monitoring of plan implementation; and "other activities necessary to the preparation and implementation of a plan." The department's proposal, however, includes no fees or other method of recouping costs. According to the DFG, requiring project proponents to compensate the DFG for an NCCP may reduce the number of individuals or firms who wish to participate, given the significant costs project proponents currently may face under CEQA. Nevertheless, Chapter 765 is clear in its direction that the department should be fully reimbursed for its costs. Moreover, it makes sense for project proponents to pay for the costs of this program since, in the long run, it is designed in part to benefit them by shortening the CEQA process.

Proposal Does Not Include Basic Elements of Pilot Project. In our view, a proposal to implement any new program on a pilot project basis should include several elements. Specifically, the proposal should:

- Be limited in scope and site-specific.
- Include measurable goals and objectives, and a timeline for project evaluation.
- Terminate on a certain date, thereby requiring the department to justify the continuation or expansion of the project.

This proposal, however, does not include these elements. For example, the proposal requests permanent, not limited-term, positions and does not include goals and objectives by which the success of the project can be evaluated. In addition, the proposal requests funds for activities that are not strictly associated with the pilot project. The department indicates that these funds would meet more general biodiversity and conservation program needs as well as statewide implementation of the NCCP program. In our view, it makes sense to initiate this innovative program with a pilot project. But the purpose of a pilot project is to determine whether — and in what form — a program can be implemented successfully on a wider basis, by first showing that the project is successful. Consequently, we do not believe that the department's request for permanent funds and staffing for this program is warranted at this time.

Conclusion. Because the proposal does not include a reimbursement plan and tries to do too much too soon, we recommend that the Legislature delete funding for this program until the department provides a more reasonable plan which (1) fully justifies the proposed pilot project costs, (2) includes measurable goals and objectives, and (3) provides for a reimbursement schedule or other funding alternative through which the department can recoup its costs. Consequently, we recommend deletion of the $1.8 million that the DFG proposes to spend on pilot implementation.

Budget Proposes "Catch-Up" Program for County Payments

We recommend the enactment of legislation repealing the requirement that the department make payments in lieu of taxes to counties in which the department holds lands, as this requirement is inconsistent with state law regarding other property-holding state agencies. (Reduce Item 3600-001-200 by $520,000.)

Current law (Fish and Game Code Section 1504) requires the department to provide in-lieu payments to counties for real property acquired and operated by the state as wildlife management areas. Until the current year, the department was able to keep current with a portion of the in-lieu fee obligation through a baseline redirection of resources. In the current year, however, the Legislature deleted these funds from the department's budget because (1) the department was experiencing significant shortfalls in FGPF-ND revenue relative to its overall expenditure plan and (2) no other department was required to make such payments for lands it owned and managed.

For 1992-93, the budget proposes $1.8 million from the Fish and Game Preservation Fund for payments to counties as compensation for property tax losses incurred when the state acquired property for wildlife habitat. This amount consists of $1.3 million for payment in arrears (from 1988-89 through 1991-92) of in-lieu obligations, and $520,000 to establish an ongoing base expenditure for in-lieu payments beginning in 1992-93.

In-Lieu Payment Requirement Not Applied Across Departments. A number of state agencies own and manage property on behalf of the state. For example, the Department of Parks and Recreation owns and manages state holdings of parks, beaches, and recreation areas; the Department of Forestry and Fire Protection owns and manages the state forests; and Caltrans owns highway rights-of-way around the state. None of these departments, however, must pay fees in-lieu of property taxes to counties in which they hold lands. In fact, our analysis indicates that the DFG is the only large state property owner where current law requires such a payment.

In our view, there is no analytical reason to treat this department differently from other state departments with respect to its land holdings. Consequently, we recommend the enactment of legislation repealing the requirement that the DFG pay to counties fees in lieu of taxes for the property it holds. Consistent with this recommendation, we also recommend that the Legislature reduce by $520,000 the amount requested in the Budget Bill from the FGPF for support of these payments beginning in 1992-93. We recommend approval, however, of the $1.3 million requested for payment in arrears through the current year, as this amount represents an obligation of the department under current law.

Marine Facilities Inspection Program Overbudgeted

We recommend a reduction of $100,000 and one personnel-year requested from the Oil Spill Prevention and Administration Fund for marine facility inspections because this position is not necessary. (Reduce Item 3600-001-320 by $100,000.)

The budget proposes an additional $606,000 for six inspectors in the marine facility and vessel inspection program in the department's Office of Oil Spill Prevention and Response in 1992-93. These positions are intended to supplement the existing 12 fish and game warden positions that were funded when the office was established last year. The department indicates that its actual field experience in this program has provided a better estimate of the inspection workload. In addition, the department reports that it now recognizes the need for specific technical expertise which the wardens in the inspection program do not have.

Our review of this proposal indicates that, in general, the new positions appear justified. However, roughly one-sixth of the workload identified for these positions is for marine facility inspection activities currently performed by staff of the State Lands Commission under its own oil spill prevention program. For instance, the department proposes that the new inspectors conduct annual reviews of marine terminals and offshore oil platforms. These reviews already are done on a routine basis by commission inspectors. Consequently, we recommend the deletion of $100,000 requested for one personnel-year ($52,000) and associated expenses ($48,000) for the department's marine facilities inspection program, as this position is not necessary.

Clarification Needed On Inspection Program Duties

We recommend the adoption of Budget Bill language to specify that the department may not expend funds on oil spill prevention activities that are under the jurisdiction of the State Lands Commission.

The *Supplemental Report of the 1991 Budget Act* expresses legislative intent that the programs of the Department of Fish and Game, the State Lands Commission, and other state agencies that implement the Lempert-Keene-

Seastrand Oil Spill Prevention and Response Act not duplicate or overlap each other. In addition, the Legislature directed the Secretary for Resources to report by January 1, 1992 on the status of the coordination of these agencies' programs to minimize duplication of effort.

At the time this analysis was prepared, the Resources Agency had not yet submitted this report. However, in light of the department's 1992-93 budget request for additional inspectors, as discussed above, it is clear that the potential still exists for duplication or overlap within the state's various oil spill programs. Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 3600-001-320 to clarify the department's use of oil spill funds and thus minimize this potential.

> None of the funds appropriated in this item shall be expended by the Department of Fish and Game for inspection of marine terminals or marine facilities, as defined in Public Resources Code Section 8750. The department shall, to the greatest extent possible, coordinate its inspection activities with the State Lands Commission.

New Salton Sea Study Contract

We recommend deletion of $200,000 in funding proposed for the first year of a multi-year contract to study fish survival in increasingly saline conditions because the department has failed to provide the information that would fully justify this project. (Reduce Item 3600-001-200 by $50,000 and Item 3600-001-890 by $150,000.)

The budget proposes $200,000 ($150,000 from federal funds and $50,000 from the FGPF) for the first year of a three-year contract to study three species of sport fish found in the Salton Sea and the salinity levels at which they can survive. Increasing salinity levels threaten the naturalized sportfishery in the Salton Sea because the sea receives most of its water from salty agricultural run-off.

According to the department, the contract is needed because a long-term technological solution to the salinity levels (for example, desalting ponds) is not likely to be available for another 20 years. Consequently, the department proposes to find out, under laboratory conditions, how these fish will react to increasing salinity levels, and if they will be able to survive. The department wants this information prior to determining whether or not to undertake a hatchery stocking program at the sea in an attempt to extend the life of the fishery.

Our analysis indicates, however, that in the absence of a plan to undertake hatchery stocking at the sea — including an evaluation of the costs of doing so — the Legislature has little information on which to base a decision about the cost-effectiveness of undertaking the study at a total cost of $600,000 and, ultimately, a hatchery stocking program at the Salton

Sea. Consequently, we recommend that the Legislature delete from the budget the $200,000 proposed for support of this contract.

Capital Outlay

The Governor's Budget proposes appropriations totaling $12 million in Item 3600 for capital outlay expenditures in the Department of Fish and Game. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

Wildlife Conservation Board

Item 3640

Expenditures

Requested 1992-93	$2,714,000
Estimated 1991-92	6,953,000
Actual 1990-91	1,054,000
Requested decrease $4,239,000 (-60.9 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Wildlife Conservation Board acquires property to protect and preserve wildlife and provides fishing, hunting, and recreational access facilities. The board's ongoing support activities are financed primarily through appropriations from (1) the Habitat Conservation Fund (the California Wildlife Protection Act of 1990—Proposition 117) and (2) the Wildlife Restoration Fund, which annually receives $750,000 in horse racing license revenues.

Overview of the Budget Request

The Wildlife Conservation Board budget does not propose any significant workload or program changes.

The budget proposes total support expenditures of $2.7 million from the Habitat Conservation Fund ($1.8 million), the Wildlife Restoration Fund ($596,000), the California Wildlife, Coastal, and Park Land Conservation

(Bond) Fund ($210,000), and the Environmental License Plate Fund ($102,000) to support the Wildlife Conservation Board in 1992-93. This is $4.2 million, or 61 percent, less than estimated current-year expenditures.

The proposed decrease does not represent a reduction in activities for the board. It is attributable primarily to a reduction in 1992-93 of transfers to the Habitat Conservation Fund. In 1991-92, the budget counted within the board's budget funds to support new and existing programs and projects administered by the Department of Fish and Game and the Department of Water Resources. The expenditures were processed through the board's budget to meet the fund transfer and expenditure requirements of Proposition 117 without using General Fund money. This practice is not proposed to continue in the budget year.

The budget also proposes (1) a reduction of one personnel-year and $45,000 (Habitat Conservation Fund) to meet administrative cost restrictions of Proposition 117 and (2) the addition of one personnel-year and $70,000 (Environmental License Plate Fund) to administer the Riparian Habitat Conservation Program established in Ch 762/91 (SB 906, Hill).

Capital Outlay

The Governor's Budget proposes expenditures of $30.2 million in Item 3640-301 for capital outlay in the Wildlife Conservation Board. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

Department of Boating and Waterways
Item 3680

Expenditures

Requested 1992-93	$48,153,000
Estimated 1991-92	43,832,000
Actual 1990-91	40,935,000
Requested increase $4,321,000 (+9.9 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Boating and Waterways seeks to develop and improve boating facilities in California, to promote boating safety, and to conduct a statewide beach erosion control program. The department primarily (1) constructs boating facilities for the state park system and State Water Project reservoirs, (2) makes loans to public and private marina operators to finance the development of small craft harbors and marinas, and (3) makes grants to local agencies to finance boat launching facilities, boating safety and enforcement programs, and beach erosion control projects.

Overview of the Budget Request

The proposed budget for the Department of Boating and Waterways is essentially a workload budget, except for the local assistance programs, which receive significant increases over the current-year funding level.

The budget proposes expenditures for the Department of Boating and Waterways totaling $48.2 million from the Harbors and Watercraft Revolving Fund ($44 million), and federal funds and reimbursements ($4.1 million) for support and local assistance in 1992-93. This is an increase of $4.3 million, or 9.9 percent, from estimated current-year expenditures. The proposed increase is due primarily to (1) a $1.6 million increase in grants to local governments for boat launching facilities, (2) a $1.5 million increase in loans for private marinas, and (3) a $1.2 million increase in loans for public marinas. These proposed local assistance increases are funded entirely from the Harbors and Watercraft Revolving Fund.

Capital Outlay and Local Assistance

The Governor's Budget proposes several appropriations in Item 3680 for capital outlay ($1.5 million) and local assistance ($42.9 million) expenditures by the Department of Boating and Waterways. Please see our analysis of the department's proposed capital outlay and local assistance programs in the capital outlay section of the *Analysis* which is in the back portion of this document.

California Coastal Commission
Item 3720

Expenditures

Requested 1992-93	$9,866,000
Estimated 1991-92	9,553,000
Actual 1990-91	8,774,000
Requested increase $313,000 (+3.3 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Coastal Commission administers the state's coastal management program, pursuant to the 1976 Coastal Act (as amended). The two principal elements of this program are: (1) the review and approval of local coastal programs (LCPs) and (2) the regulation of development in the 72 local jurisdictions within the coastal zone. The Coastal Commission also administers the federal Coastal Zone Management Act (CZMA) as the designated state coastal management agency.

Overview of the Budget Request

The budget proposes minor workload adjustments and no program changes for the commission.

The budget proposes expenditures for the commission totaling $9.9 million in 1992-93. This is an increase of $313,000, or 3.3 percent, from estimated current-year expenditures.

Proposed expenditures in 1992-93 consist of $5.5 million from the General Fund, $2 million from state special funds, $2 million of federal CZMA money, and $329,000 in reimbursements. The commission expects to retain approximately $1.2 million, or 60 percent, of the CZMA money it receives in 1992-93. The remaining $820,000 will be passed through to (1) the State Coastal Conservancy ($369,000) and the San Francisco Bay Conservation and Development Commission ($201,000) and (2) local agencies ($250,000) under the LCP grant program.

The proposed increase in the commission's budget is the net result primarily of (1) workload and administrative adjustments totaling $558,000 and (2) a net reduction of three personnel-years totaling $245,000.

CALIFORNIA COASTAL COMMISSION—Continued

The commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. (This reduction is 11 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

State Coastal Conservancy

Item 3760

Expenditures

Requested 1992-93	$4,166,000
Estimated 1991-92	4,484,000
Actual 1990-91	8,245,000

Requested decrease $318,000 (-7.1 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The State Coastal Conservancy is authorized to acquire land, undertake projects, and award grants for the purposes of (1) preserving agricultural land and significant coastal resources, (2) consolidating subdivided land, (3) restoring wetlands, marshes, and other natural resources, (4) developing a system of public accessways, and (5) improving coastal urban land uses. In general, the projects must conform to California Coastal Act policies and be approved by the conservancy governing board.

Overview of the Budget Request

The budget proposes minor adjustments for the conservancy, primarily the deletion of one-time costs.

The budget proposes total expenditures of $4.2 million from the State Coastal Conservancy Fund ($3.5 million), the 1980 Parklands (Bond) Fund ($291,000) and reimbursements ($375,000) for support of the Coastal Conservancy in 1992-93. This is a decrease of $318,000, or 7.1 percent, from estimated current-year expenditures. The decrease primarily reflects (1) a reduction of $207,000 in reimbursements and (2) the deletion of one current-year local assistance grant for $180,000. These reductions are offset partially by various administrative adjustments.

Capital Outlay

The Governor's Budget proposes several appropriations in Item 3760 totaling $7.5 million for capital outlay expenditures by the State Coastal Conservancy. Please see our analysis of that item in the capital outlay section of the *Analysis* which is in the back portion of this document.

Department of Parks and Recreation
Item 3790

Expenditures

Requested 1992-93	$181,762,000
Estimated 1991-92	266,406,000
Actual 1990-91	260,544,000
Requested decrease $84,644,000 (-31.8 percent)	

Fiscal Recommendations

Total recommended reduction	$6,734,000
Recommended transfer to the General Fund	14,109,000

MAJOR ISSUES

- **Park System Operations.** The department will need to make reductions in state park service levels in 1992-93 due to a projected $23 million decrease in funding available from the General Fund and the State Parks and Recreation Fund. There are no details yet available on these reductions.

- **Off-Highway Vehicle (OHV) Program.** We recommend (1) deletion of the Otay Mesa project because the department has not adequately considered alternatives that would be a more appropriate use of state funds and (2) transfer of $14.1 million from the OHV Fund to the General Fund for expenditure on other priorities.

Findings and Recommendations

Analysis Page

1. **State Park Operations to Be Reduced.** Insufficient funding due to park fee revenue shortfalls and General Fund reductions will result in service reductions in the state park system 77

in 1992-93. The budget does not include a specific plan to address this problem.

