MAJOR ISSUES

Resources

☑ **Cal-EPA Not Meeting Its Goals**

- The California Environmental Protection Agency (Cal-EPA) is not meeting some of the major goals set out for it when it was established, including assessing and addressing the greatest risks to public health and the environment. We make recommendations to address these shortcomings (see page B-51).

☑ **Priorities Need to Be Set for Resources Bonds**

- The Legislature will be evaluating a number of resources bond proposals this session. We provide a framework to assist the Legislature in assessing needs and setting funding priorities when considering the bond proposals (see page B-26).

☑ **Governor's Resources Initiatives Require More Detail**

- The Tahoe Initiative fails to identify long-term funding sources to meet the state's $274 million share of the Environmental Improvement Plan (see page B-37).
- The Department of Fish and Game should verify that grants to be distributed under the Watershed Initiative comply with the statute creating the Salmon and Steelhead Trout Restoration Account (see page B-40).
- The Ocean and Coastal Initiative needs more detail on coastal access and mitigation "bank" components (see page B-43).

☑ Reorganization of Department of Fish and Game Needs More Definition

- We recommend that the department provide the Legislature, prior to budget hearings, with more details about the elements of this reorganization and when the department expects it to be completed (see page B-63).

☑ State Agencies Lag in Recycling

- State agencies lag in recycling and may impede some local jurisdictions' ability to meet landfill diversion requirements. The Waste Board should be more proactive in identifying and assisting state agencies to maximize their recycling efforts (see page B-79).

☑ Pesticides Department Not Responsive to Legislative Direction

- The Department of Pesticide Regulation has not been responsive to the Legislature's direction to develop the performance measures necessary to hold it accountable for meeting statutory mandates.
- We recommend that the Legislature withhold action on the department's budget until the department provides the required performance measures (see page B-86).

☑ State Potentially Liable for $750 Million in Cleanup Costs

- State costs continue to mount at the Stringfellow and Casmalia hazardous waste sites, due to lawsuits alleging negligent state regulation at these locations.
- In the Stringfellow case, a federal court has found against the state. To date, the state has spent $50 million in cleanup and $6 million in litigation. Future costs could be as high as $500 million if the state loses on appeal.
- As for Casmalia, the budget proposes $2 million for litigation costs in 1998-99. If the state loses a current lawsuit, potential future cleanup costs could reach $250 million (see page B-97).

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OVERVIEW

Resources

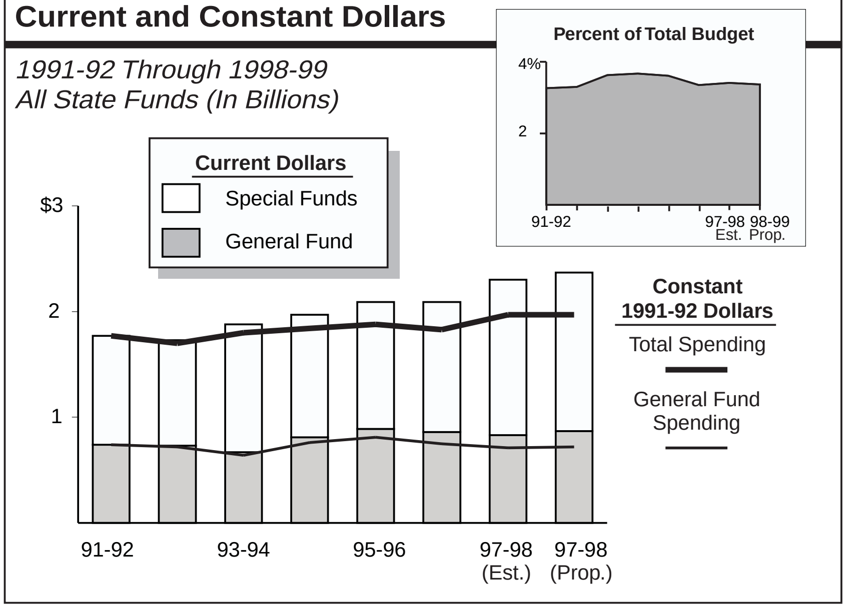
The budget proposes a slightly higher level of state expenditure for resources and environmental protection programs in 1998-99 compared to the estimated current-year level. No one factor accounts for the bulk of the increase which will be from various special funds and the General Fund.

Expenditures for resources and environmental protection programs from the General Fund and various special funds are proposed to total $2.4 billion in 1998-99, which is 3.4 percent of all state-funded expenditures proposed for 1998-99. This level is an increase of $73.2 million, or 3.2 percent, above estimated expenditures for the current year. The budget proposes that 63 percent ($1.4 billion) of state support for resources and environmental programs come from special funds, including the Motor Vehicle Account, Environmental License Plate Fund, funds generated by beverage container recycling fees, and an "insurance fund" for the cleanup of leaking underground storage tanks. The General Fund supports the remaining 37 percent of these expenditures.

Figure 1 (see next page) shows that state expenditures for resources and environmental protection programs increased by approximately $596 million since 1991-92, representing an average annual increase of approximately 4.3 percent. This increase primarily reflects the establishment of various programs to address environmental problems such as leaking underground tanks, hazardous waste sites, and solid waste generation. When adjusted for inflation, these expenditures increased at an average annual rate of 1.5 percent. General Fund expenditures increased at an average annual rate of about 2.3 percent over this period. When adjusted for inflation, annual General Fund expenditures decreased slightly during this period at an average annual rate of 0.4 percent.

Figure 1

Resources and Environmental Protection Expenditures Current and Constant Dollars



SPENDING BY MAJOR PROGRAM

Figure 2 shows spending for major *resources* programs—that is, those programs within the jurisdiction of the Secretary for Resources.

Figure 3 (see page 8) shows similar information for major *environmental protection* programs—those programs within the jurisdiction of the Secretary for Environmental Protection and the California Environmental Protection Agency (Cal-EPA).

Spending for Resources Programs. Figure 2 shows that the General Fund provides a relatively small proportion of total support of resources programs, except in the case of the California Department of Forestry and Fire Protection (CDFFP) and the Department of Parks and Recreation (DPR). For 1998-99, the budget proposes $324.2 million (69 percent) of CDFFP's support and capital outlay expenditures from the General Fund. For DPR, the General Fund will constitute about 29 percent of the department's expenditures in 1998-99.

Figure 2 also shows that the budget proposes a significant reduction in total expenditures by DPR in 1998-99—by about 16 percent below the

Figure 2

Resources Budget Summary Selected Funding Sources

1996-97 Through 1998-99 (Dollars in Millions)

Department	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Change From 1997-98 Amount	Change From 1997-98 Percent
Conservation					
General Fund	$14.8	$15.6	$15.8	$0.2	1.3%
Recycling funds	313.0	319.3	302.2	-17.1	-5.4
Other funds	54.4	64.7	60.5	-4.2	-6.5
Totals	**$382.2**	**$399.6**	**$378.5**	**-$21.1**	**-5.3%**
Forestry and Fire Protection					
General Fund	$374.8	$298.0	$324.2	$26.2	8.8%
Forest Resources Fund	14.7	14.4	14.4	—	—
Other funds	126.9	138.4	130.9	-7.5	-5.4
Totals	**$516.4**	**$450.8**	**$469.5**	**$18.7**	**4.1%**
Fish and Game					
General Fund	$3.1	$4.2	$4.1	-$0.1	-2.4%
Fish and Game Fund	75.6	87.4	79.1	-8.3	-9.5
Oil Spill Prevention Fund	15.5	16.5	20.5	4.0	24.2
Natural Resources Fund	—	1.5	13.4	11.9	793.3
Other funds	73.9	89.6	91.8	2.2	2.4
Totals	**$168.1**	**$199.2**	**$208.9**	**$9.7**	**4.9%**
Parks and Recreation					
General Fund	$68.4	$71.1	$69.8	-$1.3	-1.8%
Parks and Recreation Fund	80.9	81.1	82.5	1.4	1.7
Off-Highway Vehicle Fund	32.4	46.5	37.6	-8.9	-19.1
Other funds	40.5	85.4	48.9	-36.5	-42.7
Totals	**$222.2**	**$284.1**	**$238.8**	**-$45.3**	**-15.9%**
Water Resources					
General Fund	$39.5	$54.7	$57.1	$2.4	4.4%
State Water Project funds	747.1	631.8	693.6	61.8	9.8
Delta Flood Protection	8.7	3.0	5.1	2.1	70.0
Other funds	100.8	192.2	103.0	-89.2	-46.4
Totals	**$896.1**	**$881.7**	**$858.8**	**-$22.9**	**-2.6%**

Figure 3

Environmental Protection Budget Summary Selected Funding Sources

1996-97 Through 1998-99
(Dollars in Millions)

Department/Board	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Change From 1997-98 Amount	Change From 1997-98 Percent
Air Resources					
Motor Vehicle Account	$74.4	$74.3	$78.4	$4.1	5.5%
Other funds	31.5	42.4	43.2	0.8	1.9
Totals	**$105.9**	**$116.7**	**$121.6**	**$4.9**	**4.2%**
Waste Management					
Integrated Waste Account	$31.4	$30.8	$30.8	—	—
Used Oil Recycling Fund	18.5	24.2	24.3	$0.1	0.4%
Other funds	10.5	21.4	19.1	-2.3	-10.7
Totals	**$60.4**	**$76.4**	**$74.2**	**-$2.2**	**-2.9%**
Pesticide Regulation					
General Fund	$10.8	$11.4	$11.4	—	—
Pesticide Regulation Fund	33.2	31.1	31.4	$0.3	0.9%
Other funds	6.0	5.6	5.3	-0.3	-5.4
Totals	**$50.0**	**$48.1**	**$48.1**	**—**	**—**
Water Resources Control					
General Fund	$28.4	$35.7	$37.4	$1.8	5.0%
Underground Storage Tank	152.9	244.2	205.9	-38.3	-15.7
Waste Discharge Fund	14.1	12.1	15.7	3.6	29.8
Other funds	161.6	228.1	221.3	-6.8	-3.0
Totals	**$357.0**	**$520.1**	**$480.3**	**-$39.8**	**-7.6%**
Toxic Substances Control					
General Fund	$17.0	$26.3	$31.1	$4.8	18.2%
Hazardous Waste Control	51.4	50.9	26.7	-24.2	-47.5
Toxic Substances Control	—	—	28.3	28.3	—[a]
Other funds	56.0	49.5	48.9	-0.6	-1.2
Totals	**$124.4**	**$126.7**	**$135.0**	**$8.3**	**6.5%**

[a] Not a meaningful figure.

current-year estimated level. The reduction reflects lower local assistance and capital outlay expenditures for park development funded from various special funds. This is in part due to the depletion of park bond funds. In addition, it is because the department anticipates a large amount of expenditures of past appropriations to occur in the current year. The budget also proposes reductions in expenditures for the Department of Conservation—primarily in the beverage container recycling program due to an estimated reduction in redemption payments, and for the Department of Water Resources (DWR)—mainly in expenditures funded from Proposition 204 bond funds.