2. **Otay Mesa Off-Highway Vehicle (OHV) Project. Reduce Item 3790-001-263 by $6,626,000.** Recommend deletion of project because the department has not adequately considered alternatives that would be a more appropriate use of state funds. 78

3. **OHV Fund. Add Item 3790-011-263 to Increase General Fund Transfers by $14.1 Million.** Recommend the transfer of $14.1 million from the OHV Fund to the General Fund in 1992-93, because these funds could be used for other priorities while leaving an adequate reserve in the OHV Fund. 78

4. **Earthquake Safety Bond Funds. Reduce Item 3790-001-768 by $108,000.** Recommend the deletion of $108,000 requested from the Earthquake Safety and Public Buildings Rehabilitation (Bond) Fund of 1990 for historic building review because the funds will not be needed in the budget year. 79

5. **State Park Concession Contracts.** Recommend adoption of supplemental report language expressing approval of the department's four proposed concession contracts. 80

General Program Statement

The Department of Parks and Recreation acquires, develops, preserves, interprets, and manages the natural, cultural and recreational resources in the state park system and in the State Vehicular Recreation Area and Trail System (SVRATS). In addition, the department administers state and federal grants to cities, counties, and special districts that help provide parks and open-space areas throughout the state.

The state park system consists of 270 units, including 38 units administered by local and regional park agencies. The system contains approximately 1.3 million acres of land with 281 miles of ocean and bay frontage and 820 miles of lake, reservoir, and river frontage. During 1992-93, about 70 million visitations are anticipated at state parks and beaches operated by the department. The SVRATS consists of approximately 53,000 acres in seven units. The department projects that more than 1.4 million visitations to these units will occur during 1992-93.

Overview of the Budget Request

The budget proposes a significant reduction in funding for the Department of Parks and Recreation due primarily to a decrease in funds available for local assistance grants. In addition, the budget projects a continuation in 1992-93 of the current shortfall in park fee revenues.

DEPARTMENT OF PARKS AND RECREATION—Continued

The budget proposes expenditures for the Department of Parks and Recreation totaling $181.8 million for support and local assistance in 1992-93. This is a decrease of $84.6 million, or 32 percent, from estimated current-year expenditures from all sources.

State Operations. The budget requests a total of $164.5 million from the General Fund ($54.4 million), the State Parks and Recreation Fund ($69.8 million), various other state special and bond funds ($32.8 million), federal funds ($1.9 million) and reimbursements ($5.6 million) for support of the department in 1992-93. This is a net *increase* of $6.6 million, or 4.2 percent, above total estimated current-year support costs. The increase primarily reflects an augmentation to comply with state and federal water treatment regulations, additional staff and operating costs for new facilities, and baseline adjustments to maintain the department's current level of activity. These augmentations are offset by a decrease from elimination of various one-time costs.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. (This reduction is 7 percent of the department's total support budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Local Assistance. The department requests a total of $17.3 million from the Off-Highway Vehicle Fund ($12.1 million), the Habitat Conservation Fund ($2 million), the 1988 California Wildlife, Coastal, and Park Land Conservation (Bond) Fund ($803,000) and federal funds ($2.4 million) for local assistance grants in 1992-93. This is a *decrease* of $91.2 million, or 84 percent, from estimated current-year expenditures for local assistance. This decrease primarily reflects (1) a reduction in the amounts remaining in various bond funds that are available for appropriation and (2) elimination of one-time spending from various state special funds.

Table 1 provides a summary of the department's expenditures, by program, for 1990-91 through 1992-93.

Table 1

Department of Parks and Recreation Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Support				
Statewide planning	$1,503	$1,643	$1,639	-0.2%
State park system development	7,630	7,937	7,952	0.2
Resources preservation, interpretation and historic preservation	8,107	8,148	8,513	4.5
State park system operations	133,010	127,145	127,104	—
Off-highway motor vehicle (OHV) recreation	8,223	11,800	17,970	52.3
Grants administration	1,558	1,209	1,306	8.0
Departmental administration (costs distributed)	(20,937)	(20,181)	(21,139)	4.7
Subtotals, support	($160,031)	($157,882)	($164,484)	(4.2%)
Local assistance				
Local assistance grants	$89,268	$94,858	$4,000	-95.8%
OHV local assistance grants	10,746	12,394	12,100	-2.4
Historic preservation grants	499	1,272	1,178	-7.4
Subtotals, local assistance	($100,513)	($108,524)	($17,278)	(-84.1%)
Totals	**$260,544**	**$266,406**	**$181,762**	**-31.8%**
General Fund	*$71,748*	*$54,296*	*$54,401*	*0.2%*
State Parks and Recreation Fund	*63,983*	*72,055*	*69,791*	*-3.1*
Off-Highway Vehicle Fund	*18,951*	*24,194*	*30,070*	*24.3*
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	*12,612*	*9,316*	*7,182*	*-22.9*
Other state special and bond funds	*84,921*	*92,926*	*10,473*	*-88.7*
Federal funds	*3,621*	*7,494*	*4,249*	*-43.3*
Reimbursements	*4,708*	*6,125*	*5.596*	*-8.6*
Personnel-Years	**2,940**	**2,696**	**2,441**	**-9.5%**

Table 2 identifies, by funding source, proposed budget changes for the department in 1992-93. As shown in Table 2, the budget proposes funding most of the department's significant workload and program changes from the OHV Fund and other special funds, primarily the Public Resources Account, Cigarette and Tobacco Products Surtax Fund (PRA). There are no

DEPARTMENT OF PARKS AND RECREATION—Continued

such increases proposed from the General Fund or the State Parks and Recreation Fund (SPRF).

Table 2

Department of Parks and Recreation
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	State Parks and Recreation Fund	Off-Highway Vehicle Fund	Other Funds[a]	Total
1991-92 Expenditures (Budget Act)	$64,666	$79,534	$21,925	$34,572	$200,697
Adjustments, 1991-92					
General Fund reductions (Secs. 1.20 and 3.90)	-10,315	—	—	—	-10,315
Statutory and carryover appropriations	24	2,264	2,329	84,320	88,937
Revenue shortfall and other reductions	-79	-9,743	-60	-3,031	-12,913
1991-92 Expenditures (rev.)	**$54,296**	**$72,055**	**$24,194**	**$115,861**	**$266,406**
Baseline adjustments	$105	-$2,264	-$523	-$681	-$3,363
Workload and administrative changes	—	—	$67	$2,685	$2,752
Program changes					
Otay Mesa lease and staffing	—	—	$6,626	—	$6,626
Monterey History Center staffing	—	—	—	$404	404
Historic building earthquake safety	—	—	—	108	108
Hearst San Simeon theater staffing	—	—	—	75	75
Local assistance grants	—	—	-294	-90,952	-91,246
Subtotals, program changes	(—)	(—)	($6,332)	(-$90,365)	(-$84,033)
1992-93 Expenditures (prop.)	**$54,401**	**$69,791**	**$30,070**	**$27,500**	**$181,762**
Change from 1991-92 (rev.)					
Amount	$105	-$2,264	$5,876	-$88,361	-$84,644
Percent	0.2%	-3.1%	24.3%	-76.3%	-31.8%

[a] Includes Environmental License Plate Fund; Harbors and Watercraft Revolving Fund; Winter Recreation Fund; Fines and Forfeitures Account, State Parks and Recreation Fund; Roberti-Z'berg-Harris Urban Open-Space and Recreation Account; Public Resources Account, Cigarette and Tobacco Products Surtax Fund; Habitat Conservation Fund; 1970, 1976, 1980, 1984, and 1988 park bond funds; Earthquake Safety and Public Buildings Rehabilitation Fund of 1990; federal funds; and reimbursements.

Analysis and Recommendations

Update on State Park System Revenues and Operations

The department faces a significant problem in funding the operations of the state park system in 1992-93 due to the continuation of (1) a shortfall in state park fee revenues and (2) systemwide General Fund reductions. The budget does not include a specific plan to address this problem.

The Governor's Budget projects that revenues from park user fees to the State Parks and Recreation Fund (SPRF) will total $57 million in 1992-93. This is the same amount as estimated current-year fee revenues, and an increase of $10.7 million, or 23 percent, from actual 1990-91 fee revenues.

Background. Last year, as part of its action to balance the 1991-92 budget, the Legislature reduced the department's General Fund appropriation by $8 million and increased its SPRF appropriation by the same amount. The Legislature also adopted budget language requiring the department to increase revenues from state park user fees and other sources to obtain $8 million in new revenues to the SPRF in 1991-92. These actions were similar to those the Legislature took the previous year, when it required the department to increase revenues to the SPRF by $16 million in 1990-91.

To comply with the language in the 1991 Budget Act, the department developed a new fee schedule that took effect on November 15, 1991. This schedule modified the one which took effect on September 1, 1990, and included a range of increases that varied according to park unit. The latest fee schedule also was designed to address the public's objections to many of the previous year's fee increases.

Fee Revenue Shortfalls. At the time this analysis was prepared, however, the department reported that various factors — such as the economic recession, weather conditions, and the increased state park fees — had led to a substantial decline in visitor attendance and a resulting drop in fee revenues in 1990-91 and 1991-92. In addition, other events — primarily state and local delays in approving new fee-collection equipment in coastal parks — led to further shortfalls in park fees. Thus, actual fee revenues to the SPRF in 1990-91 were about $7 million lower than the department's original estimate. The department estimates that fee revenues for 1991-92 will be about $19 million lower than its projection a year ago. It now anticipates a shortfall of $11 million in 1992-93 fee revenues compared to earlier estimates.

This revenue shortfall — in conjunction with current-year General Fund reductions of about $12 million that continue in the budget year — will require the department to reduce park program service levels to address a funding deficiency totaling $23 million. Although the department identified 27 park units in December 1991 where it would reduce service somewhat for the remainder of the current year, it has not developed a specific reduction plan for the budget year. The department advises that it is considering various strategies, including partial or total park closures, fewer hours of operation, and other reductions in visitor services. The Governor's Budget indicates that the department will provide detailed information to the Legislature in the spring on its strategies for addressing this shortfall for the budget year.

Otay Mesa Off-Highway Vehicle Project

We recommend deletion of $6.6 million requested for the Otay Mesa State Vehicular Recreation Area (SVRA), because the department has not adequately considered alternatives to the proposed project that would be a more appropriate use of state funds. (Reduce Item 3790-001-263 by $6,626,000.)

The department requests a total of $6.6 million from the OHV Fund for support costs of the proposed Otay Mesa SVRA in San Diego County. This consists of (1) $6.3 million for a 20-year lease of 1,300 acres of private property and (2) $335,000 and four personnel-years for initial staffing and operation of the Otay Mesa SVRA in 1992-93.

Our review of this proposal indicates that it is deficient in several significant respects. First, the proposed lease is inconsistent with current state practice, as it requires *prepayment* of the full lease cost in the first year of the 20-year term. In addition, despite the apparent demand for an OHV park in the western San Diego County area, the department has not fully considered alternative sites to Otay Mesa that may present more reasonable lease or acquisition terms. Finally, under the proposed lease, the state would lose all of its developed facilities when control of the property reverts to the owner after 20 years.

Accordingly, we recommend the deletion of $6.6 million requested from the OHV Fund for this project's support costs in 1992-93. (We also recommend a corresponding deletion of $1.9 million in our analysis of the department's capital outlay request for initial development of the Otay Mesa project.)

Off-Highway Vehicle Fund Transfer

We recommend the transfer of $14.1 million from the OHV Fund to the General Fund in 1992-93, because these funds could be used for other priorities while leaving an adequate reserve in the OHV Fund. (Add Item 3790-011-263 to increase General Fund transfers by $14.1 million.)

The budget projects that revenues and transfers to the OHV Fund in 1992-93 will total $27.7 million. This is an increase of $11.8 million, or 75 percent, from actual revenues and transfers in 1990-91. The increase is attributable primarily to the gas tax rate increases authorized under Proposition 111, which was approved by the voters in June 1990. Under current law, the OHV Fund receives roughly 1 percent of gasoline tax revenues, based on an estimate of the amount of gasoline purchased for use in off-highway vehicles. The OHV Fund also receives revenues from off-highway vehicle registration fees and investment interest.

Although under existing law, money in the OHV Fund can be expended only for specific OHV-related purposes, the Legislature could make these funds available for other purposes by transferring them to the General Fund through the Budget Bill. The Constitution does not place restrictions on how these funds are used because, unlike most gasoline tax revenues, they are collected from *nonhighway* users.

The budget projects that the OHV Fund will have a reserve of $6.7 million at the end of the budget year, or about 18 percent of proposed OHV expenditures. We believe that this reserve level could be reduced to 3 percent — consistent with the percent-of-expenditure level adopted for the General Fund reserve in prior budgets — and still provide adequate protection against economic uncertainties. Lowering the OHV Fund's reserve level to 3 percent would make $5.6 million available for other purposes. In addition, adoption of our recommendations on the department's proposed Otay Mesa OHV project would make available an additional $8.5 million from requested support ($6.6 million) and capital outlay funding ($1.9 million).

Recommendation. Accordingly, we recommend the adoption of the following Budget Bill item to transfer a total of $14.1 million from the OHV Fund to the General Fund in 1992-93. This is consistent with the transfer item that the Legislature adopted in the 1991 Budget Bill, and would give the Legislature additional flexibility to accomplish its priority objectives.

3790-011-263—For transfer to the General Fund, payable from the Off-Highway Vehicle Fund .... (14,109,000)
Provisions:

1. Of the amount transferred in the 1992-93 fiscal year from the Motor Vehicle Fuel Account, Transportation Tax Fund, to the Off-Highway Vehicle Fund pursuant to Section 8352.6 of the Revenue and Taxation Code, the Controller shall transfer $14,109,000 to the General Fund.

Request for Earthquake Safety Bond Funds is Still Without Foundation

We recommend the deletion of $108,000 requested from the Earthquake Safety and Public Buildings Rehabilitation (Bond) Fund of 1990 for historic building review because the funds will not be needed in the budget year. (Reduce Item 3790-001-768 by $108,000.)

The department requests $108,000 (two personnel-years) from the Earthquake Safety and Public Buildings Rehabilitation (Bond) Fund of 1990 for the Office of Historic Preservation (OHP) to perform its duties under Proposition 122, approved by the voters in June 1990. This measure primarily authorizes the sale of bonds for replacement, relocation, retrofitting or other seismic hazard reductions for state and certain local government buildings, and for associated administrative costs.

The bond act requires the Office of the State Architect (OSA) to establish criteria for funding seismic safety work on these buildings. If the building is designated as historic, the OSA must consult with the OHP before (1) proposing to demolish the building, in the case of state buildings or (2) agreeing to a local request to demolish a local government building.

Because of the OSA's schedule for implementing the bond act, it will not need to consult with the OHP on proposed demolition of historic government buildings until after 1992-93. Accordingly, we recommend deletion of $108,000 requested from the 1990 earthquake safety bond fund because the department will not need the funds in the budget year.

State Park Concession Contracts

We recommend the adoption of supplemental report language expressing approval of the department's four proposed concession contracts.

The Public Resources Code generally authorizes the department to contract for the operation of concessions within the park system. The department is required to prepare an annual report on its concession operations. Table 3 summarizes the findings of the department's draft 1990-91 annual concessions report.

Table 3

Department of Parks and Recreation Summary of Concession Operations 1989-90 and 1990-91

(dollars in thousands)

			Change from 1989-90	
	1989-90	1990-91	Amount	Percent
Number of concession contracts	139	140	1	0.7%
Gross sales	$51,387	$52,230	$843	1.6
Revenues to the SPRF	$5,527	$5,287	-$240	-4.3

As shown in Table 3, concession revenues to the State Parks and Recreation Fund decreased by $240,000, or 4.3 percent, from 1989-90 to 1990-91, due primarily to several concessions where rental payments to the department are in arrears. (The department is pursuing various actions to recover these payments.) Two concessions accounted for 55 percent of the rental revenues to the state in 1990-91: (1) ARA Food Service at Hearst San Simeon State Historical Monument — $1.6 million; and (2) Bazaar del Mundo in Old Town San Diego State Historic Park (SHP) — $1.3 million.

New Concession Proposals. Public Resources Code Section 5080.20 requires that, as part of the budget process, the Legislature review and approve any proposed new or amended concession contract that involves a total investment or estimated annual gross sales in excess of $250,000. Traditionally, the Legislature expresses its approval by adopting supplemental report language describing each approved concession. The department has submitted four proposals for legislative review.

Our review indicates that the department's four concession proposals are reasonable and that the rental terms are appropriate. Accordingly, we recommend that the Legislature adopt supplemental report language expressing approval of these 1992-93 concession proposals:

1. *Old Town San Diego State Historic Park (SHP) — El Fandango Restaurant.* The department proposes to bid a new five-year concession contract for the existing facility known as the El Fandango Restaurant at Old Town San Diego SHP. The department proposes a minimum acceptable rent of 7 percent of gross sales, which it estimates at $900,000 in the first year. Consequently, the estimated minimum annual rental is $63,000. The department estimates that repairs and improvements to the facility will require the concessionaire to invest about $25,000.
2. *Santa Monica State Beach (SB) — Beach Stands.* The department proposes to allow the City of Santa Monica to bid a new five-year concession contract for five existing beach stands for food sales and beach equipment rentals at Santa Monica SB. The city has operated this park unit under a 25-year agreement with the state since 1981 and under the agreement the city is fully responsible for operation and maintenance of the park, including concessions. Based on projected first-year gross sales of $600,000 and a minimum rental rate of 20 percent of the gross, the estimated minimum annual rent revenues are $120,000. Under the state's operating agreement with the city, these revenues would be used by the city for continued operation and maintenance of the park, in accordance with Public Resources Code Section 5080.32.
3. *Silverwood Lake State Recreation Area (SRA) — Marina and Camp Store.* The department proposes to bid a new 20-year contract for an existing marina, boat rental and camp store concession at Silverwood

Lake SRA in San Bernardino County. The department proposes a minimum acceptable rent of 7 percent of monthly gross sales. The estimated minimum annual rental is $70,000, based on estimated gross sales of $1 million in the first year. In addition, the proposed contract will require the concessionaire to set aside at least 1.5 percent of total annual gross sales to pay for property maintenance or, if this maintenance is not done, to add to the state's rent.

4. *Folsom Lake SRA — Brown's Ravine Marina.* The department proposes to amend a concession contract for an existing marina facility at Brown's Ravine in Folsom Lake SRA. The proposed amendment would extend the existing contract, which expires in 11 years, for an additional eight years to provide for amortization of the concessionaire's investment of approximately $425,000 required to repair damage to the marina from storms in March 1991.

Capital Outlay and Local Assistance

The Governor's Budget proposes several appropriations in Item 3790 for capital outlay and local assistance expenditures by the Department of Parks and Recreation. Please see our analysis of the department's proposed capital outlay and local assistance programs in the capital outlay section of the *Analysis* which is in the back portion of this document.

Santa Monica Mountains Conservancy

Item 3810

Expenditures

Requested 1992-93	$632,000
Estimated 1991-92	631,000
Actual 1990-91	595,000
Requested increase $1,000 (+0.2 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Santa Monica Mountains Conservancy purchases lands and provides grants to state and local agencies and nonprofit organizations (a) to further the purposes of the federal Santa Monica Mountains Comprehensive Plan and (b) for similar purposes in the "Rim of the Valley Corridor" adjacent to the San Fernando Valley. It promotes the objectives of these programs by (1) acquiring and consolidating subdivided land, (2) acquiring land for eventual sale or transfer to other public agencies, (3) creating buffer zones surrounding federal and state park sites, and (4) restoring natural resource areas.

Overview of the Budget Request

The budget proposes no workload or program changes for the conservancy.

The budget requests a total of $632,000 from the General Fund ($177,000), the Santa Monica Mountains Conservancy Fund (SMMCF—$415,000) and reimbursements ($40,000) for support of the conservancy in 1992-93. This amount is roughly the same as current-year expenditures.

Funds in the SMMCF primarily come from reimbursements from the Mountains Recreation and Conservation Authority (MRCA) and sales of conservancy property. The MRCA is a joint powers authority made up of the conservancy and two local recreation and park districts in the Santa Monica Mountains area.

Capital Outlay

The Governor's Budget proposes an appropriation of $10 million in Item 3810 for capital outlay expenditures by the Santa Monica Mountains Conservancy. Please see our analysis of that item in the capital outlay section of the *Analysis* which is in the back portion of this document.

San Francisco Bay Conservation and Development Commission

Item 3820

Expenditures

Requested 1992-93	$2,190,000
Estimated 1991-92	2,132,000
Actual 1990-91	1,929,000
Requested increase $58,000 (+2.7 percent)	

Fiscal Recommendations

Total recommended reduction	None

SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION—Continued

General Program Statement

The San Francisco Bay Conservation and Development Commission (BCDC) implements and updates the San Francisco Bay Plan and the Suisun Marsh Protection Plan. Under these plans, the BCDC regulates: (1) all filling and dredging activities in the San Francisco, San Pablo, and Suisun Bays including specified sloughs, creeks, and tributaries; (2) changes in the use of salt ponds and other "managed wetlands" adjacent to the bay; and (3) significant changes in land use within the 100-foot strip inland from the bay.

Overview of the Budget Request

The budget proposes only minor changes for the BCDC, primarily an increase for implementation of the Long Term Management Strategy (LTMS) study required by Ch 583/91 (AB 1059, Sher).

The budget proposes total expenditures of $2,190,000 for support of the BCDC in 1992-93. This is a net increase of $58,000, or 2.7 percent, from total estimated current-year expenditures. This increase results from the full-year implementation of the LTMS study, funded primarily from dredging permit fees, offset by the deletion of various one-time costs.

The commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 15 percent from the General Fund in 1991-92. (This reduction is 10 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Department of Water Resources
Item 3860

Expenditures

Requested 1992-93	$1,049,481,000
Estimated 1991-92	958,464,000
Actual 1990-91	736,781,000
Requested increase $91,017,000 (+9.5 percent)	

Fiscal Recommendations

Total recommended reduction	$400,000

MAJOR ISSUES

- **Proposed Bond Issue.** Department proposes to bring the state current on its local flood control assistance obligation by issuing new general obligation bonds.

Findings and Recommendations

Analysis Page

1. **Proposed Bond Issue.** Budget assumes that a major increase in support for the flood control subventions program will be funded by a general obligation bond measure proposed for the November 1992 ballot. 90
2. **California Water Plan. Reduce Item 3860-001-244 by $400,000.** Recommend a reduction of $400,000 in the amount allocated for updating the California Water Plan to reflect a more reasonable estimate of the costs imposed by legislation. 91

General Program Statement

The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department implements the State Water Resources Development System, including the State Water Project (SWP). The department also maintains public safety and prevents damage through flood control operations, supervision of dams, and safe drinking water projects. In addition, the DWR furnishes technical services to other agencies.

Overview of the Budget Request

The budget for the DWR includes several program changes — primarily for flood control — resulting in significant increases over the department's current-year funding level.

The budget proposes total expenditures of $1 billion in 1992-93, an increase of $91 million, or 9.5 percent, from total estimated current-year expenditures. The total includes $798 million in expenditures financed with SWP funds and $100 million in other continuously appropriated funds (primarily bond funds for drinking water and water conservation loans and grants). Appropriations in the Budget Bill provide the remaining $199 million, of which $27 million is from the General Fund and $9 million is from reimbursements. The General Fund amount is approximately the same as the amount of General Fund support that the department estimates it will expend in the current year. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. (This reduction is 4.1 percent of the department's total budget from all funds, including reimbursements.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

The $91 million increase in the department's budget primarily consists of (1) $57 million for the flood control subventions program to provide some of the state's share of costs for local flood control projects, (2) a net $6.2 million decrease in loans and grants provided through the safe drinking water and water conservation programs, (3) a $36 million increase in expenditures for SWP activities, (4) $11.5 million for projects related to Delta flood control, desalination and wastewater reclamation, and (5) a reduction of $7.8 million for various one-time expenditures and administrative adjustments. Table 2 shows the department's proposed budget changes, by funding source, excluding SWP activities, in 1992-93.

Table 1

Department of Water Resources Budget Summary[a] 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Safety, flood control, water management				
California Water Plan	$31,526	$64,005	$77,197	20.6%
Flood control and dam safety	58,620	126,128	170,173	34.9
Technical support	2,906	6,846	5,120	-25.2
Administration (distributed)	(44,276)	(46,758)	(47,714)	2.0
Loan repayments	-1,122	-1,196	-1,190	-0.5
Subtotals	**($91,930)**	**($195,783)**	**($251,300)**	**(28.4%)**
State Water Project	$644,851	$762,681	$798,181	4.7%
Totals	**$736,781**	**$958,464**	**$1,049,481**	**9.5%**
Safety, flood control, water management				
General Fund	*$31,401*	*$27,296*	*$27,258*	*-0.1%*
California Water Fund	*2,510*	*2,449*	*3,075*	*25.6*
State Water Project funds	*1,531*	*1,702*	*1,982*	*16.5*
Other special funds	*16,902*	*45,446*	*23,694*	*-47.9*
Flood Control Bond Fund of 1992	—	—	*87,220*	—[b]
Other bond funds	*34,353*	*107,604*	*99,721*	*-7.3*
Federal Trust Fund	*558*	*1,268*	*896*	*-29.3*
Reimbursements	*5,797*	*11,214*	*8,644*	*-22.9*
Loan repayments	*-1,122*	*-1,196*	*-1,190*	*-0.5*
State Water Project				
General Fund	*227*	*8*	*9*	*12.5*
California Water Fund	*703*	*703*	*686*	*-2.4*
State Water Project funds	*643,560*	*760,915*	*796,116*	*4.6*
Federal Trust Fund	*246*	*698*	*954*	*36.7*
Reimbursements	*115*	*357*	*416*	*16.5*
Personnel-Years	**2,822.6**	**2,716.1**	**2,746.8**	**1.1%**

[a] Excludes flood control capital outlay.
[b] Not a meaningful figure.

DEPARTMENT OF WATER RESOURCES—Continued

Table 2

Department of Water Resources Excluding State Water Project Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	State Water Project Funds	Special Funds[a]	All Other Funds[b]	Total
1991-92 Expenditures (rev.)	**$27,296**	**$1,702**	**$46,699**	**$120,086**	**$195,783**
Workload changes and administrative adjustments					
Miscellaneous adjustments	-38	280	560	2,065	-1,263
Local assistance adjustments	—	—	11,464	-11,933	-469
Delete reappropriations	—	—	-5,220	-2,580	-7,800
Subtotals	(-$38)	($280)	($6,804)	(-$16,578)	(-$9,532)
Program changes					
Flood control subventions	—	—	-$29,850	$87,220	$57,370
Urban streams restoration	—	—	300	—	300
Trinity River restoration	—	—	576	—	576
San Joaquin River management	—	—	250	—	250
Upper Sacramento fish and riparian habitat	—	—	300	—	300
California Water Plan	—	—	500	—	500
Water Conservation Bond Law of 1988	—	—	—	5,753	5,753
Subtotals	—	—	(-$27,924)	($92,973)	($65,049)
1992-93 Expenditures (prop.)	**$27,258**	**$1,982**	**$25,579**	**$196,481**	**$251,300**
Change from 1991-92					
Amount	-$38	$280	-$21,120	$76,395	$55,517
Percent	-0.1%	16.5%	-45.2%	63.6%	28.4%

[a] California Water Fund, Special Account for Capital Outlay, Environmental License Plate Fund, Public Resources Account, and the Renewable Resources Investment Fund.

[b] Federal funds, reimbursements, and bond funds (Safe Drinking Water Fund; 1984 State Clean Water Bond Fund; 1986 Water Conservation and Water Quality Bond Fund; California Wildlife, Coastal and Park Land Fund of 1988; Water Conservation Bond Fund of 1988; the Safe Water Bond Fund of 1988; and the Flood Control Bond Fund of 1992).

State Water Project Changes

State Water Project revenues are continuously appropriated to the department. As Table 3 shows, the department expects to spend $798 million for the construction, operation, and maintenance of the SWP in 1992-93. This is an increase of $36 million, or 4.7 percent, over estimated current-year expenditures.

Table 3

Department of Water Resources
State Water Project
Proposed 1992-93 Budget Changes
All Funds

(dollars in thousands)

	Totals
1991-92 Expenditures (revised)	
State operations	$176,223
Capital outlay	586,458
Total	**$762,681**
Workload and administrative adjustments	$299
Project changes:	
Increased annual operation and maintenance of State Water Project Facilities	$12,375
North and South Delta projects	1,054
Construct Boynton-Cordelia ditch — Suisun Marsh project	2,600
Design and construct temporary rock barriers — Delta	9,300
Design and construct intake structures and gate work — San Bernardino Tunnel	5,100
State financial assistance for local projects (Davis-Grunsky Program)	4,505
Planning model development program	267
Subtotal	($35,201)
1992-93 Expenditures (proposed)	
State operations	$189,398
Capital outlay	608,783
Total	**$798,181**
Change from 1991-92 (revised)	
Amount	$35,500
Percent	4.7%

The major SWP funding changes proposed for 1992-93 include:

- Increased operation and maintenance costs for the project, including major special repairs, renovations and equipment replacement ($12.4 million).
- Various design and construction projects ($17 million).
- Financial assistance for local projects ($4.5 million).
- Increased staff for land acquisition related to the North and South Delta Water Management Plan ($1.1 million).

Analysis and Recommendations

Bond Proposal For Flood Control Subvention Program

The budget proposes a major increase in expenditures — to be funded from new bond funds — to bring the state up to date on its local assistance obligation for flood control projects.

Under current law, the state funds 70 percent of the nonfederal project costs for flood control projects authorized by Congress and the Legislature. Local agencies fund the remaining 30 percent. The state traditionally has funded its share of the nonfederal costs through the General Fund or appropriate special funds, such as the Special Account for Capital Outlay (SAFCO). The program was not funded in 1990-91, however, because a general obligation bond measure that included $90 million for flood control subventions failed on the November 1990 ballot. In addition, for 1991-92, the Legislature reduced the department's proposed SAFCO appropriation for flood control subventions from $43 million to $30 million due to a lack of funds.

The budget proposes expenditures of $87 million to provide the state's share of costs for flood control projects in 1992-93. This is an increase of $57 million or nearly three times the current-year expenditures for flood control subventions. The budget assumes the expenditures will be funded entirely from a general obligation bond measure proposed by the administration for the 1992 ballots. (In addition, the budget proposes $2.3 million for capital outlay expenditures related to state-sponsored flood control projects along the Sacramento River and its tributaries. Our discussion of the capital outlay portion of this proposal is included in our analysis of the department's capital outlay budget.) It is our understanding that the administration will seek a total bond issue of $200 million for flood control and safe drinking water projects. The department indicates that a bond issue was proposed for this program because of limitations on funding available from SAFCO and the General Fund.

The department estimates that the total state obligation for currently authorized local flood control projects is approximately $360 million. Based on current project expenditure plans, it appears that most of the bond funds in 1992-93 would be used, subject to appropriation by the Legislature, to catch up on prior-year claims ($67 million) and fund 1992-93 claims ($20 million). The majority of these claims are for the Santa Ana River project in Orange, Riverside, and San Bernardino Counties.

California Water Plan

We recommend a reduction of $400,000 in the amount proposed by the department for updating the California Water Plan, to reflect a more reasonable estimate of the costs imposed on the department by new legislation. (Reduce Item 3860-001-244 by $400,000.)

The budget proposes $500,000 from the California Water Fund for five permanent positions the department indicates are necessary to comply with Ch 620/91 (AB 799, Cortese). Chapter 620 requires the DWR to (1) update the California Water Plan (CWP) and submit it to the Legislature every five years and (2) expand the level of public review in development of the plan. The CWP, first published in 1957, is the state's master plan for coordinated development and protection of water resources. To increase public review of the plan, Chapter 620 requires the DWR to release a preliminary draft of the water plan, upon request, for review and comment by interested parties and hold hearings to discuss the plan. According to the department, additional staff are necessary to (1) formulate a plan that is comprehensive and satisfies the public and (2) meet the demands of the public hearing and review process. We have several concerns with the budget proposal.