The budget proposes moderate increases in the support and capital outlay expenditures for CDFFP and the Department of Fish and Game (DFG). For CDFFP, the proposed General Fund increase will support additional staff for initial fire suppression. As in the current year, the budget includes a base level of $20 million for emergency firefighting in 1998-99. To the extent actual emergency firefighting expenditures exceed that base amount, additional funds will be provided through subsequent deficiency appropriations.

For DFG, the budget proposes to provide about $10 million from the Natural Resources Infrastructure Fund (NRIF) for various environmental review, resource assessments, and conservation planning efforts. Previously, these activities were funded primarily from the Fish and Game Preservation Fund. Additionally, the budget proposes $8 million from the Salmon and Steelhead Trout Restoration Account for local watershed planning.

In addition to the major programs shown in Figure 2, the budget proposes expenditures by other resources programs totaling about $255 million, a decrease of $42 million (14 percent) below current-year estimated expenditures. These programs include various land conservancies, commissions, the Department of Boating and Waterways, and the California Conservation Corps. Specifically, the budget proposes reductions in expenditures primarily for the acquisition of wildlife properties by the Wildlife Conservation Board ($23.1 million or 45 percent below current-year estimated expenditures) and by the Department of Boating and Waterways ($11.6 million, or 16 percent) for loans and grants for boating facilities.

Spending for Environmental Protection Programs. As Figure 3 shows, the budget proposes reductions in the expenditures of the State Water Resources Control Board (SWRCB) and the California Integrated Waste Management Board (CIWMB) in 1998-99. For SWRCB, the reductions will be mainly in claim payments for underground tank cleanup paid from the

Underground Storage Tank Cleanup Fund. For CIWMB, the reductions are primarily in the tire recycling program.

The budget proposes to increase support for the Department of Toxic Substances Control (DTSC) in 1998-99 by $8.3 million, or 6.5 percent over the current-year estimated level. The budget also reflects the implementation of Chapter 870, Statutes of 1997 (SB 660, Sher) which changed the department's fee structure. For 1998-99, site mitigation and pollution prevention activities will be funded from the newly created Toxic Substances Control Account while permitting and regulation of hazardous waste facilities will continue to be funded from the Hazardous Waste Control Account.

For the Air Resources Board, the budget proposes increases of $4.9 million (4.2 percent) over the current-year estimated level. Most of the increase will be from the Motor Vehicle Account.

MAJOR BUDGET CHANGES

Figures 4 and 5 (see pages 11 and 12) present the major budget changes in resources and environmental protection programs, respectively.

As Figure 4 shows, the budget proposes to increase funding for watershed planning and land acquisition under the Natural Community Conservation Planning program in DFG. The budget also proposes significant increases in funding for fish restoration and assessment and protection of subtidal and marine environments.

For DPR, the budget proposes a significant reduction in funding for state park capital outlay as well as for local assistance for park development. For DWR, the budget proposes increased expenditures for the State Water Project, but reductions in local flood protection, Bay-Delta water quality control projects, as well as reductions related to the conclusion of the Mono Lake project.

Figure 5 shows that the budget proposes various increases to clean up pollution. Specifically, the budget proposes an increase of $2 million for direct site cleanup at hazardous waste sites (DTSC) and $1.5 million for SWRCB to address water quality problems at an inactive mine. Figure 5 also shows a $41 million proposed reduction in SWRCB expenditures to reimburse tank owners for the cost of cleaning up underground storage tanks. This reduction is misleading because it is due to a one-time increase in 1997-98 expenditures of $48 million in accumulated prior-year appropriations. This reduction masks a $7 million increase in SWRCB's

Figure 4

Resources Programs
Proposed Major Changes for 1998-99

Forestry and Fire Protection	**Requested:**	**$469.5 million**	
	Increase:	**$18.7 million**	**(+4.1%)**

- ✚ $6.8 million to improve staffing of fire engines and airbases
- ✚ $4.4 million to refurbish airtankers

Fish and Game	**Requested:**	**$208.9 million**	
	Increase:	**$9.7 million**	**(+4.9%)**

- ✚ $11.7 million to continue salmon restoration
- ✚ $8 million to assist local watershed planning
- ✚ $4.6 million for Natural Community Conservation Planning
- ✚ $3.6 million to protect subtidal and marine environments
- ✚ $2.4 million for striped bass restoration
- ✚ $1.2 million to increase support of field biologists

Parks and Recreation	**Requested:**	**$238.8 million**	
	Decrease:	**$45.3 million**	**(-15.9%)**

- ▬ $30 million in state park capital outlay
- ▬ $20 million for local assistance of park development

Water Resources	**Requested:**	**$858.8 million**	
	Decrease:	**$22.9 million**	**(-2.6%)**

- ✚ $62 million in State Water Project design, construction, operations, and maintenance

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- ▬ $29.9 million in local assistance for flood protection and control
- ▬ $24.4 million for water development, ground water storage and recycling, and Bay-Delta water quality control projects
- ▬ $9 million due to conclusion of Mono Lake program
- ▬ $9 million for projects for fish and wildlife habitat

Figure 5

Environmental Protection Programs Proposed Major Changes for 1998-99

Air Resources Board	**Requested:**	**$121.6 million**	
	Increase:	**$4.9 million**	**(+4.2%)**

- ✚ $3.6 million to develop implementation plan for fine particulate matter
- ✚ $2.5 million for Rice Straw Demonstration Project

Integrated Waste Management Board	**Requested:**	**$74.2 million**	
	Decrease:	**$2.2 million**	**(-2.9%)**

- ✚ $1.5 million for pollution prevention and education program for the Lake Tahoe Basin

Water Resources Control Board	**Requested:**	**$480.3 million**	
	Decrease:	**$39.8 million**	**(-7.6%)**

- ✚ $1.5 million for plan to restore water quality affected by Leviathan Mine
- ✚ $1.3 million for coastal nonpoint source pollution and coastal water monitoring
- ✚ $0.9 million for watershed management

- ▬ $41 million to tank owners for tank cleanup

Toxic Substances Control	**Requested:**	**$135 million**	
	Increase:	**$8.3 million**	**(+6.5%)**

- ✚ $3.5 million to repay a loan made to the General Fund
- ✚ $2 million for direct hazardous waste site cleanup
- ✚ $1.4 million for litigation costs at the Casmalia Hazardous Waste Management Facility
- ✚ $1 million for the Hazardous Waste Management Tracking System

base funding to reimburse tank owners for the cost of cleaning up underground storage tanks. The budget also proposes an increase of $1.3 million for monitoring and pollution control of coastal waters.

For ARB, the budget proposes $6.1 million to address air quality issues associated with fine particulate matter (emitted mainly from fuel burning engines, fireplaces, woodstoves, and agricultural burning) and rice straw burning.

In addition to the major changes shown in Figure 5, the budget also proposes to increase funding for Cal-EPA's permit assistance centers by $2.2 million from the General Fund, more than three times the funding level estimated for the current year.

CROSSCUTTING ISSUES

Resources

FUND CONDITIONS FOR RESOURCES PROGRAMS

The state uses a variety of special and bond funds to support the departments, conservancies, boards, and programs that regulate and manage the state's natural resources. In this section, we provide a status report on selected special funds and bond funds supporting these programs. For purposes of this review, we divided the funds into three categories: (1) resources special funds, (2) park-related bonds, and (3) bonds for water programs.

RESOURCES SPECIAL FUNDS

The budget proposes to spend most of the special funds projected to be available in 1998-99 for resources protection. Approving the Governor's spending proposals would leave about $33 million for legislative priorities based on revenue projections contained in the budget. However, the use of some of the remaining funds may be statutorily restricted to specific purposes.

Furthermore, recent revenue projections show that the Governor's proposals may result in oversubscribing the Natural Resources Infrastructure Fund. Funding the Governor's proposals could leave even fewer funds for legislative priorities.

Figure 6 (see next page) summarizes the amount of funds available for expenditure in 1998-99 for selected special funds, the Governor's proposed expenditures from these funds, and the balances available after the Governor's proposed expenditures. Approval of the Governor's spending proposals would leave limited funds available for legislative priorities. This is especially the case because the Legislature may wish to retain some of the projected reserves in the accounts to meet contingencies such as revenue shortfalls or unanticipated expenditures. This would further reduce the amount of funds available for appropriation by the Legislature in 1998-99. Moreover, some of the remaining funds can only be used for specific purposes, as required by statute. For instance, about half ($8.7 million) of the projected balance in the Fish and Game Preservation Fund is dedicated statutorily and can only be used for activities related to certain species. As a result, the Legislature's flexibility in expending these funds for resources projects is limited.

Figure 6

Selected Special Funds Resources Programs[a]

1997-98 and 1998-99 (In Millions)

Special Funds	1997-98 Expenditures	1998-99 Resources	1998-99 Expenditures	1998-99 Balances
Natural Resources Infrastructure Fund	$8.7	$28.6[b]	$28.6	—
Salmon and Steelhead Trout Restoration Account	3.0	8.0	8.0	—
Environmental License Plate Fund	18.4	26.0	24.1	$1.9
Public Resources Account	24.0	29.1	23.4	5.7
Habitat Conservation Fund	42.6	37.1	30.0	7.1
Fish and Game Preservation Fund	87.4	96.7	79.1	17.6[c]

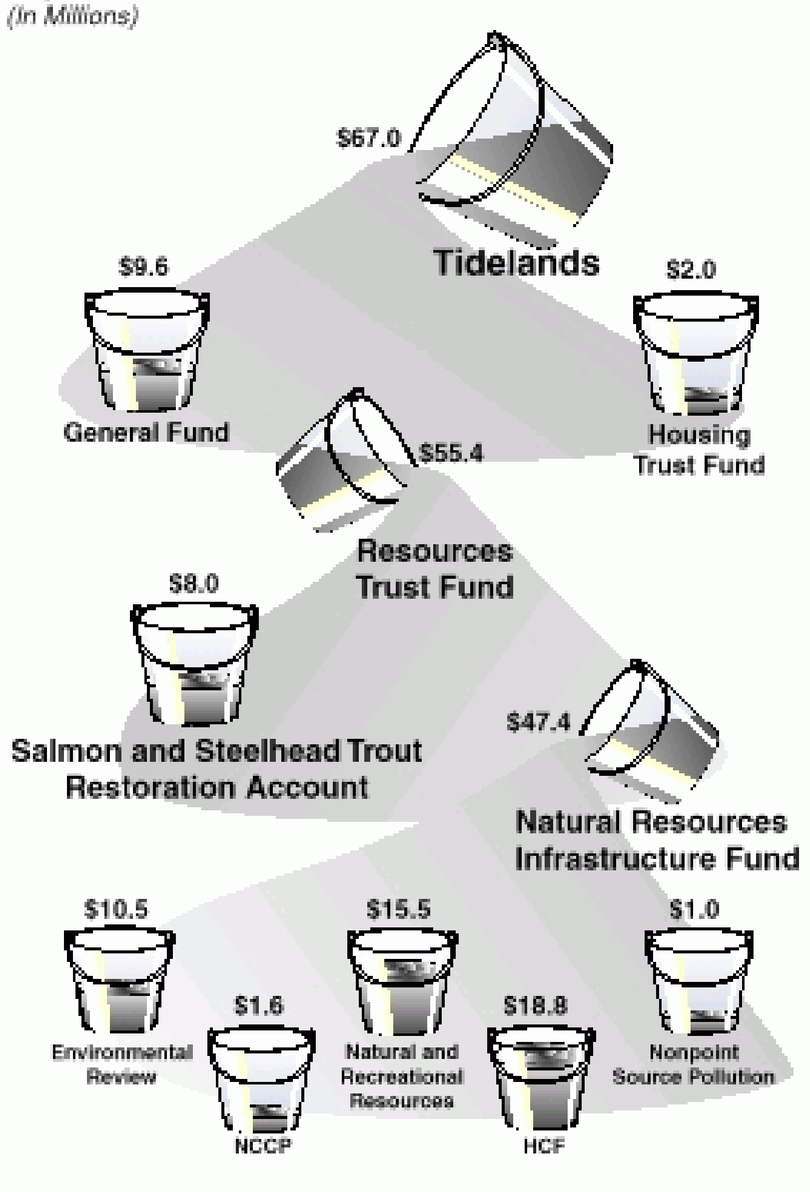
a Based on Governor's budget.
b Amount reflects resources after transfer of $18.8 million to Habitat Conservation Fund.
c Includes reserve for dedicated accounts ($8.7 million) and nondedicated accounts ($8.9 million).

Resources Trust Fund. The Resources Trust Fund (RTF) was created by Chapter 293, Statutes of 1997 (SB 271, Thompson). Funds in RTF are to be allocated to preserve and protect the natural and recreational resources of the state. The RTF is funded from the tidelands revenues remaining after specified amounts are deposited into the General Fund and the California Housing Trust Fund, as shown in Figure 7. The RTF's share of

Figure 7

Distribution of Tidelands Money

Proposed 1998-99
(In Millions)



the tidelands revenues is $30.3 million in the current year and projected to be $55.4 million for 1998-99. The trust fund is split into two separate accounts: the Salmon and Steelhead Trout Restoration Account (SSTRA) and the Natural Resources Infrastructure Fund (NRIF).

Chapter 293 requires that the first $8 million from RTF be deposited into SSTRA to be appropriated to the Department of Fish and Game (DFG) for the recovery of salmon and steelhead trout. Of the $8 million, at least 87.5 percent ($7 million) must be allocated as project grants through the DFG fisheries management grant program. The grants are to be awarded for activities that improve fish habitat in coastal water utilized by salmon and anadromous trout, and are to emphasize the development of coordinated watershed improvement activities. The remaining 12.5 percent may be used for project administration costs incurred by DFG.

The remaining RTF money ($47.4 million in 1998-99) will be deposited in NRIF for preserving and protecting natural and recreational resources. Chapter 293 identifies four priorities for project funding, but does not mandate that the funds be used for these priorities, or in any specific order. The priorities are: environmental review and monitoring by DFG; Natural Community Conservation Plan (NCCP) acquisitions; Habitat Conservation Fund (HCF) funding requirements; and expenditure for nonpoint source pollution control programs. Funds not appropriated to these priorities will be spent on natural and recreational resources.

For 1998-99, the budget proposes to transfer $18.8 million to HCF, leaving $28.6 million in NRIF. These funds will be used as follows: $10.5 million for environmental review, $1.6 million for NCCP acquisitions, $1 million for nonpoint source pollution control, and the remaining $15.5 million for the preservation of natural and recreational resources, including water quality monitoring.

As we discuss under the State Lands Commission write-up (Item 3560), more recent projections by the commission show lower tidelands revenues in 1998-99. As a consequence, NRIF will receive $9 million less than projected in the Governor's budget. This would require the administration to revise its resources expenditure proposals for 1998-99 so that NRIF would not be oversubscribed.

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

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

The budget proposes expenditures totaling $24.1 million from ELPF, an increase of $5.7 million (31 percent) over estimated current-year spending. The increase is the net result of (1) an increase of $5.6 million in California Tahoe Conservancy activities, (2) an increase of $1.7 million for local assistance in the Department of Conservation, and (3) a reduction in ELPF funding for local assistance and capital outlay in the Department of Parks and Recreation. The proposed ELPF expenditures will leave a balance of $1.9 million at the end of 1998-99.

Public Resources Account, Cigarette and Tobacco Products Surtax Fund (PRA). The PRA receives 5 percent of the Cigarette and Tobacco Products Surtax Fund (C&T Fund) revenues. Generally, PRA funds must be used in equal amounts for (1) park and recreation programs at the state or local level and (2) habitat programs and projects.

The budget projects $29.1 million in PRA resources in 1998-99 and proposes expenditures from PRA for the various departments totaling $23.4 million. This is a slight decrease of $0.6 million (2.5 percent) from the estimated current-year expenditure level. Specifically, the budget proposes to (1) increase by $2 million the Department of Conservation's support and local assistance to conserve agricultural land, (2) increase the State Water Resources Control Board's PRA funding by $931,000 for watershed management coordinators, (3) increase PRA support for DFG by $447,000, (4) provide $800,000 to the Department of Education for the Environmental Education Grant program, and (5) reduce the Department of Parks and Recreation's PRA funding for local assistance and capital outlay by $4.8 million.

Habitat Conservation Fund. The HCF was created by Proposition 117, the California Wildlife Protection Act of 1990. The proposition requires that the fund receive annual revenues of $30 million primarily for wildlife habitat acquisitions and improvements. To provide this funding level, Proposition 117 requires transfers of (1) 10 percent of funds from the Unallocated Account, C&T Fund, and (2) additional funds from the General Fund in order to provide a total of $30 million. Proposition 117 allows the Legislature to substitute for the General Fund the transfer of other appropriate funds.

The budget proposes to transfer $30 million into the HCF in 1998-99, including $11.2 million from the Unallocated Account, C&T Fund, and $18.8 million from NRIF. Until the current year, HCF had been funded with a combination of money from the Unallocated Account, ELPF, and PRA. With the creation of NRIF, money from the new account is being used to fund HCF in the current and budget years.

The budget proposes total HCF expenditures of $30 million in 1998-99—$12.6 million (30 percent) less than estimated current-year expenditures. This reduction in expenditures is primarily due to prior-year appropriations being expended in the current year. The proposed expenditures from HCF include (1) $21 million for support and capital outlay projects of the Wildlife Conservation Board, (2) $4 million for capital outlay projects of the State Coastal Conservancy, (3) $4.5 million for local assistance and capital outlay for parks in the Department of Parks and Recreation, and (4) $500,000 for the activities of the California Tahoe Conservancy.