Requirement for Bulk of Work Predates Ch 620/91. Before Chapter 620, state law required periodic updates of the plan at the discretion of the department. Updates were published in 1966, 1970, 1974, 1983, and 1987. At the time that Chapter 620 was pending before the Legislature, the DWR estimated total costs of $150,000 every five years ($50,000 in 1991-92, which the department indicated it would absorb, and $100,000 in 1992-93) to meet the periodic review and updating requirements. Now, the department is requesting $485,000 annually (plus $15,000 in one-time equipment purchases) for these same tasks. Our review of the department's request indicates, however, that this increased estimate is unwarranted because the department already does periodic updates of the plan. In fact, work on the next update of the plan, scheduled for release in 1993, was under way before passage of Chapter 620.

Increased Public Input Is A Periodic Requirement. As stated above, the department proposes to add five *permanent* positions to implement Ch 620/91. Our review of Chapter 620's provisions indicates, however, that the only significant identifiable increased workload resulting from the measure is the requirement to provide greater public input to the development of updated plans. In our view, this can be accomplished through a review and comment period — including public hearings by the California Water Commission — following release of updated drafts, prior to the department issuing a final periodic update. We estimate that staffing needs for such an approach total at most one personnel-year and $100,000 every five years. Because of the intermittent nature of this work, the department also should consider using external contracts to provide the staff support for the public input process.

Conclusion. Based on our review of the requirements of Chapter 620 and the department's proposal, we recommend that the Legislature (1) reduce by $400,000 the department's request for additional support to implement the measure and (2) approve the remaining $100,000 on a one-time basis for support of either contracts or a one-year limited-term position to support public input to the revision of the CWP. This will ensure that the department has adequate resources to comply with Chapter 620.

Capital Outlay

The Governor's Budget proposes an appropriation of $2.3 million in Item 3860 for capital outlay expenditure in the DWR. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

Air Resources Board
Item 3900

Expenditures

Requested 1992-93	$103,549,000
Estimated 1991-92	93,128,000
Actual 1990-91	93,168,000
Requested increase $10,421,000 (+11.2 percent)	

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **Motor Vehicle Account.** The budget proposes expenditures of $34.3 million from the Motor Vehicle Account for support of the board's stationary source program. In light of (1) constitutional limitations on the use of the Motor Vehicle Account and (2) a pending shortfall in the account, the Legislature should reevaluate how the board's programs are funded.

Findings and Recommendations

Analysis Page

1. **Use of Motor Vehicle Account (MVA) Raises Issues.** The Air Resources Board (ARB) requests funding from the MVA for both its mobile source and stationary source programs. This raises issues regarding the proper use of the MVA which the Legislature needs to consider. 95
2. **Budget Display Revision Needed.** Recommend Budget Bill be amended to reflect specific allocations to the mobile source and stationary source programs, consistent with legislative direction in the *Supplemental Report of the 1991 Budget Act.* 97

General Program Statement

The ARB is responsible for achieving and maintaining satisfactory air quality in California. This responsibility requires the board to establish

AIR RESOURCES BOARD—Continued

ambient air quality standards for certain pollutants, regulate vehicle emissions, identify and control toxic air pollutants, administer air pollution research studies, develop and oversee implementation plans for the attainment and maintenance of both state and federal air quality standards and oversee the regulation of sources of pollution by air pollution control districts.

Overview of the Budget Request

The budget for the ARB includes several program changes resulting in significant increases over the board's current-year funding levels.

The budget proposes expenditures of $103.5 million from the MVA ($71.4 million), other state special funds ($24.9 million), and federal funds and reimbursements ($7.2 million) for the ARB in 1992-93. This is an increase of $10.4 million, or 11 percent, over estimated current-year expenditures. This increase results primarily from requests to (1) implement new vehicle emissions regulations ($4.3 million — MVA), (2) implement the emissions inventory improvement program ($3.1 million — MVA), (3) develop consumer product testing methods ($1.5 million — Environmental License Plate Fund), and (4) replace worn equipment ($1.4 million — MVA). Table 1 summarizes the expenditures for the ARB for the past, current, and budget years.

Table 1

Air Resources Board
Budget Summary
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Mobile source	$20,053	$22,661	$54,978	142.6%
Stationary source	17,353	18,903	48,571	156.9
Technical support[a]	16,797	15,862	(17,398)	9.7
Compliance[a]	5,923	6,133	(6,454)	5.2
Monitoring and laboratory[a]	14,910	16,778	(19,805)	18.0
Research[a]	12,730	12,622	(12,582)	-0.3

Continued

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Administration				
Distributed	(8,844)	(8,542)	(9,001)	5.4
Undistributed	8	169	—	-100.0
Environmental affairs coordination[b]	5,394	—	—	—[c]
Totals	**$93,168**	**$93,128**	**$103,549**	**11.2%**
General Fund	*$2,725*	—	—	—[c]
Motor Vehicle Account	*57,281*	*64,413*	*71,394*	*10.8*
Other state special funds	*24,928*	*21,508*	*24,942*	*11.2*
Federal funds	*3,167*	*3,168*	*3,174*	*0.2*
Reimbursements	*5,067*	*4,039*	*4,039*	—
Personnel-Years	**818**	**815**	**873**	**7.1%**

[a] Beginning in 1992-93, technical support, compliance, monitoring and laboratory, and research costs are distributed to mobile source and stationary source programs.
[b] Beginning in 1991-92, environmental affairs coordination is shown in Item 0555 under the Secretary for Environmental Protection.
[c] Not a meaningful figure.

Analysis and Recommendations

Use of Motor Vehicle Account Raises Issues

The ARB requests funding from the MVA for both its mobile source and stationary source programs. This raises issues regarding the proper use of the MVA which the Legislature needs to consider.

The ARB requests a total of $71.4 million from the MVA for support of its programs in 1992-93. This amount is comprised of (1) $37.1 million for the mobile source program and (2) $34.3 million for the stationary source program (including $7.5 million for local assistance funding to air pollution control districts). The total requested is an increase of $7 million, or 11 percent, above the ARB's estimated current-year expenditures from the MVA.

In past years, we have raised concerns with some of the ARB's proposals for use of MVA funds, primarily because it appeared that the MVA was being used to support work unrelated to the control of emissions resulting from motor vehicle operation. This use of the MVA is contrary to Article XIX of the Constitution, which limits the pollution control use of the account to motor vehicle-related sources of emissions. Specifically, the Constitution limits MVA expenditures for environmental programs to "the mitigation of the environmental effects of motor vehicle operation due to air and sound emissions."

AIR RESOURCES BOARD—Continued

The Governor's Budget highlights this issue because of a revision in the way in which the ARB's budget request is displayed. Prior budgets showed seven elements under the ARB's air pollution control program: mobile source, stationary source, technical support, compliance, monitoring and laboratory, research, and administration. In accordance with the Legislature's direction in the *Supplemental Report of the 1991 Budget Act*, the Department of Finance and the ARB have displayed the 1992-93 budget request more along program lines. Thus, the Governor's Budget now displays three elements for the ARB: mobile source, stationary source, and distributed administration.

It appears likely that all or a portion of the ARB's request for MVA funding is related to stationary source program activities not related to the control of emissions resulting from motor vehicle operation. Past budgets have used a wide range of funding ratios between the MVA and other funds (including the General Fund), based largely on the comparative availability of money in the MVA. However, as we note in our analysis of the Department of Motor Vehicles (Item 2740): (1) the MVA will have a current-year deficit because revenues are less than estimated and there is no assurance that "unidentified savings" will be achieved and (2) without the enactment of several proposals to increase resources and reduce expenditures, the MVA will have about a $4 million budget-year deficit. Because of these problems, the Legislature needs to evaluate how much funding to provide from the MVA to the ARB and for what purposes and activities.

The amount of MVA funds proposed for support of the stationary source program — $34.3 million — represents one-third of the ARB's total funding for 1992-93. Eliminating this funding for the budget year without first (1) identifying other support for the board or (2) reducing program scope would result in significant program upheaval for the ARB.

Because of the severe short-run impact that deleting the MVA funds would have on the board's ability to further the state's air quality goals, the Legislature may wish to take a two-year approach to solving this dilemma. Specifically, the Legislature could continue the current funding approach for the ARB in 1992-93 to the extent that there is MVA funding available. At the same time, however, the Legislature may wish to refer to the appropriate fiscal and policy committees for consideration and potential action through legislation the issue of the appropriateness of MVA funding for all or part of the board's stationary source program. The ultimate actions of the committees could be implemented in the 1993-94 budget. We believe that any policy examination of this issue at a minimum should address the following areas:

- The legal and appropriate use of the MVA in funding statewide air pollution control activities.

- The state's role in funding through subventions local air pollution control districts' efforts regarding stationary sources of air pollution.
- The extent to which programs to control indirect sources of air pollution (that is, facilities or activities — malls, business parks — that draw sources of pollution such as cars) or to control stationary sources of pollution related to automobiles (petroleum refineries, autopaint shops) can appropriately be funded from the MVA.
- Creation or expansion of alternative sources of funding for the board's stationary source program.

Budget Bill Display Needs Revision

We recommend that the Budget Bill's presentation of the ARB's budget be amended to reflect the programmatic display shown in the Governor's Budget document.

As discussed above, last year the Legislature directed the Department of Finance and the ARB to display the 1992-93 budget request along program lines, to provide a basis for greater legislative oversight and control of this budget. The Governor's Budget document essentially reflects this intent by showing the ARB's program under two primary elements — mobile source and stationary source. However, the 1992-93 Budget Bill continues the practice from previous years of showing only one program for the ARB — air pollution control. We believe that this is contrary to the Legislature's intent in the *Supplemental Report of the 1991 Budget Act* regarding this budget item. Consequently, we recommend that the Legislature amend the Budget Bill to reflect the ARB's two primary programs, consistent with the display in the 1992-93 Governor's Budget.

California Integrated Waste Management Board
Item 3910

Expenditures

Requested 1992-93	$74,317,000
Estimated 1991-92	61,021,000
Actual 1990-91	28,032,000
Requested increase $13,296,000 (+21.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Integrated Waste Management Board (IWMB) is responsible, in conjunction with local agencies, for promoting waste management practices aimed at reducing the amount of waste that is disposed in landfills. These practices include source reduction, recycling and composting, and environmentally safe transformation. In addition, the board protects public health and safety through regulation of existing and new solid waste land disposal sites.

Overview of the Budget Request

The budget for the IWMB includes several workload and program changes, primarily implementation of the used oil recycling program, which result in a significant increase over the board's current-year funding level.

The budget requests a total of $74.3 million for support of the IWMB in 1992-93. This amount is $13.3 million, or 22 percent, more than estimated current-year expenditures. The increase primarily results from $12.5 million—including $4.4 million for local assistance grants—to implement the used oil recycling program established by Ch 817/91 (AB 2076, Sher). Under existing law, revenues from fees on the sale of lubricating oil in the state are continuously appropriated from the California Used Oil Recycling Fund to the board for this program.

The requested expenditures include $34.5 million from the Integrated Waste Management Account for support and $18.6 million—including $5.5 million in local assistance grants—from the Solid Waste Disposal Site Cleanup and Maintenance Account for the board's landfill hazard reduction program. Both accounts are funded by waste disposal fees. The proposed expenditures also include $5 million from the Recycling Market Development Revolving Loan Account and $3.6 million in tire disposal fees from the Tire Recycling Management Fund to promote the recycling of used tires.

Department of Pesticide Regulation
Item 3930

Expenditures

Requested 1992-93	$44,241,000
Estimated 1991-92	41,947,000
Actual 1990-91	NA
Requested increase $2,294,000 (+5.5 percent)	

Fiscal Recommendations

Total net recommended reduction	$500,000
Total recommended fee increases	14,988,000

MAJOR ISSUES

- **Pesticide Regulatory Program Should Be Funded By Industry.** By increasing the mill tax on the sale of pesticides, the Legislature could more appropriately finance the Department of Pesticide Regulation and free up $15 million from the General Fund.

Findings and Recommendations

Analysis Page

1. **Bailout of Department of Pesticide Regulation Fund.** There will be a shortfall of $8 million in the current year and $17 million in 1992-93 in the Department of Pesticide Regulation Fund (DPRF), without further legislative action. The budget proposes to address these shortfalls by (1) appropriating monies from the General Fund to bailout the DPRF, and (2) assuming enactment of legislation to eliminate the sunset date of an increase in the pesticide mill tax. 103

2. **Pesticide Regulation Program Should Be Paid From Fees.** Recommend enactment of legislation requiring mill taxes to be adjusted annually to cover the costs of the department, thereby freeing up $15 million for other legislative priorities. 104

DEPARTMENT OF PESTICIDE REGULATION—Continued

3. **More Detailed Program Budget Needed.** Recommend that the department submit a proposal for increasing the number of program categories in the Budget Bill, in order to increase the Legislature's oversight. 105
4. **Contracts for Hearings on Pesticide Suspensions Unjustified. Reduce Item 3930-001-001 by $785,000, and increase Item 3930-001-106 by $285,000.** Recommend (1) a reduction of $500,000 from the General Fund for contracts to suspend pesticide registrations because the amount is unjustified, and (2) a reduction of $285,000 from the General Fund and a corresponding increase to the DPRF because the remaining costs of the program should be paid by pesticide registrants. 106

General Program Statement

The Department of Pesticide Regulation (PRD) was created in 1991 as part of the California Environmental Protection Agency to protect the public health and the environment from unsafe exposures to pesticides. This function previously was carried out by the Department of Food and Agriculture. The PRD (1) evaluates the public health and environmental effects of pesticides, (2) regulates, monitors, and controls the use of pesticides in the state, (3) tests produce for pesticide residue levels, and (4) develops and promotes pest management practices that can reduce the problems associated with the use of pesticides. The department primarily is funded from taxes on the sale of pesticides in the state, various registration and licensing fees on persons who use or sell pesticides, and the General Fund.

Overview of the Budget Request

The proposed budget essentially is a workload budget, except for a $785,000 increase to implement recently enacted legislation.

The budget proposes total expenditures of $44.2 million for support of the PRD and for local assistance programs in 1992-93. This is an increase of $2.3 million, or 5.5 percent, over estimated current-year expenditures. The increase primarily is due to:

- An increase of $785,000 from the General Fund to implement a process for (1) suspending the registration of pesticides for which the manufacturers have not submitted a complete set of studies on the long-term health effects of their products, and (2) deferring the suspension of some pesticide registrations if certain conditions are met, pursuant to Ch 1228/91 (SB 550, Petris) and Ch 1227/91 (AB 1742, Hayden).

- An increase of $527,000 from the Department of Pesticide Regulation Fund (DPRF) to meet workload increases associated with the management of data on the use of pesticides in California.
- An increase of $436,000 from various funds for increased operating expenses and pro rata, and an increase of $415,000 in federal funds for various special projects.

Table 1 shows the department's expenditures by program, staffing levels, and funding sources for the past, current and budget years.

Table 1

Department of Pesticide Regulation Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Pesticide registration	$8,014	$7,778	$9,580	23.2%
Pesticide use enforcement	19,676	19,977	20,102	0.6
Pest management analysis and planning	707	1,097	1,124	2.5
Environmental hazards assessment	5,980	6,714	6,800	1.3
Worker health and safety	3,271	3,301	3,337	1.1
Medical toxicology	2,448	3,077	3,107	1.0
Administration	N/A[a]	633	533	-15.8
Amount distributed to other programs	N/A[a]	-630	-342	-45.7
Totals	**$40,096**	**$41,947**	**$44,241**	**5.5%**
General Fund	*$15,328*	*$14,203*[b]	*$14,988*	*5.5%*
Department of Pesticide Regulation Fund	*21,742*[c]	*24,611*	*25,621*	*4.1*
Food Safety Account	*1,188*	*1,710*	*1,784*	*4.3*
Federal Trust Fund	*1,557*	*1,136*	*1,526*	*34.3*
Reimbursements	*281*	*287*	*322*	*12.2*
Personnel-Years	**335**	**345**	**351**	**1.7%**

[a] Data are not available. In 1990-91, these programs were carried out by the Department of Food and Agriculture.