Fish and Game Preservation Fund (FGPF). The FGPF derives most of its revenues from fishing and hunting licenses, tags, and permits. Money in FGPF is used to support DFG activities to protect and preserve fish and wildlife, including the acquisition and construction of projects for these purposes. Certain revenues are restricted to be used for specific purposes or species. For instance, the cost of hunting and sport fishing programs is to be financed out of hunting and sport fishing revenues. The costs of commercial fishing programs are to be paid solely out of revenues from commercial fishing taxes and license fees.

For 1998-99, the budget proposes FGPF expenditures of $79.1 million. This amount is $8.3 million (or 9.5 percent) less than estimated current-year expenditures. Of the amount, $66 million is proposed to be spent from nondedicated funds and the remaining $13.1 million from dedicated revenues.

PARK-RELATED BONDS

There will be almost no park bond funds available for park projects in 1998-99.

Park development projects and land acquisitions have traditionally been funded by various bonds passed by the voters. The availability of bond funds has contributed to the Legislature's flexibility in funding its priorities in past years. This is because the Legislature has been able to free up funds in ELPF and PRA by using bond funds to the greatest extent possible to fund various projects.

Figure 8 shows the amount available in selected park bond funds and the expenditures proposed for 1998-99. Because almost all park bond funds are depleted, the budget projects minimal bond funds available for park projects in 1998-99.

Figure 8

Selected Park Bond Funds Resources Programs[a]

1997-98 and 1998-99 (In Millions)

Bond Funds	1997-98 Expenditures	1998-99 Resources	1998-99 Expenditures	1998-99 Balances
Parklands Fund of 1980	$0.1	$2.6	$2.6	—
Parklands Fund of 1984	4.4	0.1	—	$0.1
Fish and Wildlife Habitat Enhancement Fund	—	2.7	—	2.7
State Coastal Conservancy Fund of 1984	1.0	0.5	0.5	—
California Wildlife, Coastal Parkland Conservation Fund of 1988	26.4	3.6	3.2	0.4
Wildlife and Natural Areas Conservation Fund of 1988	1.6	—	—	—
River Parkway Subaccount Proposition 204	26.0	1.0	1.0	—

[a] Based on the Governor's budget.

WATER BONDS

The budget proposes expenditures of about $185 million from various water bonds for water quality, water supply, and ecosystem restoration projects. No bond funds are available in the budget year for (1) the state's unmet share of costs for federally authorized flood control projects and (2) state matching funds for federal safe drinking water loans and grants. The budget proposes no funding from other sources for these purposes.

As indicated in Figure 9, the budget reflects expenditures totaling $184.9 million in 1998-99 from various water bonds for (1) safe drinking water; (2) water supply, including water conservation, water recycling, and groundwater recharge; (3) wastewater treatment and other water quality projects; and (4) Bay-Delta improvements, including fish and wildlife restoration and delta levee rehabilitation. This is a decrease of $131.9 million, or 42 percent, from estimated current-year expenditures from bonds for these purposes. Most of this decrease reflects a depletion or near depletion of a number of the Proposition 204 bond fund accounts (mostly funds for flood control purposes) at the end of 1997-98. Proposition 204—the Safe, Clean, Reliable Water Supply Act of 1996—provides $995 million for various water-related purposes, habitat restoration in the Bay-Delta, wastewater treatment, water recycling and conservation, and local flood control and prevention.

Safe Drinking Water. The budget projects total expenditures of $19.1 million in 1998-99, leaving a balance of $44.3 million at the end of 1998-99. There are pending grant applications that would spend much of this balance in future years. About $700 million in federal loans and grants will be available over the next seven years (including $76 million in the budget year) to upgrade public water systems in the state in order to meet safe drinking water standards. These federal funds will require a 20 percent state matching contribution. However, existing safe drinking water bond funds are not authorized to serve as a state match for these federal funds. The budget proposes no funding from other sources to provide for this state match. Unless local governments or new funding sources (such as bonds) provide the matching funds, California will not receive these federal dollars. There are bond proposals to provide these matching funds. These include AB 1180 (Battin), which provides a framework for a bond measure to provide matching funds, and the Governor's proposed $1.3 billion water management bond (discussed below), which provides matching funds of an unspecified amount.

Water Supply. The budget projects total expenditures of $76 million, including $39.3 million from Proposition 204 funds, for water supply and recycling projects. This leaves a balance of $71.2 million, mainly for new projects.

Wastewater Treatment and Other Water Quality Projects. The budget proposes $55.2 million in expenditures to fund wastewater treatment, agricultural drainage treatment, seawater intrusion control, and other water quality projects in 1998-99. This leaves a balance of $102.3 million, mainly for new projects.

Figure 9

Selected Water Bond Funds[a]

1998-99
(In Millions)

	Resources	Expenditures	Balances
Safe drinking water			
1986 California Safe Drinking Water Fund	$130.2	$8.5	$21.7
1988 California Safe Drinking Water Fund	33.2	10.6	22.6
Subtotals	($63.4)	($19.1)	($44.3)
Water supply/water recycling			
1986 Water Conservation and Water Quality Fund	$28.1	$26.3	$1.8
1988 Clean Water and Water Reclamation Fund	6.8	4.4	2.4
1988 Water Conservation Fund	22.6	6.0	16.6
Safe, Clean, Reliable Water Supply Fund[b]	89.7	39.3	50.4
Subtotals	($147.2)	($76.0)	($71.2)
Wastewater treatment/water quality			
1984 State Clean Water Fund	$30.4	$7.5	$22.9
Safe, Clean, Reliable Water Supply Fund[b]	127.1	47.7	79.4
Subtotals	($157.5)	($55.2)	($102.3)
Bay-Delta improvements			
Safe, Clean, Reliable Water Supply Fund[b]	$476.5	$34.6	$441.9
Flood control and prevention			
Safe, Clean, Reliable Water Supply Fund[b]	—[c]	—	—
Totals	**$844.6**	**$184.9**	**$659.7**

a Based on Governor's budget.
b Proposition 204.
c Funds in Proposition 204 subaccount depleted at end of 1997-98.

Bay-Delta Improvements. Proposition 204 bond funds provide a total of $583 million for projects specifically related to the Bay-Delta, mainly for ecosystem restoration. The budget proposes expenditures of $34.6 million in 1998-99, leaving a balance of $441.9 million.

Flood Control and Prevention. The costs of federally authorized, locally sponsored flood control projects are shared by the federal government (65 percent), state government (25 percent), and local government (10 percent). Due to the state's budget condition in recent years, however, the state has been unable to pay fully its share of costs for these flood control projects. Proposition 204 provided $60 million to pay some of the arrears owed to local agencies; however, these funds will be depleted by the end of 1997-98. According to the Department of Water Resources (DWR), the unpaid amount on the state's share of costs will be about $151 million at the end of 1997-98. The budget provides no funding to pay any of this unpaid amount, which DWR projects will increase to about $172 million by the end of the budget year. According to DWR, the lack of funds for the state share has caused construction to stop on a number of flood control projects.

$2.1 Billion in New Resources Bonds Proposed

The administration proposes new bonds totaling $2.1 billion, to be placed on either the June or November 1998 ballot, for various resources-related purposes, including water supply and water quality projects, state park improvements, coastal protection, and wildlife conservation. There is little detail available regarding these proposals.

Despite past expenditures of bonds, there remain significant resources-related funding demands. For example, the administration estimates a need of about $11 billion for public water systems to comply with safe drinking water standards. There are also significant funding demands in other areas, including local flood control. The administration is proposing to meet some of these needs through proposed new bond funding.

Proposed New Resources Bonds. The administration proposes two new resources bonds to be placed on either the June or November 1998 ballot. However, the budget proposes no expenditures in the budget year from these proposed bonds. Few details have been provided about these proposed measures; below, we provide a summary of each based on available information.

- ***Water Management Bond—$1.3 Billion.*** This new bond funding would be used to (1) build facilities for recycling water, water storage, and pollution control; (2) develop local plans for using groundwater during droughts; (3) implement watershed management programs; (4) improve levees; and (5) develop feasibility studies for improving the state's water supply and storage. No dollar amounts have been specified for the different categories of projects. However, the administration proposes that of these funds, about 40 percent be provided for flood control projects (including to pay for the state share of locally sponsored projects), 40 percent for water supply projects, and about 20 percent for water quality projects (including state matching funds for federal loans and grants to public water systems to meet safe drinking water standards).

- ***Watershed, Wildlife, and Parks Improvement Bond—$800 Million.*** Funds would be used to (1) construct and restore facilities at state parks ($310 million), (2) pay the state's share of the Headwaters Forest agreement ($130 million), (3) provide public coastal access and protect coastal ecosystems ($110 million), (4) acquire and protect wildlife habitat ($95 million), and (5) make environmental improvements in the Lake Tahoe Basin ($95 million).

SETTING RESOURCES INFRASTRUCTURE FUNDING PRIORITIES

As discussed in the previous section, park bond funds are essentially depleted and there are unmet funding needs for certain types of water projects, including for local flood control and safe drinking water protection. In 1998, the Legislature will be evaluating a number of bond proposals to address funding needs for resources infrastructure. In this section, we provide a framework for constructing an estimate of resources infrastructure needs and setting funding priorities to assist the Legislature in evaluating these proposals.

Bond Proposals. As we discuss in the previous section, the administration has proposed two resources bonds totaling $2.1 billion. In addition, the Legislature will likely be considering other legislative proposals to provide bond funds for resources infrastructure, including flood protection, coastal waters and rivers, safe drinking water, and parks.

WHAT BOND FUNDS REMAIN AVAILABLE?

Since 1970, voters have approved $5.2 billion in park and water bonds. Most park bond funds are depleted; about $660 million of water bond funds will remain available for allocation at the end of 1998-99.