[b] Includes $8 million proposed in the 1992-93 Budget Bill to backfill for a current-year revenue shortfall in the Pesticide Regulation Fund.

[c] In 1990-91, expenditures for these programs were from the Agriculture Fund. Beginning in 1991-92, expenditures for support of these programs are from the DPRF.

The programs in this department, along with programs in many other departments, have been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92. (This reduction is 2 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Overview of Pesticide Regulation Program Funding

Several of the issues we discuss later in this analysis are related to the funding of the PRD. The following is a brief overview of the funding history of the pesticide regulation program, both while it was part of the Department of Food and Agriculture and as it is proposed to be implemented by the PRD.

The pesticide regulatory program traditionally has been funded from the General Fund and from various fees and taxes. Currently, revenues from the fees and taxes are deposited into the DPRF. Revenues to the DPRF come from three major sources:

- Licensing and certification fees paid by pesticide dealers, pesticide applicators, crop duster pilots, and pest control advisers.
- Registration fees paid by companies for each pesticide product registered for use in California.
- Mill tax funds generated by a tax on pesticide sales.

Legislature Restructures Program Funding in 1990. In 1979-80, the first year the pesticide regulatory program was separately identified in the budget, the proportion of costs funded from the General Fund was 27 percent. Due to establishment of additional programs, primarily in response to the California Environmental Quality Act and various budgetary actions by the Legislature, by 1989-90 the proportion of program costs funded by the General Fund had increased to 63 percent.

In 1990, the Legislature enacted Ch 1679/90 (AB 2419, O'Connell) to reduce the level of General Fund support in 1990-91 and 1991-92 to its historical level. This measure increased the mill tax rate from $0.009 per dollar of pesticide sales (or nine mills) to $0.018 per dollar of sales (or 18 mills) in order to generate an additional $9 million in revenues to the Agriculture Fund in each of the two fiscal years affected by the measure. This enabled the Legislature to reduce General Fund support for the program by the same amount. As a result, the portion of program costs funded from the General Fund decreased from 63 percent in 1989-90 to 31 percent in 1990-91. Chapter 1679 sunsets on June 30, 1992, after which the mill tax rate will revert back to its previous lower level (nine mills).

Analysis and Recommendations

Budget Proposes Bailout for the Department of Pesticide Regulation Fund

We find that without further legislative action, there will be a shortfall of $8 million in the current year and $17 million in 1992-93 in the DPRF. The budget proposes to address the current year shortfall by transferring $8 million from the General Fund to the DPRF. In the budget year, the department proposes to address the DPRF shortfall by (1) shifting $8 million in costs from the DPRF to the General Fund, and (2) assuming enactment of legislation that will eliminate the sunset date of the mill tax rate increase authorized by Chapter 1679.

In the *Analysis of the 1991-92 Budget Bill*, we recommended that the Legislature eliminate General Fund support for the pesticide regulatory program, and instead fund the program entirely from fees. We made the recommendation because (1) the program benefitted pesticide users, and therefore should be funded by the users, (2) fully funding a regulatory program from industry fees is consistent with legislative actions in other areas such as hazardous waste and air pollution regulation, and (3) it would free up General Fund monies for other legislative priorities. Subsequently, during hearings on the 1991 Budget Bill, the Legislature shifted $8 million in expenditure authority from the General Fund to the DPRF. However, legislation was not enacted to correspondingly increase revenues to the DPRF. As a result, there is an $8 million funding gap in the department's budget in the current year and, without further action by the Legislature, this gap will continue in the budget year.

In addition, the increase in the pesticide mill tax rate authorized by Chapter 1679 will sunset on June 30, 1992. This will reduce revenues to the DPRF by $9 million compared to 1991-92 revenues, and will accordingly increase the DPRF shortfall in 1992-93 from $8 million to $17 million.

Budget Proposes General Fund Transfer to Resolve Current Year Shortfall. The department proposes to address the current year funding gap in the DPRF by transferring on June 30, 1992, $8 million from the General Fund to the DPRF. Although the Governor's Budget indicates that the proposed transfer is a "loan" to the DPRF, the Budget Bill does not include any provisions requiring repayment of the transfer. Instead, the Department of Finance indicates that the proposed transfer from the General Fund would be "repaid" from the General Fund. Under these circumstances, the proposed General Fund "loan" is in reality a General Fund appropriation.

Budget Proposes General Fund Increase and Enactment of New Legislation to Address Shortfall in 1992-93. The department proposes to address the $17 million shortfall in the DPRF in 1992-93 in two ways. First, the department proposes to reverse the Legislature's 1991-92 budget actions by (1) increasing by $8 million the portion of the department's costs that are funded from the General Fund and (2) making a corresponding reduction in the portion of the department's costs paid from the DPRF. Under the department's proposal, approximately $15 million, or 36 percent of total proposed expenditures for the department, would be paid from the General Fund.

Second, the budget assumes that legislation will be enacted to eliminate the June 30, 1992 sunset of the mill tax rate increase authorized by Chapter 1679, thereby resulting in increased mill tax revenues of $9 million. To the extent, however, that the Legislature does not enact legislation to eliminate the sunset date, there will continue to be a $9 million funding gap in the DPRF in 1992-93, absent action to reduce expenditures.

Pesticide Regulatory Program Should Be Fully Funded By Industry

We recommend enactment of legislation requiring that mill taxes be adjusted annually to a level that will generate sufficient revenue to cover the costs of the department, thereby freeing up $15 million from the General Fund in 1992-93 for other legislative priorities. (Reduce Item 3930-001-001 by $12,107,000 and increase Item 3930-001-106 by a corresponding amount. Reduce Item 3930-101-001 by $2,881,000 and increase Item 3930-101-106 by a corresponding amount.)

The budget proposes a total of $44.2 million for the PRD in 1992-93. This amounts consists of $15 million from the General Fund, $25.6 million from the DPRF, and $3.6 million from other funding sources. The department proposes to use these funds to carry out various activities to regulate the use of pesticides in order to protect the public health and the environment from unsafe exposures to these chemicals.

In our overview of the resources and environmental protection budgets, we provide a framework for financing resource and environmental protection programs. Under this framework, fees are an appropriate way of financing programs that prevent the use or degradation of *public* resources by regulating *private* activities. This is because the individuals, businesses, or industries that use or degrade a public resource are required to pay for minimizing the social costs imposed by their activity.

The use of pesticides potentially can result in social costs by harming the public health and the environment. In order to minimize the social costs from the use of pesticides, the PRD regulates the use of pesticides in the state. As a result, the costs of regulating the use of pesticides should appropriately be funded from regulatory fees, not from the General Fund, because it requires the people that potentially damage public resources to pay for regulating the risk that their activity imposes on the general public.

Accordingly, in order to appropriately fund the department, we recommend the enactment of legislation requiring that mill taxes be annually adjusted to a level that generates sufficient revenue to cover the department's costs. This recommendation would require increasing the mill tax rate of $0.009 per dollar of pesticides sales (assuming that the mill tax rate will drop from $0.018 per dollar of sales to $0.009 as required by current law) to $0.033 per dollar of sales. This would free up $15 million from the General Fund relative to the Governor's Budget.

More Detailed Program Budgets Will Increase Legislative Oversight

We recommend that the department submit, prior to budget hearings, a proposal for increasing from two to at least five the number of program categories scheduled in the 1992-93 Budget Bill. This will increase the Legislature's budget oversight, while allowing the department some budget flexibility.

The Governor's Reorganization Proposal Number 1 of 1991 established the PRD and transferred the pesticide regulatory programs in the Department of Food and Agriculture (DFA) to the PRD. As a result, 1992-93 is the first year in which the PRD's budget is displayed in the Governor's Budget and the Budget Bill, as opposed to being identified as a program component within the DFA.

The Governor's Budget shows seven "program elements" which reflect the major areas of expenditure for the PRD in 1992-93. Table 1 shows the seven program elements and the expenditures within these areas for the prior, current, and budget years. (Although 1992-93 is the first year that expenditures for the PRD are displayed in the Governor's Budget or the Budget Bill, comparable data has been derived from the DFA's budgets for the prior and current years.) This type of detailed information enables the Legislature to identify significant changes in the department's budget and the programmatic effects of such changes.

In contrast to the detailed expenditure information in the Governor's Budget, however, the 1992-93 Budget Bill separates departmental support expenditures into only two categories: (1) Pesticide Regulation Program (approximately $35 million) and (2) Executive and Administrative Services ($191,000). (The Budget Bill also includes $2.9 million for local assistance.) Our analysis indicates that the number of programs scheduled in the Budget Bill for the PRD is significantly fewer than the number of categories scheduled in the Budget Bill for many other departments of comparable or smaller size. For example, the Office of Statewide Health Planning and Development has six categories, the Department of Boating and Waterways has four categories, and the Department of Aging has five categories.

The number of program categories scheduled in the Budget Bill is important because the greater the number of program categories, the greater the Legislature's oversight authority. The program categories specify the maximum amounts that can be spent on each program. Therefore, the more program categories scheduled in the Budget Bill, the better the Legislature can ensure that funds appropriated for a particular purpose are used for that purpose.

In order to increase the Legislature's oversight authority, yet allow the department some flexibility in organizing its budget, we recommend that the department submit, prior to budget hearings, a proposal for increasing from two to at least five the number of program categories scheduled in the Budget Bill for the PRD. This will provide the Legislature with oversight authority for the PRD that is comparable to its authority for many departments of comparable or smaller size.

Contracts for Hearings on Pesticide Suspensions Unjustified

We recommend a reduction of $500,000 from the General Fund requested for contracting with the Attorney General's Office because the department has not justified the amounts requested. We further recommend that the Legislature shift $285,000 in expenditures from the General Fund to the Pesticide Regulation Fund, because the costs of special administrative actions for pesticide registrants should be paid by the registrants rather than the general public. (Reduce Item 3930-001-001 by $785,000 and increase Item 3930-001-106 by $285,000.)

The budget proposes approximately $3 million from the General Fund to review and manage data on the long-term health effects of pesticides, and to suspend the registration of pesticides for which the manufacturers have failed to submit the data. This is an increase of $785,000 from the General Fund to implement processes for (1) allowing certain pesticide registrants additional time to complete studies on the long-term health effects of their products, and (2) suspending the registrations of pesticides for which there is not a completed set of long-term health effects studies and which do not qualify for the time extensions, as required by Ch 1228/91 (SB 550, Petris) and Ch 1227/91 (AB 1742, Hayden).

Of the increase, $285,000 is for additional personnel and related operating expenses to issue notices of suspension, review requests for deferral of suspension, and related administrative activities. The remaining $500,000 is for a contract with the Attorney General for legal costs associated with holding hearings to suspend pesticide registrations. The department indicates that it will hold approximately 50 suspension hearings each year over the next five years, and it estimates that each hearing will cost approximately $10,000.

Contract Funds Are Not Justified. Our analysis indicates that the department has not justified its request for $500,000 to contract with the Attorney General for legal costs associated with holding hearings to suspend pesticide registrations. Although the department has submitted some information regarding the number of suspension hearings it intends to hold in 1992-93, it has not submitted information justifying the estimated costs of the hearings. Furthermore, the budget for the Attorney General does not reflect any increase in reimbursements from the PRD in 1992-93. Accordingly, there is no information from the Attorney General as to whether the department's estimate of the costs of the suspension hearings is reasonable. Without this information, we have no basis to recommend approval of the request for $500,000.

Program Costs Should Be Paid From the Department Of Pesticide Regulation Fund. Our analysis indicates that the costs of the program should be paid from the DPRF, rather than the General Fund. In our overview of resources and environmental protection program expenditures, we provide a framework for financing for resource and environmental protection programs. Under this framework, programs that result in a direct benefit to an identifiable group of people appropriately can be financed from fees. This is because it is reasonable for the people that benefit from a program to pay for the costs of the program.

In addition, programs that are designed to address problems that are caused by *private* activities that use or degrade *public* resources appropriately can be financed from fees assessed on the private entities. This is because the individuals, businesses, or industries that use or degrade a resource should pay all or a portion of the social costs imposed by their use.

Our analysis indicates that the programs required by Chapters 1227 and 1228 meet both of these conditions. Chapters 1227 and 1228 are designed to reduce the risk of long-term public health effects from the use of pesticides, by identifying those pesticides that have negative health effects and taking appropriate regulatory actions on those pesticides for which there is information, or for which no information exists. It is reasonable to finance the costs of these programs through the assessment of industry-wide fees, because the pesticide manufacturers should pay for the efforts to minimize the social costs that result from the activities of the industry.

Furthermore, the provisions of Chapter 1228 that defer the suspension process for certain pesticides results in a direct benefit to some pesticide manufacturers. These programs would not be necessary if the manufacturers that failed to comply with the law requiring submittal of the data by March 1, 1991, had complied. Thus, these pesticide manufacturers benefit from special processes that allow them to continue selling their product in the state. Accordingly, it is reasonable that the manufacturers that benefit from these programs should pay the costs of the programs.

Recommendation. In order to appropriately fund the programs required by Chapters 1227 and 1228, we recommend that the Legislature shift $285,000 in expenditures from the General Fund to the DPRF for the personnel and associated operating expenses requested to implement these acts.

Although the Governor's Budget indicates that there are not sufficient reserves in the DPRF to fund these programs, we believe that the Legislature has several options that will enable it to fund the programs from the DPRF:

- ***Increase the Mill Tax Rate.*** As discussed earlier, the department's budget assumes enactment of legislation that will eliminate the sunset date of the $0.009 per dollar sales of pesticides increase in the mill tax rate authorized by Chapter 1679. The programs required by Chapters 1227 and 1228 could be financed by increasing the mill tax rate by less than an additional 1 mill.

- ***Direct the PRD to Collect Sufficient Charges to Pay for Program Costs.*** Chapter 1228 authorizes the department to charge registrants that are granted a deferral of suspension up to $1,000 for each day that a product remains on the market and continues to have data gaps. The department's revenue estimates do not reflect any increased revenues from this source. The Legislature could direct the department to collect sufficient charges to pay the costs of the programs. The department estimates that as few as 18 products may be subject to the charges. Thus, in order to fund the cost of the programs from the charges authorized by Chapter 1228, the department could charge the manufacturers of the 18 products approximately $16,000 per product in 1992-93.

- ***Reduce Funding From Other Programs.*** If the Legislature determines that funding the programs authorized by Chapters 1227 and 1228 is a high priority, the Legislature could reduce the funding for other, lower priority programs, that are funded from the DPRF. All of the programs funded from the DPRF are shown in Table 1.

State Water Resources Control Board
Item 3940

Expenditures

Requested 1992-93	$534,387,000
Estimated 1991-92	410,150,000
Actual 1990-91	220,011,000
Requested increase $124,237,000 (+30.3 percent)	

Fiscal Recommendations

Total recommended reduction	$6,086,000
Total recommended fee increases	32,604,000

MAJOR ISSUES

- **Board's Regulatory Programs.** By increasing the regulatory fees for the board's water quality and water rights programs, the Legislature could more appropriately finance the board's activities and free up $28 million from the General Fund.
- **State Clean Water Bond Funds.** The board proposes to spend the entire $15 million proposed in 1992-93 from the State Clean Water Bond Fund for various costs that are not related to providing clean water grants to local governments.