$5.2 Billion in Resources Bonds Approved Since 1970. As shown in Figure 10 , since 1970 voters have approved $2.9 billion for water bonds and $2.3 billion for park and habitat bonds. While the $1 billion bond approved in 1996 (Proposition 204) is generally referred to as a water bond, it does provide funds for park and habitat conservation. This recognizes that conserving open space and wildlife habitat may affect water quality and supply and vice versa.

Most Park and Habitat Bond Funds Are Depleted. As the figure shows, the last major park and habitat bond was approved in 1988, creating a gap of about ten years during which no new park and habitat bonds have been approved. As a consequence, bond funds for these purposes are now essentially depleted.

Figure 10

Park, Habitat, and Water Bonds Approved by Voters[a]

(In Millions)

Year	Park and Habitat	Water	Total
1970-71	$60	$250	$310
1973-74	250	250	500
1975-76	280	175	455
1977-78	—	375	375
1980-81	285	—	285
1982-83	85	—	85
1983-84	455	—	455
1984-85	—	400	400
1985-86	100	150	250
1986-87	—	100	100
1987-88	776	—	776
1988-89	—	200	200
1996-97	—	995	995
Totals	**$2,291**	**$2,895**	**$5,186**

[a] Excludes years in which no bond was approved.

Some Water Bond Funds Remain, But Are for Unmet Needs. Of the $2.9 billion of water bonds, about $660 million will remain available for allocation at the end of 1998-99. Of this amount, about $390 million is exclusively for ecosystem restoration projects in the Bay-Delta. However, as discussed in the previous write-up, there are a number of unmet funding needs, including local flood control and safe drinking water protection.

CONSTRUCTING A NEEDS ESTIMATE

To construct an estimate of resources infrastructure needs, we recommend a framework that includes: (1) establishing specific goals, (2) determining who should meet the resources infrastructure needs and how they should be met, and (3) establishing a project-specific needs inventory.

The Capital Outlay and Infrastructure Report. The Department of Finance (DOF) prepares annually a capital outlay and infrastructure report in order to assess the state's infrastructure needs. This report projects for all state programs over a ten-year period the state's potential infrastructure needs for capital outlay, deferred maintenance, and local assistance for capital improvements. The most recent report covers 1997-98 through 2006-07 and identifies a need of $7.7 billion for resources and environmental protection programs.

Our review shows that the report does not provide a complete or reliable estimate of ten-year capital outlay needs. Specifically, we find that departments vary in their methodologies for estimating needs, and that, in some instances, the estimates are not comprehensive and coordinated among departments. In most instances, the estimates are not based on established plans and goals to implement the Legislature's resources priorities. Without such plans or goals, it is not possible to determine (1) if the estimates represent real needs to achieve stated goals or (2) the relative priority of the needs.

How Needs Estimate Should Be Constructed. We have recommended in the past (please see our *Analysis of the 1996-97 Budget Bill,* page B-13) that the Legislature take steps to ensure that the state's programs for land resources conservation—including the acquisition and development of open space and wildlife habitat—are coordinated, based on clear priorities, and directed towards the achievement of long-term goals. We have also recommended (please see our *Analysis of the 1995-96 Budget Bill,* page I-13) that the Legislature take a more comprehensive and proactive approach with regard to state infrastructure planning and financing.

Consistent with these recommendations, we outline below a process to construct an estimate of resources infrastructure needs.

Step 1: Establish Specific Goals. The Legislature must first identify its overall *goals* relative to resources. Current law declares broad state policies, for example, to maximize public coastal access and to protect marine resources and land resources, including fish and wetlands. In most instances, however, the state lacks specific goals for implementing these policies. For example, the state has not established goals for the number of coastal access points per capita in different coastal areas, or for the specified acreage of coastal wetlands to be maintained or restored. Specific goals have been established only in a few instances, for example, a statutory goal was set in 1988 to double the natural production of salmon and steelhead trout.

Without specified goals, both the Legislature and departments are less able to determine and prioritize the steps (or programs) necessary to ultimately implement statutory policies, or evaluate the effectiveness in implementing those policies.

An appropriate mechanism for establishing such goals would be the comprehensive statewide environmental plan required under current law. Current law requires the Governor to prepare and update every four years this plan which contains an overview—looking 20 to 30 years ahead—of state growth and development, and a statement of goals relating to land use, conservation of natural resources, and air and water quality. (However, no Governor has submitted such a plan to the Legislature since 1978.)

Step 2: Determine Who Should Meet Resources Infrastructure Needs and How to Meet These Needs. The second step to constructing the needs estimate is to identify the programs (activities) needed to achieve the goals identified in the statewide environmental plan and how these programs ought to be implemented. Specifically, the Legislature should consider the appropriate role of state government relative to federal and local governments and the private sector in carrying out these programs, and the cost-effectiveness of the proposed activities.

- ***State Versus Local Responsibility.*** In our *Making Government Make Sense* proposal (please see our *1993-94 Budget: Perspectives and Issues*, pages 111-132), we described a model in which duties are assigned to the state based primarily on whether those duties represent truly statewide functions, in that state control is necessary to ensure adequate service levels. For example, the state should develop and manage only those parks that have *statewide* significance in terms of their natural or cultural resources, while local government should have primary responsibility for meeting local demand for recreational opportunities. (Currently, the state lacks clearly defined criteria for identifying resources that have such statewide significance.) In our view, the Legislature should focus its funding on meeting these *state* needs, while providing opportunities to facilitate local governments in meeting their infrastructure needs. For instance, the Legislature could direct state agencies to provide technical assistance to leverage federal funds available to local governments.

- ***Achieving State's Resources Goals in Cost-Effective Manner.*** Direct capital outlay improvement and land acquisition is but one means of accomplishing the state's resources goals. For example, the Legislature can act to protect coastal wetlands not only through direct acquisition and management of these lands, but through providing technical assistance and tax incentives to land owners for their conservation, and improving state and local processes for mitigating the impacts caused by development. The Legislature should adopt whichever mechanism will accomplish the goals most cost effectively.

Step 3: Establish Project-Specific Needs Inventory. Once short- and long-term state goals are established and the appropriate role of state capital outlay expenditures in meeting those goals determined, then individual departments should be directed to develop a project-specific inventory of capital needs for each program they operate. For each project, departments should provide a cost estimate and time line for completion of the project, identify potential funding sources, and estimate the project's impact on future state operations and maintenance costs. The DOF should be responsible for evaluating the merit of these projects and their estimated costs and potential funding sources. The DOF should provide to the Legislature annually in the Governor's budget a prioritized list of projects to be funded over the next ten years, linking this list to the accomplishment of specific state goals.

SETTING FUNDING PRIORITIES

In establishing funding priorities, the Legislature should give priority to projects that protect public health and safety, fulfill statutory requirements, address broad state goals, or provide savings. The state should only fund those projects for which ongoing funding for support and maintenance is reasonably assured.

We think that the framework discussed above should be applied to determine the state's infrastructure needs in other program areas as well, including education, corrections, and health and welfare. The Legislature will then have the necessary information to determine funding priorities *among* these needs, given that the state's revenues and borrowing capacity are limited.

Establishing state funding priorities among disparate programs is ultimately a legislative policy decision. To ensure that the state gets the "biggest-bang-for-the-buck" from its capital expenditures, we recommend that the Legislature apply consistent criteria in establishing its funding priorities and developing a statewide infrastructure financing plan across *all* programs. In prioritizing projects, it is important to assess any negative consequences that would result from not funding a project. In our view, the Legislature should use the following criteria in establishing funding priorities, both across *all* program areas and *within* resources programs specifically.

- ***Public Health and Safety.*** A high priority should be projects that protect public health and safety, such as a project that addresses a major source of toxic contamination of coastal water.
- ***Statutory Requirements.*** Projects that fulfill legal requirements should be a priority. These requirements would include federal standards for water quality and access for disabled persons, and state standards for worker safety.
- ***Broad State Goals.*** Priority should be given to projects that address broad and multiple state objectives such as projects that conserve natural resources while facilitating economic activities, and that address state, rather than local, responsibilities.
- ***Cost-Effectiveness.*** The state should fund projects that will provide savings in state operations or avoid future state costs. For example, by rehabilitating existing park facilities before those facilities deteriorate, the state can avoid or defer more significant expenditures for construction of *new* facilities.
- ***Availability of Support Funding.*** The state should only fund those projects for which ongoing funding for support and maintenance is reasonably assured. For example, the state should not develop new state parks unless it identifies funding—from state, local, or other sources—that is likely to be available for the ongoing operation and maintenance of those parks.

CHOICE OF FINANCING MECHANISM

There is a range of mechanisms to finance infrastructure needs. The choice among these mechanisms depends on cash flow requirements and the policy decision as to who should pay for a particular project. We recommend that future bond measures provide flexibility to the Legislature to address high priority needs over time. This should be done by providing broad categories of eligible projects in these measures, and leaving funding allocations to specific departments and projects to be made in the annual budget process.

The Legislature has available to it a range of mechanisms for financing its infrastructure needs. There are two basic considerations for the Legislature in determining the appropriate financing mechanism: (1) the merits of pay-as-you-go funding versus borrowing, and (2) who pays. We discuss these considerations below and make recommendations regarding future bond measures.

Pay-As-You-Go Versus Borrowing. The choice between using pay-as-you-go fund sources versus bond funds (borrowing) to finance a given infrastructure project depends largely on cash flow requirements and the desired distribution of costs among parties. Using bond funds results in higher costs for a given project then using a pay-as-you-go approach, because of the cost to the state of paying interest on the bonds. However, bonds may be the appropriate financing mechanism to address cash flow needs in certain circumstances. These include instances where an infrastructure project has a high cost and there are not sufficient revenues available over the construction period to meet cash flow requirements. To the extent a project can be completed in stages, this may address some cash flow requirements and alleviate the need for bond financing.

Another consideration in choosing between pay-as-you-go and borrowing is the distribution of costs among generations of taxpayers. To the extent that future generations will benefit from the project, it may be appropriate to use bond financing since those future generations will thereby shoulder some of the project's costs through payment of principal and interest on the bonds.

Who Pays. In our *Analysis of the 1992-93 Budget Bill,* (page IV-19), we provide a framework for financing resources and environmental programs that is applicable to financing resources infrastructure projects. First, in cases where an identified population or group—as opposed to the population as a whole—benefits from the infrastructure expenditure, it may be appropriate to finance the expenditure, in whole or in part, from fees levied on that group. For example, people who use state park facilities might be charged fees to partially offset the costs of developing state park facilities.

In some instances, private activities degrade a natural resource and necessitate capital investment to prevent the degradation and / or restore the resource. In these instances, it may be appropriate to levy fees on those activities to defray some of these capital costs. For example, parties generating wastewater should help pay for the capital costs of treating that wastewater.

General purpose funds—including the General Fund—are an appropriate means for financing projects that benefit the *entire* population, such as projects that maintain the state's biological diversity by protecting fish and wildlife habitat. In addition to the General Fund, there are two other funds which are available for a broad range of purposes and are appropriate means for financing projects that benefit a broad base of the population. These include special funds such as the Public Resources Account and Environmental License Plate Fund. Often with fee-based funds, the authorized uses are relatively narrow. In contrast, general purpose funds can be used for broader purposes, thereby providing the Legislature with greater flexibility in addressing its relative funding priorities.

Using funds for infrastructure—whether by paying-as-you-go or borrowing—reduces their availability for funding state operations. Accordingly, the Legislature should consider the extent to which these funds should be devoted to funding infrastructure projects, over a multiyear period, versus funding other state services and programs.

Providing Greater Flexibility in Future Bonds. Given the number of circumstances under which bond financing is appropriate (as discussed above), bonds are likely to continue to be an important source of funding for resources infrastructure. Past bonds have been relatively specific, with funds designated specifically to certain geographic locations or allocated for use by specific agencies or programs. This limits the Legislature's ability to address highest priority needs over time. Accordingly, we recommend that the Legislature in future bond measures only indicate what *categories* of projects shall be eligible for funding, but make *specific* allocations—both among departments and for specific projects—as part of the budget process. This approach is consistent with a prior recommendation that we have made relative to the use of bonds for construction of state facilities generally. Specifically, we have recommended that the Legislature consider placing an appropriately sized "State Facilities Bond Act" on the ballot, because this mechanism would provide the Legislature with flexibility to address the facilities needs of any state agency on a priority basis. (Please see our *Analysis of the 1997-98 Budget Bill*, page H–15.)

OVERVIEW AND ASSESSMENT OF THE RESOURCES INITIATIVES

BACKGROUND

The state conserves and manages its natural resources through a number of programs. Many of these programs focus relatively narrowly either on (1) reviewing and mitigating the environmental impacts of particular projects or (2) managing and restoring specific species of fish or wildlife. In recent years, there has been a trend away from a project-based review and towards a broader focus on natural resources management. Instead of focusing on individual species or particular habitat, this broader approach focuses on whole ecosystems, bioregions, watersheds, and natural communities.

Governor's 1998-99 Initiatives. For 1998-99, the budget proposes to further implement this broader approach to natural resources management. Specifically, the budget proposes four initiatives as shown in Figure 11. They are:

Figure 11

Proposed Resources Initiatives

1998-99
(In Millions)

Purpose	Funding
Natural Community Conservation Planning	$20.6
Lake Tahoe	11.5
Watershed Initiative	9.0
Coastal Initiative	17.7
Total	**$58.8**

- ***Natural Community Conservation Planning (NCCP) Program***. The purpose of this program is to facilitate economic development, while also protecting wildlife and plant species and their habitat through an ecosystem approach to resources management.

- ***Lake Tahoe Initiative***. This initiative is intended to preserve and enhance the Lake Tahoe Basin through soil erosion mitigation, watershed restoration and water quality monitoring.
- ***Watershed Initiative***. The purpose of this initiative is to protect and enhance state watersheds through improved coordination of technical and financial assistance for local watershed planning efforts.
- ***Ocean and Coastal Initiative***. The goal of this initiative is to improve the management of California's coastal resources through coastal access and protection, coastal wetlands restoration and coastal water quality monitoring.

In general, all four proposals continue and expand existing state resources activities. We review and comment on these proposals below.

NCCP Program Needs Legislative Policy Review

We withhold recommendation on the $15.9 million for the Natural Community Conservation Planning (NCCP) program acquisitions and $3.6 million for local assistance grants pending the receipt and analysis of several reports due to the Legislature on March 1, 1998. The information provided in the reports will enable the Legislature to better assess and evaluate the administration's proposal in the budget year as well as future years.

We further recommend that $1.1 million be approved to extend 13.3 personnel-years of staff on a two-year limited-term basis because the NCCP program is a pilot program and the department has not provided an evaluation of the program's impact to date to merit making the program a permanent one.

Chapter 765, Statutes of 1991 (AB 2172, Kelley)—known as the Natural Community Conservation Planning Act—authorized a pilot program for the Department of Fish and Game (DFG) to assist public and private agencies in preparing and implementing natural community conservation plans. These plans are intended to facilitate economic development, while also protecting wildlife and plant species and their habitat.

Governor's Budget Proposes $21 Million for NCCP's Funding. The Governor's budget proposes to significantly expand funding for NCCP, as show in Figure 12 (see next page). As the figure shows, NCCP expenditures are proposed to increase by $14.2 million, or 222 percent, between the current and budget years. Specifically, the budget proposes a total of $17 million to the Wildlife Conservation Board (WCB), DFG, and the State Coastal Conservancy (SCC) for NCCP land acquisitions and state operations. The budget also includes $3.6 million in DFG's budget for local assistance grants. The DFG budget also proposes to convert 13.3 personnel-years from limited-term to permanent status to administer the NCCP program.

Figure 12

Natural Community Conservation Planning Funding

1997-98 and 1998-99
(In Millions)

Department/Purpose	1997-98 Budgeted	1998-99 Proposed	Change Amount	Change Percent
Wildlife Conservation Board				
Acquisition	$6.4	$10.9	$4.5	70.3%
Fish and Game				
Local assistance	—	3.6	3.6	—[a]
State operations	—	1.1	1.1	—[a]
State Coastal Conservancy				
Acquisition	—	5.0	5.0	—[a]
Totals	**$6.4**	**$20.6**	**$14.2**	**221.9%**

[a] Not a meaningful figure.

Further Policy Review Required. As indicated earlier, the general goal of NCCP is to facilitate economic development, while also protecting wildlife and plant species in their habitat. While these are important goals, we have expressed several concerns in prior *Analyses* about the implementation of NCCP. Those concerns can be summarized as follows:

- ***Lack of Authority to Acquire Land***. Chapter 765 does not authorize the state, as part of its role in NCCP implementation, to provide local assistance grants or acquire land.
- ***Lack of Evaluation***. The administration has proposed to increase funding for NCCP even though it has yet to evaluate the effectiveness of the program.
- ***Geographic Scope of Program Uncertain***. The program is currently limited to San Diego, Orange, Riverside, and San Bernardino

Counties. It is not clear when and whether other parts of the state will be eligible for funding.

- ***Large Future Costs Expected***. The DFG estimates that the *state*'s share of the NCCP program in San Diego alone will be $97 million. These costs could increase as land is acquired by the state for Orange, Riverside, and San Bernardino Counties, as well as other counties that might be added to the program.
- ***Future Funding Sources Unspecified***. Total potential state costs are unknown at this time and DFG has not identified funding sources for the programs on an ongoing basis.

In response to these and other concerns, the Legislature adopted supplemental report language requiring WCB, DFG, and SCC to submit reports by March 1, 1998 that provide (1) the location, acreage, and acquisition cost of lands purchased in 1997-98, (2) the NCCP plan for which the parcel was acquired, and (3) the plant and wildlife species which the acquisition is intended to help protect. The Legislature also requested specific information pertaining to each NCCP plan which has been approved to date by the DFG, or which is being developed.

We believe that this information will be important in addressing the concerns noted above. Pending receipt and review of the reports, we withhold recommendation on funding for the NCCP program, local assistance, and acquisition.

We further recommend that the request to extend on a permanent basis 13.3 personnel-years of staffing for the NCCP program support be denied. Instead, these staff should continue as limited-term positions. This is because the NCCP program was established as a pilot program. However, DFG has thus far not provided the Legislature with an evaluation of the program's impact and effectiveness to warrant making the program a permanent one.

LAKE TAHOE INITIATIVE

We recommend approval of the proposed $11.5 million for the Lake Tahoe Initiative. These expenditures are the initial installment of ten-year costs totaling $274 million. The budget, however, identifies only $106 million in funding sources for this ten-year obligation. Consequently, we recommend that the Resources Agency provide the Legislature with a multiyear expenditure proposal, including specific funding sources and purposes for the expenditures.

The Governor's budget proposes $11.5 million from various funds for the Lake Tahoe Initiative. The purpose of the initiative is to preserve and enhance the Lake Tahoe Basin. Budget-year funding for the initiative is comprised of three components: (1) $10.3 million for soil erosion mitigation, watershed restoration, and acquisition, (2) $0.7 million for forest health and fire danger improvement, and (3) $0.5 million for Lake Tahoe water quality and monitoring. Figure 13 shows the distribution of these funds. According to the administration, these funds are the first installment of state funds for support of the Environmental Improvement program (EIP) for Lake Tahoe.