Findings and Recommendations

Analysis Page

1. **Budget Apparently Assumes Enactment of Legislation.** The budget appears to assume that legislation will be enacted to increase the maximum level of waste discharge permit fees that may be assessed by the board. 114
2. **Regulatory Program Should be Funded By Fees.** Recommend enactment of legislation requiring regulatory fees be adjusted annually to cover the costs of the board's regulatory programs, thereby freeing up approximately $28 million from the General Fund for other legislative priorities. 115

3. **Core Regulatory Program. Reduce Item 3940-001-193 by $1,480,000.** Recommend reduction because the board overestimates the number of personnel needed to address backlogs and ongoing workload in the core regulatory programs. 117

4. **State Clean Water Bond Funds.** 118

   (a) The board proposes to spend the entire $15 million requested in 1992-93 from the State Clean Water Bond Fund (SCWBF) for various costs that are not related to providing clean water grants to local governments.

   (b) Recommend adoption of Budget Bill language directing the board not to use $4.6 million in SCWBF monies to establish an agricultural drainage waters monitoring and control program because the program should be funded from fees.

   (c) Recommend enactment of legislation to fund the agricultural drainage waters monitoring and control program from fees.

General Program Statement

The State Water Resources Control Board regulates water quality in the state and administers water rights.

The board carries out its water quality control responsibilities by (1) establishing wastewater discharge policies, (2) implementing programs to ensure that waters of the state are not contaminated by surface impoundments, underground tanks, or aboveground tanks, and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment facilities. Nine regional water quality control boards establish wastewater discharge requirements and carry out water pollution control programs in accordance with the policies, and under the supervision, of the state board. Funding for the regional boards is included in the state board's budget.

The board's water rights responsibilities involve issuing and reviewing permits and licenses to applicants who wish to appropriate water from the state's streams, rivers, and lakes.

Overview of the Budget Request

The budget for the SWRCB includes a significant increase in federal funds and bond funds to provide loans to local agencies for the construction of wastewater treatment facilities, and several program changes that result in significant increases over the board's current-year funding level.

The budget proposes total expenditures of $534 million from all sources for the State Water Resources Control Board in 1992-93. This is an increase of $124.2 million, or 30 percent, above estimated current-year expenditures. Of the amount requested, $111 million is for support of the SWRCB and regional boards, $77 million is for implementing a program to pay eligible owners of leaking underground petroleum tanks for their costs of cleaning up the tanks, and $346 million is for loans and grants to local agencies for wastewater treatment facilities and agricultural drainage projects. Table 1 shows the board's expenditures by program, and funding sources for the past, current, and budget years.

This board, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 9.5 percent from the General Fund in 1991-92. (This reduction is 3.4 percent of the board's total support budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Proposed Budget Changes for 1992-93

Table 2 summarizes, by funding source, the changes proposed in the board's budget for 1992-93. As shown in Table 2, the proposed $124 million net increase in expenditures results primarily from a $118 million increase in federal funds and state bond funds for loans to local governments for the construction of wastewater treatment facilities. The budget includes the following significant program changes:

- An increase of $5.9 million from the Underground Storage Tank Cleanup Fund to implement Ch 1366/90 (SB 2004, Keene) which provides for the payment of cleanup costs incurred by eligible owners of leaking underground petroleum storage tanks.
- An increase of $4.7 million from the State Clean Water Bond Fund to test the toxicity of agricultural drainage waters, establish site specific water quality objectives for these waters, and to assess the effectiveness of water quality control efforts to address agriculture-related water quality problems, in accordance with the board's Inland Surface Waters Plan.
- An increase of $3.8 million in waste discharge permit fee revenues — offset by a reduction of $203,000 from the General Fund and $257,000 in federal funds and reimbursements — to augment the board's regulation of waste dischargers.
- A decrease of $6.1 million to reflect the winding down of certain programs, and to realign the expenditures for various programs with anticipated revenues to support the programs.

STATE WATER RESOURCES CONTROL BOARD—Continued

Table 1

State Water Resources Control Board Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Water Quality Regulation				
Facility permitting and enforcement	$20,991	$26,861	$29,175	8.6%
Pollution control — unpermitted facilities	7,312	18,141	16,434	-9.4
Storage tank regulation and cleanup	55,745	134,767	143,491	6.5
Water quality standards and assessments	22,377	31,882	33,802	6.0
Pollution control facility development and support	101,530	186,128	299,078	60.7
Technical assistance and planning	3,575	3,657	3,573	-2.3
Subtotals, water quality regulation	($211,530)	($401,436)	($525,553)	(30.9%)
Water Rights				
Water appropriation	$4,186	$4,384	$4,356	-0.6%
Water management and enforcement	2,925	2,867	2,774	-3.2
Determination of existing rights	90	152	157	3.3
Technical assistance	1,280	1,311	1,547	18.0
Subtotals, water rights	($8,481)	($8,714)	($8,834)	(1.4%)
Administration (distributed to other programs)	($8,288)	($8,981)	($9,247)	(3.0%)
Totals	**$220,011**	**$410,150**	**$534,387**	**30.3%**
General Fund	*$37,014*	*$35,147*	*$34,945*	*-0.6%*
Waste Discharge Permit Fund	*1,049*	*7,215*	*11,053*	*53.2*
Underground Storage Tank Cleanup Fund	*5,561*	*70,118*	*76,615*	*9.3*
Other special funds and bond funds[a]	*67,468*	*92,661*	*122,669*	*32.4*
Federal funds	*106,588*	*200,347*	*285,538*	*42.5*
Reimbursements	*2,331*	*4,662*	*3,567*	*-23.5*
Personnel-Years	**1,051**	**1,264**	**1,274**	**0.8%**

[a] Includes Hazardous Waste Control Account, Environmental Protection Trust Fund, Public Resources Account, and other state special funds.

Table 2

State Water Resources Control Board
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	Other State Funds[a]	Federal Funds and Reimburse-ments	Total
1991-92 Expenditures (rev.)	$35,147	$182,994	$192,009	$410,150
Baseline adjustments				
Increase funds for clean water grants and loans	—	22,300	95,500	117,800
Delete one-time costs	—	-2,118	-160	-2,278
Increased operating expense adjustment	109	640	238	987
Miscellaneous adjustments	-108	970	-2,558	-1,696
Subtotals, baseline adjustments	($1)	($21,792)	($93,020)	($114,813)
Program changes				
Augment underground storage tank cleanup program	—	$5,966	-$51	$5,915
Augment waste discharge permit program	-$203	3,809	-257	3,349
Establish agricultural drainage water quality control program	—	4,604	-92	4,512
Expand bay protection and toxic cleanup program	—	1,415	341	1,756
Realign expenditures and revenues	—	-2,743	-3,365	-6,108
Subtotals, program changes	(-$203)	($13,051)	(-$3,424)	($9,424)
1992-93 Expenditures (prop.)	**$34,945**	**$217,837**	**$281,605**	**$534,387**
Change from 1991-92 (rev.)				
Amount	-$202	$34,843	$89,596	$124,237
Percent	-0.6%	19.0%	46.7%	30.3%

[a] Includes the Underground Storage Tank Cleanup Fund, the Waste Discharge Permit Fund, the Bay Protection and Toxic Cleanup Fund, various other state special funds, and various state bond funds.

Fee Support for the Board's Programs

At least 12 of the board's activities are supported wholly or in part by fee revenues. These activities include both water quality and water rights programs. The board's fees vary by type and by frequency of payment. Fee types and frequencies include: one-time application fees (for example water rights permits), annual permit fees (waste discharge permits), periodic licensing fees (treatment plant operators), and quarterly mill taxes (the underground storage tank maintenance fee of $0.006 — or six mills — per gallon of petroleum stored in underground tanks).

Some of the fees collected by the board are variable, depending on the board's actual expenditures. For example, the law requires that the board be reimbursed for the full costs of adjudicating a water rights dispute.

Other fee amounts are specifically set by statute. The fee schedule for applications to appropriate water, for example, is specified in the Water Code and relates the level of the fee to the quantity of water proposed to be diverted.

For still other fees, statute specifies maximum fee amounts but gives the board the discretion to establish a fee schedule below the maximum. The annual waste discharge permit fee, for example, may not exceed $10,000 per year; the board has set the current maximum discharge permit fee at $10,000, but the fees for other discharge permits are at lower levels (as low as $200) and vary based on the discharge's total threat to water quality as determined by the board.

The percentage of the board's costs covered by fee revenues varies by program. Programs range from being fully fee supported (for example, the Bay Protection and Toxic Cleanup program) to relatively low levels of fee support (such as the board's water rights program in which approximately 2.1 percent of program expenditures currently come from fee revenues) to no fee support (such as certain laboratory services).

Analysis and Recommendations

Budget Apparently Assumes Enactment of Fee Legislation

The budget appears to assume that legislation will be enacted to increase the maximum level of waste discharge permit fees that may be assessed by the board.

The budget proposes an increase of $3.8 million from the Waste Discharge Permit Fund (WDPF) and 54.6 personnel-years in 1992-93 to (1) address increased workload in the board's core regulatory programs and (2) reduce the existing backlog of regulatory activities in these programs. (Of this amount, $460,000 would be used to offset expenditures from the General Fund, federal funds, and reimbursements for these programs). The proposed increase would be funded by increased fees on waste dischargers that are regulated by the board.

This proposal is the second part of a two-year expansion in the board's core regulatory programs to address the workload and backlogs in those programs.

In the current year, the board received an increase of $3.6 million to address the workload and backlog in the core regulatory programs. This increase was funded from a $4.3 million increase in waste discharge fees (approximately $669,000 of which was used to offset existing General Fund expenditures for the program), which were deposited into the WDPF.

Current law establishes a ceiling of $10,000 on the level of waste discharge fees that can be charged by the board. In order to fund the core regulatory program expansion in the current year, the board revised the fee schedule to increase from $3,100 to $10,000 the maximum fee charged to dischargers, and from $100 to $200 the minimum waste discharge fee charged by the board.

During legislative hearings in the current year, the board indicated that additional efforts to increase waste discharge fees (beyond the $4.3 million increase in the current year) would require an increase in the statutory maximum fee. The board argued that without an increase in the statutory maximum fee, the waste discharge fee schedule would become "compacted," resulting in small dischargers that pose a low threat to water quality paying almost as much as larger facilities that pose a high threat to water quality.

Accordingly, it appears that the board's proposal to increase waste discharge fees in 1992-93 to generate an additional $3.6 million is based on the assumption that legislation will be enacted to increase the statutory maximum fee, otherwise the schedule of waste discharge fees will become compacted in 1992-93.

Board's Regulatory Programs Should be Fully Funded From Fees

We recommend enactment of legislation requiring that waste discharge fees, water rights fees, and all other regulatory fees assessed by the board be adjusted annually to a level that will generate sufficient revenues to cover the costs of the board's regulatory programs. Enactment of these changes in legislation will free up approximately $28 million from the General Fund in 1992-93 for other legislative priorities.

The budget proposes a total of $188 million for the general support of the SWRCB and regional boards in 1992-93. Of this amount, $35 million is proposed from the General Fund, $19 million from various special funds supported by regulatory fees, and $134 million from federal funds, reimbursements, miscellaneous state bonds, and other funds. These funds are used to support the board's programs for (1) regulating water quality and water rights in the state (including associated planning, technical assistance, and enforcement), (2) cleaning up spills and leaks from unpermitted facilities and storage tanks that threaten water quality, and (3) assisting local agencies in development of wastewater treatment facilities.

Legislature Requires Report on Appropriateness of Shifting the Board's Programs to Fees. In our *Analysis of the 1991 Budget Bill,* we indicated that under certain conditions, it may be appropriate and desirable to increase the portion of the board's programs that are funded from fees and correspondingly decrease the General Fund appropriation for these programs. As a result, in order to evaluate the appropriateness of shifting to fees the General Fund costs of the boards programs, the Legislature adopted language in the *Supplemental Report of the 1991 Budget Act* directing the department to submit, by January 1992, a report evaluating the appropriateness and desirability of imposing new water quality fees to fund that portion of the board's water quality program currently supported from the General Fund. At the time this analysis was prepared (early February), however, the board had not submitted the report.

Board's Regulatory Programs Should Be Funded From Fees. Our analysis indicates that all of the board's regulatory and planning programs in the water quality and water rights areas should be funded from fees, rather than from the General Fund. In our overview of the resources and environmental protection budgets, we provide a framework for financing resource and environmental protection programs. Under this framework, fees are an appropriate way of financing programs that prevent the use or degradation of *public* resources by *private* activities. This is because the individuals, businesses, or industries that use or degrade a public resource are required to pay for minimizing the social costs imposed by their activity.

The discharge of wastes into waters of the state or onto land can potentially result in social costs by harming public health and the environment. Similarly, the appropriation of waters of the state can potentially result in social costs by reducing the amount and quality of water available for fish and wildlife resources, as well as by reducing the quality of the water for use by people. In order to minimize these social costs, the board regulates wastewater discharges and water rights appropriations.

Our analysis indicates that the costs of regulating the discharge of wastes and the appropriation of water should be funded from regulatory fees, not from the General Fund. This is because the people who potentially damage public resources or who use public resources for private purposes should pay for regulating the risks that their activity imposes on the general public.

Accordingly, in order to appropriately fund the board, we recommend enactment of legislation requiring that waste discharge fees, water rights fees, and other regulatory fees, be adjusted annually to a level that generates sufficient revenues to cover the costs of the board's regulatory program. This will free up approximately $28 million from the General Fund, as well as monies from other special funds, for other legislative priorities.

Core Regulatory Program Overbudgeted

We recommend a reduction of $1.5 million from the Waste Discharge Permit Fund requested to address workload increases and backlogs in the board's core regulatory programs because the board has not justified its request. (Reduce Item 3940-001-193 by $1,480,000.)

Under the general authority of the Porter-Cologne Water Quality Control Act, the board administers three separate permitting programs to regulate waste discharges. These so-called "core regulatory programs" include:

- The National Pollution Discharge Elimination System (NPDES) which regulates discharges to the waters of the state — administered under an agreement with the federal EPA in accordance with the federal Clean Water Act.
- The so-called "Chapter 15 Program" which regulates discharges of hazardous waste to land — under Chapter 15, Title 23 of the California Code of Regulations.
- The "Non-Chapter 15 Program" which regulates discharges of non-hazardous waste to land — as required by the Porter-Cologne Water Quality Control Act.

Each of these programs involves four primary activities: (1) issuance and periodic renewal of permits, (2) inspection of waste treatment works, (3) evaluation of monitoring data, and (4) enforcement of water quality standards.

In the current year, the board received a net increase of $3.6 million to address workload increases and backlogs in the core regulatory programs. The board indicates, however, that it continues to have significant backlogs in the program, and that there is not sufficient personnel to address ongoing workload. Specifically, the board estimates that it would need an additional 198 positions to address the backlogs and ongoing workload in the core regulatory programs. As a result, the board is requesting a net increase of $3.6 million and 54.6 personnel-years in 1992-93 as a step towards addressing the workload problems in the core regulatory program.

Our analysis indicates, however, that the board overestimates the number of personnel needed to address the backlog and ongoing workload in the core regulatory program. Specifically, we estimate that the board needs an increase of only $1.9 million and 30.4 personnel-years, rather than the 198 positions it estimates. This is because the board, in determining the number of personnel needed to implement the core regulatory program, used different workload standards for each of the nine regions. For example, the board assumes that a person in Region 2 (San Francisco Bay Region) can review only 30 monitoring reports per year. However, at the same time, a person in Region 6 (South Lake Tahoe Region) can review 466 monitoring reports per year, or almost 16 times the number of reports reviewed by a person in Region 2.

The board indicates that each region has different workload standards because the standards are based on actual experience and include various "unbudgeted emergencies and other activities." Additionally, the board indicates that each region varies in the thoroughness, detail, and efficiency with which it carries out its activities.

We see no reason that the workload standards should vary from region to region. The board has been unable to provide information justifying such significant variations among regions.

In addition, the workload standards should not include "unbudgeted emergencies," because the existence of emergencies in the past does not justify the need for resources to address unidentified emergencies in the future. Furthermore, to the extent that the board encounters "unbudgeted emergencies" it should request, pursuant to Section 27.00 of the Budget Bill, any additional resources at the time the emergency is identified, rather than budgeting the resources as a contingency.