Figure 13

Lake Tahoe Initiative

1998-99
(In Millions)

Department/Purpose	Amount
California Tahoe Conservancy	$10.3
• Soil erosion mitigation and watershed restoration	
Tahoe Regional Planning Agency	0.3
• Water quality and monitoring	
State Water Resources Control Board	0.2
• Water quality and monitoring	
California Conservation Corps	0.7
• Forest health and fire danger improvement	
Total	**$11.5**

Environmental Improvement Program (EIP). The EIP is a joint effort of California, Nevada, the federal government, local governments, and the private sector to repair environmental damage done to the Lake Tahoe Basin. This joint effort is intended to help the overlapping jurisdictions in the area achieve the following nine environmental thresholds: water quality, air quality, soil conservation, vegetation, fish habitat, wildlife habitat, noise, science resources, and recreation. Thresholds are quantitative and qualitative standards that have been established to improve and maintain environmental quality.

The EIP is divided into two ten-year plans. The first ten-year plan, covering the period from 1997 through 2007, focuses mostly on water quality control and improvement. The goal is to achieve 75 percent of the water quality target threshold by the end of this period. The EIP also plans to achieve 50 percent of each of the other eight thresholds during this period. The EIP estimates that the first ten-year period will require a total investment of $906 million by all of the participants. Figure 14 shows the amount each entity has agreed to contribute toward the $906 million. Of this amount, California's share is $274 million.

Figure 14

Lake Tahoe Environmental Improvement Program Funding Responsibilities

1997 Through 2007 (In Millions)

Federal government	$297
State of California	**274**
State of Nevada	82
Local governments (California/Nevada)	101
Private entities (California/Nevada)	152
Total	**$906**

Funding Sources. The Governor proposes that California meet its share of the EIP costs through direct funding in the budget for 1998-99 and through proposed bond funds for subsequent years. In addition to the $11.5 million requested in the Governor's budget, the administration proposes to earmark $95 million in the proposed "Watershed, Wildlife, and Parks Improvement" Bond for implementation of the EIP. (Please see our discussion in the Crosscutting Issues section of this chapter on Fund Conditions for Resources Programs.) Together these funds represent only $106.3 million, or 39 percent of California's share of the EIP expenditures.

Findings and Recommendation—Budget Year. We recommend approval of the $11.5 million for the Lake Tahoe Initiative. Specifically, we believe that the proposed expenditures of $10.3 million for the California Tahoe Conservancy, as well as the remaining $1.2 million for the California Conservation Corps, Tahoe Regional Planning Agency, and the State Water Resources Control Board, are consistent with their ongoing activities.

We note that bond funds have been used in the past to fund capital improvements including water quality projects and land acquisitions in the Lake Tahoe area. According to the California Tahoe Conservancy, it received $80 million in bond funds from 1984-85 through 1991-92 for land acquisition. By 1992-93, the conservancy had exhausted its bond funds, and from 1992-93 through 1997-98 it used $14.3 million from the General Fund for acquisition. Thus, it appears that the Governor's proposal is returning to bond funding for the conservancy's activities.

Findings and Recommendations—Beyond Budget Year. Based on our review, we conclude that there are three major fiscal uncertainties involving the Lake Tahoe Initiative. First, a major source of funding for the initiative is the Governor's proposed bond measures, which are subject to voter approval. Second, there are no details on how the bond funds would be used for the initiative. Third, the initiative identifies only 39 percent of California's funding share of the EIP, but provides no details as to how the Governor plans to fund the remaining 61 percent of the initiative's future cost.

In view of these uncertainties, we recommend that the Resources Agency provide to the Legislature, prior to budget hearings, a ten-year expenditure plan including specific funding sources and purposes for the expenditures.

WATERSHED INITIATIVE

We withhold recommendation on the Governor's Watershed Initiative—except for the ten watershed management coordinators requested by the State Water Resources Control Board, which we recommend be approved—pending receipt of additional information on how the grants to support the community-based watershed efforts will be distributed by the Department of Fish and Game.

The goal of the Governor's Watershed Initiative is to improve coordination and cooperation among departments, watershed groups, and local governments. The budget proposes $9 million from various funds (the General Fund, Salmon and Steelhead Trout Restoration Account, and the Public Resources Account) to implement this initiative. Funds would be used to provide financial and technical assistance to community-based groups, local governments, and other entities interested in developing and implementing watershed stewardship plans and restoration projects. Figure 15 shows the funding proposed for the initiative by department.

Two Faceted Approach. The watershed initiative is comprised of two components: (1) technical assistance, and (2) local grants. The technical assistance component directs the Departments of Fish and Game (DFG), Conservation (DOC), Fire and Forestry Protection (CDFFP), and the State Water Resources Control Board (SWRCB) to provide technical assistance to local governments and community-based groups in developing and implementing watershed stewardship plans and restoration projects. While these departments already provide technical assistance to these entities, the initiative is attempting to better coordinate the delivery of such assistance.

Figure 15

Watershed Initiative

1998-99
(In Thousands)

Department/Purpose	Funding
Department of Conservation	—[a]
• Geological support	
• Review watershed grant funding proposal	
Department of Forestry and Fire Protection	$120
• Forestry support	
• Review watershed grant funding proposal	
Department of Fish and Game	8,000
• Watershed assessments	
• Monitor recovery of species	
• Training in watershed assessment restoration and monitoring	
• Biological and ecological support pertaining to fish and wildlife	
• Coordinate review and determine competitive grants under SB 271	
State Water Resources Control Board	931
• Ten watershed management coordinators	
• Review watershed grant funding proposal	
Total	**$9,051**

[a] Utilize existing funding sources.

The second component of this initiative is $7 million for grants to local agencies and other community-based entities for salmon protection and restoration projects as well as other watershed projects. These funds are made available pursuant to Chapter 293, Statutes of 1997 (SB 271, Thompson) which specifies that at least 65 percent of the funds in the Salmon and Steelhead Restoration Account, be allocated for salmon protection and restoration projects. The remaining funds (up to 35 percent) may be spent on a variety of watershed projects as outlined in the statute. At the time this analysis was prepared, DFG was unable to provide information on how the funds would be allocated among these two purposes and what projects would be funded. Therefore, we withhold recommendation pending receipt of this information.

Watershed Coordinator Positions. We recommend approval of the request by the State Water Resources Control Board (SWRCB) for watershed coordinator positions given that these staff will help to implement existing five-year to seven-year work plans of the regional boards. (For more details on this component of the initiative, please see the write-up under the State Water Resources Control Board.)

OCEAN AND COASTAL INITIATIVE

The Governor's Ocean and Coastal Initiative is comprised of four main components—coastal access and protection, coastal wetlands restoration and protection, marine resource management, and coastal water quality. The budget proposes $17.7 million in 1998-99 for this initiative as shown in Figure 16.

Figure 16

Ocean and Coastal Initiative

1998-99
(In Millions)

Coastal Access and Protection	
State Coastal Conservancy	$5.7
Coastal Wetlands Restoration and Protection	
State Coastal Conservancy	6.8
San Francisco Bay Conservancy and Development	0.1
Marine Resource Management	
Department of Fish and Game	3.6
Department of Boating and Waterways	0.2
Coastal Water Quality	
State Water Resources Control Board	1.3
Total	**$17.7**

Coastal Access and Protection Proposal Lacks Detail

We withhold recommendation on the $5.7 million requested for coastal access pending the receipt of additional information on how these funds will be spent on the Coastal Trail, San Francisco Bay Trail and "offers-to-dedicate".

Budget Request. The budget proposes $5.7 million for the State Coastal Conservancy (SCC) to plan, design and construct public access-ways to the shoreline as part of the Governor's Ocean and Coastal Initiative. The funds are to be used to acquire lands to further connect the fragmented Coastal Trail (which basically runs from the Oregon border to the Mexico border) and the San Francisco Bay Trail. These funds are also to be used to effectuate offers-to-dedicate (OTD) public access. Offers-to-dedicate are easements on private property that were required to be offered to the state as a condition of receiving a development permit. The SCC has the opportunity to develop these easements into public access points. The OTDs expire if they are not developed within a twenty-year period. The conservancy has stated that many of these OTDs will expire this year. If the conservancy does not develop these access-ways prior to the expiration of the OTD and they later decide to develop an access point at that location, the conservancy will have to buy that right of access. This would be more costly to the conservancy and the state for the same level of benefit.

Recommendation. At the time this analysis was prepared, SCC was unable to identify how much of the $5.7 million was to be spent on the Coastal Trail, the San Francisco Bay Trail, or OTDs. We recommend that SCC provide the Legislature, prior to budget hearings, a breakdown of how the $5.7 million will be split between the two trails and the OTDs. The conservancy should also provide the Legislature with a list of the OTDs that will be expiring this year, a priority ranking of these easements, as well as an estimated cost per OTD it plans to develop in the budget year. We further recommend that the conservancy identify its overall goal for coastal access (i.e., the number of coastal access points per mile throughout the state) so that the Legislature can determine the extent to which the budget-year proposal for OTDs will further the achievement of that goal.

Southern California Wetlands Clearinghouse Merits Consideration; But Needs More Detail

We review and comment on the Southern California Wetlands Clearinghouse and its proposed mitigation bank. While "mitigation banks" have merit as one strategy for protecting wetlands, the Governor's proposal lacks details. We withhold recommendation on the $6.9 million for the proposed establishment of the Southern California Wetland Clearinghouse and the associated wetland "mitigation banks" pending the receipt of information regarding the number and cost of mitigation credits, and how mitigation banks satisfy CEQA requirements. Additionally, the conservancy should report on how well it and the agency were able to meet the goals they set for developing the clearinghouse.