Finally, to the extent that the workload standards include "other *unidentified* activities" the board should identify the other activities and the personnel needed to carry out those activities, rather than including them in the workload standards for the core regulatory programs.

As a result, we recalculated the board's workload standards using the highest actual workload standard for each activity for all of the regions. Using this approach, our analysis indicates that the entire core regulatory program workload can be addressed by an additional $1.9 million and 30.4 personnel-years over its current-year levels, or $1.5 million less than the amount requested. Accordingly, we recommend a reduction of $1.5 million from the Waste Discharge Permit Account.

State Clean Water Bond Fund Monies Proposed Primarily for Contracts and Other Support Costs

We find that the board proposes to spend the entire $15 million requested in 1992-93 from the State Clean Water Bond Fund for various costs that are not related to providing clean water grants to local governments.

We recommend (1) the adoption of Budget Bill language directing the board to not use monies from the State Clean Water Bond Fund to establish an agricultural drainage waters monitoring and control program as part of its Inland Surface Waters Plan, and (2) enactment of legislation authorizing the board to assess fees on agricultural drainage dischargers to cover the

costs of the agricultural drainage waters monitoring and control program, in order to fund this program appropriately.

Between 1970 and 1978, the voters approved a total of $875 million in general obligation bond funds for various clean water activities, including (1) making grants to local governments for the construction of wastewater treatment facilities, and (2) undertaking plans, surveys, research and studies related to water quality, including comprehensive statewide studies. Although the bond acts do not specify how the monies should be divided between these two activities, the bond acts include a finding of the Legislature's intent that the bond monies be used to provide state matching grants for federal clean water grants because many local agencies do not have sufficient financial resources to meet wastewater treatment requirements.

The bond funds are deposited into the State Clean Water Bond Fund (SCWBF), and these monies are continuously appropriated to the board. The budget indicates that little money remains in the SCWBF — only $18.9 million will be available for expenditure in 1992-93.

Board Proposes to Use SCWBF Monies For Studies, Rather Than Treatment Plant Construction. The budget indicates that the board intends to spend a total of $15 million from the SCWBF in 1992-93. Of this amount, the board intends to spend (1) $5.8 million to contract out for various water quality and water rights studies, (2) $4.6 million to establish a new program to monitor and control agricultural drainage waters, (3) $3.9 million for personnel and associated costs in special investigations, planning, and technical assistance, and (4) $700,000 for local assistance related to storage tank regulation and clean-up.

The board proposes to spend no monies from the SCWBF for grants to local governments for the construction of wastewater treatment facilities, despite the ever-increasing demand by local governments for grants and loans to finance these projects. Instead the board proposes to use the funds for various ongoing and one-time operational costs. For example, some of the costs of the contracts proposed to be funded from the SCWBF include (1) the state mussel watch program, (2) an evaluation of pesticides in the San Joaquin and Sacramento rivers, and (3) toxicity monitoring of steelhead streams.

Agricultural Drainage Program Should Be Funded From Fees. The budget proposes to spend $4.6 million from the SCWBF to establish a new program for monitoring and controlling the discharge of agricultural drainage waters.

The board indicates that some agricultural drainage waters contain toxic concentrations of certain agricultural chemicals (such as pesticides). As a result, the board established water quality objectives in its Inland Surface Waters Plan that are designed to protect water quality from the impacts of agricultural drainage discharges.

STATE WATER RESOURCES CONTROL BOARD—Continued

In order to begin implementing the Inland Surface Waters Plan, the board proposes $4.6 million from the SCWBF to: (1) monitor and evaluate the toxicity of agricultural drainage waters, (2) establish site specific water quality objectives for these waters where appropriate, and (3) assess the effectiveness of water quality control efforts to address agriculture-related water quality problems.

As discussed previously, in our overview of the resources and environmental protection budgets, we provide a framework for financing resource and environmental protection programs. Under this framework, fees are an appropriate way of financing programs that prevent the use or degradation of *public* resources by *private* activities. This is because the individuals, businesses, or industries that use or degrade a public resource are required to pay for minimizing the social costs imposed by their activity.

The discharge of agricultural drainage waters may result in social costs to the extent that these waters cause damage to the public health and the environment. The board's proposal for monitoring and controlling the discharge of these waters is designed to minimize social costs resulting from the discharge of the agricultural drainage waters.

As a result, the costs of this program should be funded from regulatory fees, not from the SCWBF (which is a general obligation bond fund), because this will require the people that potentially damage public resources to pay for regulating the risks that their activity imposes on the general public.

Furthermore, funding the program from fees, rather than from the SCWBF, will provide an ongoing funding source for the program. Although the board indicates that the program is intended as a multi-year program, there will not be sufficient monies in the SCWBF to fund the program after 1992-93. Funding the program from fees, however, will provide the board with a funding source that will be able to sustain its multi-year effort.

Accordingly, we recommend (1) adoption of Budget Bill language directing the board not to spend monies from the SCWBF for the monitoring and control of agricultural drainage waters, and (2) enactment of legislation requiring the board to assess fees on agricultural drainage waters dischargers to pay for the costs of this program. Adoption of this recommendation would result in savings to the SCWBF of $4.6 million, and increased costs supported by fees of a like amount.

Department of Toxic Substances Control
Item 3960

Expenditures

Requested 1992-93	$109,273,000
Estimated 1991-92	130,574,000
Actual 1990-91	80,768,000
Requested decrease $21,301,000 (-16.3 percent)	

Fiscal Recommendations

Total recommended reduction	None
Recommendation pending	$926,000

MAJOR ISSUES

- **Toxics Funding Shortfall.** Revenues for support of the toxics program will not be sufficient to fund proposed site mitigation or hazardous waste management activities in 1992-93.
- **Departmental Compliance.** The department failed to comply with various legislative requirements, thereby reducing the Legislature's abilities to oversee departmental programs and address budget problems.
- **Hazardous Waste Disposal.** The budget estimates that 96 percent of California's hazardous wastes sent for disposal will be sent out of state beginning in 1992-93.

Findings and Recommendations

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1. **Toxics Funding Shortfall.** Revenues used to support the Department of Toxic Substances Control will not be sufficient to fund proposed site mitigation or hazardous waste management activities in 1992-93. 125

2. **Options to Address Funding Shortfall.** The Legislature has several options available to address the funding shortfall in 1992-93, including deferring contracts, reducing personnel, or increasing revenues. 128
3. **Department Fails To Comply with Legislative Directives.** The department failed to comply with various legislative directives, thereby reducing the Legislature's oversight and its ability to address the department's budget problems. 130
4. **Cost Recovery Program Automation.** Withhold recommendation on $926,000 for cost recovery personnel, pending an evaluation of the effects on workload of automating the cost recovery process. 131
5. **Hazardous Waste Disposal Headed Out-of-State.** The budget assumes that implementation of state and federal legislation will significantly increase the amount of hazardous wastes in California that are sent out of state for disposal. 132

General Program Statement

The Department of Toxic Substances Control (DTSC) was created in 1991 as part of the California Environmental Protection Agency to protect the public health and the environment from unsafe exposure to toxic substances. These functions previously were carried out by the Toxic Substances Control Division of the Department of Health Services. The DTSC (1) regulates hazardous waste management, (2) cleans up sites that have been contaminated by toxic substances, and (3) promotes methods to treat and safely dispose of hazardous wastes and reduce the amounts of hazardous wastes that are generated in the state. The department is primarily funded from fees and taxes assessed on persons that generate, store, treat, or dispose of hazardous wastes.

Overview of the Budget Request

The proposed budget essentially is a workload budget, except for (1) a $2.8 million increase to implement recently enacted legislation and (2) the elimination of bond funds and other one-time funds available for cleaning up sites.

The budget proposes total expenditures of $109.3 million (all funds) for support of the DTSC in 1992-93. This is a reduction of $21.3 million, or 16 percent, below estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93.

Table 1

Department of Toxic Substances Control Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Site mitigation	$42,586	$83,387	$61,435	-26.3%
Facility permitting	13,614	15,490	15,255	-1.5
Surveillance and enforcement	15,940	19,067	19,861	4.2
Alternative technology	8,628	12,630	12,722	0.7
Administration (distributed)	(12,080)	(16,410)	(17,711)	7.9
Totals	**$80,768**	**$130,574**	**$109,273**	**-16.3%**
General Fund	*$134*	*$7,712*	*—*	*-100.0%*
Hazardous Waste Control Account	*32,773*	*39,562*	*$40,213*	*1.6*
Hazardous Substance Account	*34,818*	*40,293*	*39,838*	*-1.1*
Other special funds and bond funds[a]	*-13*	*20,994*	*11,865*	*-43.5*
Federal funds	*11,004*	*20,070*	*15,230*	*-24.1*
Reimbursements	*2,052*	*1,943*	*2,127*	*9.5*
Personnel-Years	**870**	**842.7**	**900.1**	**6.8%**

[a] Includes the Special Account for Capital Outlay, Hazardous Spill Prevention Account, Used Oil Market and Collection Promotion Fund, Hazardous Waste Management Planning Subaccount, Hazardous Substance Site Operations and Maintenance Account, Hazardous Substance Cleanup Fund, and the Superfund Bond Trust Fund.

Table 2 summarizes, by funding source, the changes proposed in the department's budget for 1992-93. As shown in Table 2, the proposed $21.3 million net decrease in expenditures primarily is due to:

- A reduction of $15.9 million from the Hazardous Substance Cleanup Fund (HSCF) for site cleanup contracts. The HSCF has been supported by $100 million in bond funds approved by the voters in 1984 for cleaning up hazardous waste sites. The budget estimates that all funds in the HSCF will be spent by the end of the current year.
- A reduction of $8.5 million from various funds to reflect the expenditure in the current year of one-time funds appropriated in legislation.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL—Continued

- A reduction of $4.8 million in federal funds resulting from a reduction in federal special projects.
- An increase of $6.5 million for debt service on the bond funds approved by the voters in 1984 for cleaning up hazardous waste sites.

Table 2

Department of Toxic Substances Control Proposed 1992-93 Budget Changes

(dollars in thousands)

	Hazardous Waste Control Account	Hazardous Substance Account	Other State Funds[a]	Federal Funds and Reimbursements	Total
1991-92 Expenditures (rev.)	**$39,562**	**$40,293**	**$28,706**	**$22,013**	**$130,574**
Baseline adjustments					
Increase debt service	—	—	6,477	—	6,477
Federal special projects	—	—	—	-4,840	-4,840
Site operation — Stringfellow	—	—	-2,526	—	-2,526
Reduce site mitigation bond funds	—	—	-15,931	—	-15,931
Eliminate one-time appropriations:					
Stringfellow/San Gabriel — Ch 1428/85	—	—	-7,712	—	-7,712
McColl site — Ch 1302/82	—	-694	—	—	-694
ASARCO site — Ch 1624/88	—	—	-82	—	-82
Miscellaneous adjustments	651	239	99	184	1,173
Subtotals, baseline adjustments	($651)	(-$455)	(-$19,675)	(-$4,656)	(-$24,135)
Program changes					
Railroad accident prevention and response — Ch 766/91	—	—	$2,620	—	$2,620
Inspect used oil recycling facilities — Ch 817/91	—	—	214	—	214
Subtotals, program changes	—	—	($2,834)	—	($2,834)
1992-93 Expenditures (prop.)	**$40,213**	**$39,838**	**$11,865**	**$17,357**	**$109,273**
Change from 1991-92 (rev.)					
Amount	$651	-$455	-$16,841	-$4,656	-$21,301
Percent	1.6%	-1.1%	-58.7%	-21.2%	-16.3%

[a] Includes the Special Account for Capital Outlay, Hazardous Substance Cleanup Fund, Hazardous Substance Site Operations and Maintenance Account, Used Oil Market and Collection Promotion Fund, Hazardous Spill Prevention Account, and Superfund Bond Trust Fund.

Analysis and Recommendations

Funding Shortfall in 1992-93

The fee and tax revenues used to support the DTSC probably will not be sufficient to fund proposed site mitigation or hazardous waste management activities in 1992-93. We recommend that the department submit, prior to budget hearings, (1) a revised revenue estimate for 1991-92 and 1992-93, based on current-year actual revenues to date, and (2) a plan for reducing expenditures in the current year (if needed) and in 1992-93 to bring expenditures in line with revenues and reserve requirements.

The budget proposes total expenditures of $109.3 million (all funds) for support of the department in 1992-93. The program is supported from two major funding sources:

- The *Hazardous Waste Control Account (HWCA)* funds the state's hazardous waste control program. The account is supported by fees assessed against (1) hazardous waste storage, treatment, and disposal operators; (2) facilities that generate hazardous waste; and (3) corporations that use, store, generate, or conduct activities related to hazardous materials.
- The *Hazardous Substance Account (HSA)* funds the state's site mitigation program. The account is supported by taxes and fees assessed primarily against (1) persons who dispose of hazardous wastes based upon the amount and toxicity of the waste and (2) persons responsible for toxic substance releases to help pay the department's costs of overseeing site cleanup.

Past Revenue Estimates Have Been Overly Optimistic. In our review of the department's proposed budgets for both 1990-91 and 1991-92, we evaluated the department's revenue estimates, and projected whether fee revenues to the HSA and HWCA would be sufficient in future years. We concluded that fee revenues for support of the department would not be sufficient to fund projected expenditures in 1991-92 and 1992-93. Subsequent to our analysis, the department notified the Legislature in May 1991 that revenues to the HWCA and the HSA for 1990-91 were significantly below the amounts estimated in January 1991. The department also indicated that it would make significant program reductions and reduce its carryover reserves into 1991-92 to address the shortfalls.

At that time, we raised concerns that (1) the department's revenue estimate for 1991-92 continued to be overly optimistic, and (2) the proposed reserves in the HWCA and HSA for 1991-92 were too low. As a result, the Legislature adopted language in the *Supplemental Report of the 1991 Budget Act* stating its intent that the Department of Finance, in constructing the Governor's Budget for 1992-93, establish reserves for economic uncertainty in the HWCA and HSA at the end of 1992-93 that are equal to at least 5 percent of proposed expenditures from those funds.

HSA Revenue Shortfalls Are Likely To Occur in 1992-93. Our analysis indicates that the department's revenue estimates continue to be overly optimistic, and that revenue shortfalls are likely to occur in the HWCA in the current year, and in both the HWCA and the HSA in 1992-93. Specifically, Table 3 shows that proposed expenditures exceed our estimate of revenues by at least $10 million in both 1991-92 and 1992-93. However, in the current year the gap between expenditures and revenues is offset by the extremely large beginning reserves in the HSA, and therefore funds appear sufficient to pay for projected costs in 1991-92. (The large beginning reserves result because in 1990-91 the department disencumbered $15.4 million in unspent contract monies).

Table 3

Department of Toxic Substances Control
LAO Projected Revenues and Expenditures
Hazardous Substance Account
1991-92 and 1992-93

(in thousands)

	Governor's Budget	LAO Estimate
1991-92:		
Beginning reserve, 1991-92[a]	$16,873	$18,921
Revenue	43,907	37,856
Expenditures	47,838	47,838
Ending reserve, 1991-92	12,942	8,939
1992-93:		
Beginning reserve, 1992-93	$12,942	$8,939
Revenue	39,361	33,327
Expenditures	47,323	47,323
Ending reserve, 1992-93	$4,980	-$5,057

[a] Relatively high beginning reserve in 1991-92 is due to the department disencumbering in 1990-91 approximately $15.4 million in unspent contract monies. The Governor's Budget, in error, shows disencumbrances in 1990-91 of only $13.4 million.

However, in 1992-93, the beginning reserves are not sufficient to fill the gap between revenues and expenditures, and thus we project that a $5 million shortfall is likely to occur in the HSA. Moreover, the shortfall will grow in outlying years because no reserve will be available to partially offset the $14 million gap between revenues and expenditures.

Possible Reasons For HSA Revenue Decline. The shortfall in revenues to the HSA results primarily from a rapid decline in the tonnage and toxicity of hazardous wastes that are disposed, and thus a corresponding reduction in the taxes on these wastes. There are several possible reasons for the rapid decline in the tonnage of wastes disposed:

- ***Hazardous waste reduction programs.*** Many of the department's programs are designed to directly or indirectly reduce the tonnage and toxicity of the hazardous wastes generated and disposed. The tonnage and toxicity of wastes disposed have been declining for several years, at least partially as a result of these programs.
- ***Current economic conditions.*** The current recession has generally slowed business activity. Therefore, it is likely that at least part of the recent decline in the tonnage of hazardous waste disposed results from the current economic conditions.
- ***Effects of federal and state legislation.*** Both the state and federal governments have adopted regulations that require, effective in 1992, hazardous wastes to be treated prior to disposing of the wastes onto land (the so-called "land ban"). The reduction of wastes disposed could be a reaction to the impending treatment requirements.

HWCA Revenue Shortfalls Also Are Likely To Occur In 1991-92 and 1992-93. There is not sufficient information on HWCA revenues received to date to be able to project 1991-92 or 1992-93 revenues. Nevertheless, our analysis indicates that the department's revenue assumptions for the two years appear overly optimistic, and that a shortfall is likely to occur in the HWCA in both 1991-92 and 1992-93. Our analysis indicates that the department's revenue estimates appear overly optimistic for the following reasons:

- ***Current economic conditions.*** The department's revenue estimates do not assume any reduction in the amount of wastes generated or the number of hazardous waste management facilities operating as a result of the current recession. The recession has caused a reduction in business activity in general, and thus it is likely to affect hazardous waste generators and management facilities as well.
- ***No historical data on permit-by-rule program.*** The department estimates that it will receive $6 million in 1991-92 and $4.2 million in 1992-93 from fees paid by people under the new "permit-by-rule" program. Under this program, the department will issue operating permits through regulations to hazardous waste-related industries, and then inspect individual facilities over a period of years to ensure that they comply with the permit conditions. Facilities receiving a permit by rule will be required to pay an annual fee of $1,000. Because the program has yet to be implemented, there is no historical

data to determine the number of people that may pay the fee. To the extent that these revenues do not materialize at the level projected, the department will have an HWCA funding gap in 1992-93.

- *Petitions for redetermination.* The department assumes that it will receive $7.2 million in 1991-92 and $2 million in 1992-93 from persons who have refused to pay fees pending an appeal to the Board of Equalization (BOE). The department assumes that a significant number of the appeals will be determined in the department's favor. However, if the BOE determines that the petitioners are not subject to the fees, or if the BOE delays its decisions beyond the budget year, there will be a significant shortfall in the HWCA. For instance, the department previously estimated that it would receive $4 million from petitioners in 1990-91, however, no revenue was received from petitioners in that year.

HWCA Proposed Reserves Do Not Comply With Legislative Intent. The department is proposing a reserve in the HWCA of $3.5 million, or 5.9 percent of estimated expenditures in 1991-92, despite the level of uncertainty surrounding the revenue estimates. The proposed 1992-93 — $981,000 or 1.7 percent — reserve does not comply with the Legislature's intent that the funds have a reserve of 5 percent of estimated expenditures. As a result of these low reserves and the highly uncertain revenues, we estimate that the HWCA will have a funding gap in both the current and budget years.

Recommendation. In order to provide the Legislature with the most recent available information, we recommend that the department submit, prior to budget hearings: (1) information on the actual revenues received to date from each revenue source that is deposited into the HWCA and the HSA, (2) a projection of the amount of revenue that will be received at the end of 1991-92 and 1992-93, based on the actual 1991-92 revenues received to date, and (3) the basis for the projections.

We further recommend that the department, submit prior to budget hearings, a plan for reducing expenditures in the HSA and HWCA in 1991-92 and 1992-93 in an amount that is sufficient to address any identified revenue shortfall, and establish a reserve at the end of 1992-93 that is equal to 5 percent of proposed budget-year expenditures from those accounts.

Legislature Has Several Options to Address Revenue Shortfalls

We find that the Legislature has several options available to address the potential funding gaps in the HWCA and HSA in 1992-93 and to establish reasonable reserves in those funds.

The Legislature has several options available to address the potential shortfalls in the HSA and HWCA in the current year and in 1992-93, and to establish adequate reserves in those accounts. These options are discussed below.

Defer Contracts and Equipment Purchases. The budget proposes $19 million from the HSA and HWCA, or 17 percent of total expenditures, to (1) contract with other organizations for services and (2) purchase equipment. The Legislature could eliminate a portion of these funds to address the potential shortfalls in 1991-92 and 1992-93, and fund these projects in future years to the extent that revenues become available. For example, some of the contracts that could be deferred include: (1) $1.8 million from the HWCA for grants for innovative technologies to reduce or treat wastes, waste stream audits, and symposiums, (2) $1 million in proposed HSA and HWCA expenditures for various computer enhancements and modeling, (3) $331,000, primarily from the HSA and HWCA, for student assistants to assist with administrative and technical activities, and (4) $5.4 million from the HSA for contracts to clean up or stabilize hazardous waste sites. Reducing some of these contracts could have an adverse effect on the department's abilities to meet its budget-year goals.

Reduce Personnel Expenditures. The Legislature also could reduce the number of personnel in any of the department's programs. Staffing for the department's various programs include:

- Approximately 231 personnel-years for site mitigation.
- Approximately 159 personnel-years for permitting.
- 227 personnel-years for surveillance and enforcement.
- 89 personnel-years for alternative technology.
- Approximately 197 personnel-years for administration.

This approach would have the effect of reducing the overall statewide effort in these areas.

Increase Revenues. The Legislature could increase the various fees and taxes that are used to support the department's programs in order to address the revenue shortfalls and establish reasonable reserves in the HWCA. Alternatively, the Legislature could consider other methods of funding the department that would be more stable than the department's current revenue sources.

Department's Failure to Comply with Legislative Direction Reduces Legislative Oversight

We find that the department's failure to comply with the requirements of the* Supplemental Report of the 1991 Budget Act *reduces the Legislature's ability to provide oversight of this department and to address the department's budget problems. We recommend that the department report at the time of budget hearings on why it failed to comply with these requirements.

During hearings on the 1991 Budget Bill, the Legislature expressed concern over a number of problems at the DTSC, related to (1) the department's funding and (2) the department's efforts to recover from responsible parties monies spent for oversight and/or clean-up of toxic substance release sites. As a result, the Legislature adopted language in the *Supplemental Report of the 1991 Budget Act* requiring the DTSC to (1) take certain actions during 1991-92 to address potential funding problems, and (2) submit specific reports to enable the Legislature to oversee the department's cost recovery program and address potential funding problems.

Specifically, the Legislature adopted language addressing the following issues with regard to the DTSC:

- *Toxics fund condition.* The Legislature required the DTSC to submit by December 1, 1991, a report that (1) provided information on actual and projected revenues to the HWCA and HSA in 1991-92, and (2) identified the department's plan for addressing any revenue shortfalls in 1991-92. This information would enable the Legislature to take actions to address potential current-year revenue shortfalls. The Legislature required this information because in 1990-91, the department had failed to notify the Legislature in a timely manner of funding problems in the HSA and HWCA.
- *Toxics funding reserves.* The Legislature expressed its intent that the Department of Finance, in developing the Governor's 1992-93 Budget, establish reserves in the HWCA and HSA at the end of 1992-93 equal to at least 5 percent of proposed expenditures from those funds. The purpose of this requirement was to reduce the likelihood of funding problems for the DTSC in 1992-93.
- *Collections from responsible parties.* The Legislature clarified its intent that the department bill and collect from responsible parties any costs that it incurs in overseeing the cleanup of a hazardous substance release site, and which are not covered by up-front fees. The department was billing responsible parties for the costs in excess of fees paid only in cases where the responsible parties were not cooperative.

These monies are deposited into the HSA and can be used to clean up or oversee the cleanup of toxic substance release sites.

- ***Expanded data base of hazardous waste sites for cost recovery actions.*** The DTSC developed a computer data base of toxic substance release sites and the amounts owed to the state by responsible parties at each site, in partial compliance with the requirements of the *Supplemental Report of the 1990 Budget Act.* In the *Supplemental Report of the 1991 Budget Act,* the Legislature required the department to submit a report by December 1, 1991, on the feasibility of expanding its data base to include the years prior to 1987 and the years 1988-89 and 1990-91. The Legislature adopted this language because this type of data base can (1) ensure that the department is focusing its cost recovery efforts on the sites where the greatest amounts are owed and that it is not exceeding the statute of limitations for billing responsible parties, and (2) assist the Legislature in evaluating the department's progress in recovering costs from responsible parties.

Our review indicates that the department has failed to comply with all of the requirements of the *Supplemental Report of the 1991 Budget Act* related to its funding or cost recovery efforts (the department did comply with one requirement related to ranking hazardous waste sites). As a result, the department has (1) reduced the Legislature's oversight abilities related to the department's funding and cost recovery efforts, and (2) ignored the Legislature's intent regarding the implementation of its cost recovery program and the establishment of adequate funding reserves. Consequently, we recommend that the department report at the time of budget hearings on the reasons it failed to comply with the requirements of the *Supplemental Report of the 1991 Budget Act.*

Department Has Not Evaluated the Effect of Automating the Cost Recovery Program

We withhold recommendation on $926,000 from the Hazardous Substance Account (HSA) for personnel to pursue cost recovery actions, pending information on the need for these personnel in light of the department's proposal to automate a portion of the cost recovery process.

The budget proposes approximately $1 million from the HSA to recover costs from responsible parties for site mitigation activities. This is an increase of $280,000 over estimated current-year expenditures.

Under current law, responsible parties are liable for the costs of site cleanup and state oversight of hazardous waste site cleanup. Beginning in 1988-89, the Legislature approved 14 positions and $718,000 for the department to implement a cost recovery program to begin recovering costs from responsible parties. However, the department's progress in recovering costs from responsible parties has been slow. Since 1988-89, the department has collected only $30 million out of a potential $222 million in costs identified by the Auditor General (many of these costs may not be collectable because the responsible parties cannot be located or have gone bankrupt). The department indicates that its current cost recovery process is time consuming and labor intensive because it must manually compile the necessary cost data and supporting documentation.

The budget proposes to redirect $280,000 and three personnel-years from other programs in order to (1) make the cost recovery process more efficient and (2) expand the cost recovery program. Specifically, the department proposes $72,000 for computer equipment to automate a portion of its cost recovery efforts, and $208,000 for additional accounting personnel to pursue cost recovery at additional sites.

The department's efforts to automate its cost recovery program appear reasonable, and we recommend approval of the $72,000. However, automating the cost recovery process should significantly reduce the workload associated with cost recovery. Despite this fact, the department has not submitted any information justifying the number of staff it needs to pursue cost recovery actions in light of the reduced workload due to partially automating the cost recovery process. Without this information, we have no basis to recommend approval of (1) the existing $718,000 and 14 personnel-years for this activity, or (2) the additional $208,000 and three personnel-years to expand the cost recovery program.

Accordingly, we withhold recommendation on $926,000 from the HSA, pending information from the department justifying the need for maintaining and expanding existing cost recovery personnel, in light of the workload savings that will result from automating the cost recovery process.

Hazardous Wastes Headed Out of State for Disposal

The budget estimates that implementation of state and federal legislation beginning in 1992-93 will significantly increase the amount of hazardous wastes in California that are sent out of state for disposal.

The budget estimates that beginning in 1992-93 a significant amount of the hazardous wastes that are produced in California will be sent for disposal out of state. Specifically, the budget assumes that the hazardous wastes that are sent out of state for disposal will increase from 122,000 tons in 1990-91 to 793,000 tons in 1992-93. This is an increase from 18 percent of the total amount of California hazardous wastes disposed in 1990-91 to 96 percent of the total amount of California hazardous wastes disposed in 1992-93 (projected). The department indicates that the significant increase in the amounts of wastes that will be sent out of state for disposal primarily will result from the implementation, beginning May 1992, of federal and state laws that effectively require the treatment of hazardous wastes before the wastes can be disposed into a hazardous waste landfill.

The department indicates that incineration of hazardous wastes will be the most cost-effective method for treating approximately 64 percent of the hazardous wastes generated in California that are sent for disposal. However, California has no commercial hazardous waste incinerators. As a result, these wastes probably will be sent out of state for treatment and disposal.

In addition, the state regulates many types of wastes that are not regulated by the federal government and generally are not regulated by other states (these types of wastes are called "state-only" hazardous wastes). Under state law, these wastes must be treated prior to disposal. As a result, the department estimates that almost all of the state-only wastes will be sent out of state for disposal (where treatment and disposal into a hazardous waste landfill are not required), because this option appears less expensive than treating and disposing of the wastes in-state.

Office of Environmental Health Hazard Assessment

Item 3980

Expenditures

Requested 1992-93	$9,809,000
Estimated 1991-92	7,948,000
Actual 1990-91	NA
Requested increase $1,861,000 (+23.4 percent)	

Fiscal Recommendations

Total recommended reduction	$689,000

Findings and Recommendations

Analysis Page

1. **Program Transfer Is Premature. Delete $689,000 in Reimbursements.** Recommend reduction in reimbursements because budgeting these funds in this item is premature prior to enactment of legislation transferring two programs from the Secretary for Environmental Protection (Cal-EPA) to the Office of Environmental Health Hazard Assessment. 135

General Program Statement

The Office of Environmental Health Hazard Assessment (OEHHA) was created in 1991 as part of the California Environmental Protection Agency to evaluate the health risks of chemicals in the environment. This function previously was carried out by the Department of Health Services. The OEHHA (1) develops and recommends health-based standards for chemicals in the environment, (2) develops policies and guidelines for conducting risk assessments, and (3) provides technical support for environmental regulatory agencies.

Overview of the Budget Request

The budget for the OEHHA includes several program changes resulting in significant increases over the office's current-year funding level.

The budget proposes expenditures of $9.8 million for support of OEHHA in 1992-93. This is an increase of $1.9 million, or 23 percent, above estimated current-year expenditures. The increase is primarily due to:

- An increase of $380,000 from the Hazardous Spill Prevention Account in the Railroad Accident Prevention and Response Fund to develop and maintain a list of chemicals transported by railroad lines that could pose a threat to the public health or the environment, as required by Ch 766/91 (SB 48, Thompson).
- An increase of $300,000 in reimbursements to provide toxicological and risk assessment support to the Integrated Waste Management Board.
- An increase of $258,000 from the Air Toxics Inventory and Assessment Account to develop a computer database of the acute toxicity of chemicals.
- A transfer of reimbursement authority from the Secretary for Environmental Protection to OEHHA for the purpose of implementing the Hazardous Data Management Program, the Environmental Assessors Program, and the Hazardous Substance Arbitration Panel.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 15.5 percent from the General Fund in 1991-92. (This reduction is 10.9 percent of the office's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Transfer of Program Funding Is Premature

We recommend a reduction of $689,000 and 2.2 personnel-years from reimbursements because it is premature to transfer funding for the Environmental Assessors Program and the Hazardous Substance Arbitration Panel from the Secretary for Environmental Protection to the OEHHA prior to the enactment of authorizing legislation.

The budget proposes to transfer from the Secretary for Environmental Protection to the OEHHA $689,000 in reimbursements and 2.2 personnel-years to (1) implement a program to register environmental assessors and (2) support the operations of the Hazardous Substance Arbitration Panel.

In our analysis of the Secretary for Environmental Protection's budget (Item 0555), we recommend that the Legislature not approve the transfer because it is premature to transfer the *funding* for these programs from the Secretary to OEHHA prior to enactment of legislation authorizing the transfer of *responsibility* for implementing these programs. Instead, any proposed changes in funding that result from changes in statute should be included in the legislation. Accordingly, we recommend a reduction of $689,000 from reimbursements for the OEHHA to correspond to the recommendation in our analysis of the Secretary for Environmental Protection's budget.