The Governor's budget proposes the establishment of a Southern California Wetlands Clearinghouse as part of the Ocean and Coastal Initiative. The clearinghouse was a component of the Governor's Coastal Initiative for 1997-98. (This component was not funded as the result of the final Public Employees' Retirement System settlement.) The purpose of the clearinghouse is to better prioritize wetland projects, pool funds from various sources to undertake these protects, and fund the actual restoration of wetlands. Participants in the clearinghouse would include resource managers, wetland scientists, private industry and the environmental community. The budget proposes to fund the clearinghouse for one year, complete the wetland prioritization process, initiate a public involvement program, prepare conceptual wetland restoration plans for at least four priority sites, and construct one or more wetland restoration projects.

Current Efforts and Expenditures to Launch Clearinghouse. The Resources Agency, SCC, and state and federal resources managers have been working together to develop a conceptual framework and guidelines for operating the clearinghouse. The conservancy and agency established a number of goals to be met in 1997-98. One goal was to prepare a work plan for the first year that identifies the criteria and process to determine wetland priorities and an implementation strategy. The SCC and agency also plan to be able to report on the clearinghouse's progress in meeting its short and long-term goals. We recommend that SCC report on the status of these goals at budget hearings.

Mitigation Banks. Traditionally, when a developer builds adjacent to or on top of wetlands, the developer is responsible for mitigating the impact of the development on the environment. Mitigation efforts can be improvements to adjacent wetlands or development of new wetlands. The Governor's budget proposes a wetland mitigation "bank" as a component of the clearinghouse in order to offer an alternative to mitigate or offset wetland destruction due to development.

Under the proposed approach, instead of engaging directly in mitigation projects, developers can opt to buy "credits" from a wetlands mitigation bank in order to compensate for wetlands they damage or destroy *elsewhere* as a result of a development project. The proceeds from the purchase of "credits" would then be used by the clearinghouse to either purchase existing wetlands or develop new wetlands.

The administration believes that mitigation banks offer several advantages over the current system. First, by having mitigation projects in Southern California planned and paid for out of one account, high priority projects would be identified and completed first. Second, the quality of wetlands may be higher if SCC creates and restores them versus a developer who may not have the same expertise. Finally, mitigation banks have the potential of decreasing the cost of doing business because the development permitting process may be faster.

While mitigation banks may have merit in concept, our review finds the conservancy has not yet defined a number of important details about how the proposed mitigation banks would operate. One such uncertainty is how mitigation banks would meet California Environmental Quality Act (CEQA) requirements. Under CEQA, public agencies are required to assess a proposed development's impacts on the environment. If the reviewing agency finds that there would be significant adverse impacts, CEQA typically requires the developer to implement feasible measures to mitigate those impacts as a condition of project approval. It is not clear that CEQA requirements are met if the developer buys mitigation credits from the clearinghouse for a project in one county and the clearinghouse decides the highest priority for wetland restoration is in another county and therefore applies the credits toward that higher priority project. Also, it is not clear what criteria will be used to determine the number of credits that developers must purchase or how the cost of credits would be determined. Depending on how the credits are priced, mitigation banking could become a subsidy for developers. Furthermore, the willingness of a developer to participate in the clearinghouse will depend on the price of mitigation credits.

Recommendation. We recommend that SCC report to the Legislature at budget hearings on the progress that has been made in achieving the goals established for 1997-98. We also recommend that the conservancy address the uncertainties and concerns pertaining to the number of credits to be sold, how the credits will be priced, and how mitigation banks would satisfy CEQA requirements. Pending receipt of this information, we withhold recommendation on $6.9 million requested for the clearinghouse.

Marine Resources Management

The Governor's budget proposes $3.8 million for the Marine Resources Management component of the Ocean and Coastal Initiative. These funds would be used primarily for the development of a nearshore ecosystem database by the Department of Fish and Game.

Coastal Water Quality

For the State Water Resources Control Board, the budget proposes about $1.3 million from the Natural Resources Infrastructure Fund for water quality monitoring of coastal waters and for the control of coastal "nonpoint source" pollution (such as polluted runoff from farms, mines, storm drains, etc.). We believe this proposal is warranted and recommend approval.

Funds for Habitat and Wildlife Preservation

The Governor's budget proposes approximately $69.2 million from various funds for habitat and wildlife preservation. However, as in previous years, the budget provides no details on how these funds will be spent and how these expenditures maximize the state's goal of protecting wildlife habitat and threatened and endangered species.

Overview. Current state law calls for the preservation of habitat and wildlife through the acquisition, restoration, and enhancement of wildlands. Responsibility for carrying out these activities is spread over seven departments and is financed through various funds. Figure 17 (see next page) identifies the major funding sources that are available for habitat and wildlife preservation. The Legislature appropriated approximately $62.1 million in 1997-98 for the preservation of habitat and wildlife, as shown in Figure 18 (see page 49). The Governor proposes approximately $69.2 million in 1998-99 for this purpose.

Figure 19 (see page 49) shows by broad categories how the funds are spent for habitat and wildlife protection. The expenditures are for:

- "Acquisition" of lands which includes purchase of property to increase coastal access, develop trail systems, and protect habitat and wildlife.
- "River Parkway" which includes expenditures funded through Proposition 204 for acquisition of riparian and aquatic habitat, and for river stream trail projects restoration.
- "Restoration / Enhancement / Development" which includes all other wildlife and habitat-related expenditures. Generally, these include activities that bring the environment into a condition suitable for wildlife. This could include, for example, restoring stream beds to improve spawning conditions for salmon.

- "Minor projects" which are capital outlay expenditures for habitat and wildlife preservation.

Figure 17

Major State Funding Sources[a]
For Habitat and Wildlife Preservation

Fund	Purpose
Habitat Conservation	Acquire lands for deer and mountain lions, rare and endangered animals and plant life, wetlands, and for park purposes.
Natural Resources Infrastructure	Environmental review, Natural Community Conservation Planning acquisition, nonpoint source pollution abatement.
Environmental License Plate	Acquire and restore ecological reserves, protect nongame species, control and abate air pollution.
Public Resources Account	Protect, restore, and enhance fish and wildlife habitat; enhance park and recreation resources.
Fish and Game Preservation	Acquire habitat and construct projects to protect, preserve, and conserve fish and wildlife; (also supports Department of Fish and Game).
Forest Resources Improvement	Reforestation and other forest improvement projects.
Environmental Enhancement and Mitigation	Environmental enhancement and mitigation projects.
Wildlife Restoration	Acquire lands, construct facilities, and protect habitat for species.
Santa Monica Mountains Conservancy	Acquire lands for recreational and conservation purposes.
Coachella Valley Mountains Conservancy	Acquire land in the Coachella Valley.
Lake Tahoe Conservancy Account	Habitat conservation and acquisition projects.
General	Habitat acquisition, enhancement, and restoration.

[a] Bond funds are excluded.

Figure 18

Habitat and Wildlife Preservation Expenditures[a] By Department

(In Millions)

Department	1997-98	1998-99
Coachella Valley Mountains Conservancy	—[b]	—[b]
Coastal Conservancy	$17.2	$25.2
Fish and Game	1.4	1.5
Parks and Recreation	9.3	6.2
Santa Monica Mountains Conservancy	5.0	—
Tahoe Conservancy	5.5	11.7
Wildlife Conservation Board	23.7	24.6
Totals	**$62.1**	**$69.2**

a Excludes capital outlay expenditures for the acquisition, planning, or construction of structures. Also, excludes local assistance grants.

b $40,000 in both years.

Figure 19

Habitat and Wildlife Preservation Expenditures[a] By Purpose

(In Millions)

Expenditure Type	1997-98	1998-99
Acquisition	$32.6	$42.5
Minor projects	3.0	6.5
River Parkway	23.0	—
Restoration/Enhancement/Development	3.5	20.2
Totals	**$62.1**	**$69.2**

a Excludes capital outlay expenditures for the acquisition, planning, or construction of structures. Also, excludes local assistance grants.

Comments. Based on our review, we draw the following conclusions concerning the proposed state expenditures for wildlife and habitat preservation. First, the budget generally does not identify the specific projects for which the funds will be used. Specifically, the conservancies and the Wildlife Conservation Board (WCB) do not identify the projects which they are proposing to purchase. In some cases, the conservancies and the board provide lists of *potential* acquisitions and development projects to support the budget proposals. However, these lists are (1) tentative, and subject to change, or (2) not necessarily projects that will be funded in the budget year. We note, however, that the Departments of Fish and Game (DFG) and Parks and Recreation do identify the specific projects for which they plan to use their funds.

Without knowing which specific projects are proposed to be acquired or restored, it is not possible to determine how the proposed expenditures maximize the state's goal of protecting habitat and wildlife. Similarly, it is not possible to determine what operating and maintenance costs these projects will impose on future budgets.

Second, the budget does not indicate how the proposed expenditures are split between (1) acquisition projects and (2) enhancement, restoration, and development projects. We note that such information is important because enhancement, restoration, and development projects can have important implications for state operations and maintenance costs in the future. For example, WCB restores property for DFG which manages the land. The type of property restored (for example, a stream bed or meadow) will result in different costs in the future. It is also important to know which projects are being restored, enhanced, or developed because it allows the Legislature to determine if the departments are targeting the highest priority projects.

Summary. In the absence of information about the proposed expenditures for wildlife and habitat preservation, it is impossible to determine how the budget proposal maximizes the state's goal of protecting habitat and endangered and threatened species. It is also difficult to determine what operation and maintenance costs these projects will impose on the budget in future years.

CAL-EPA: HOW WELL IS IT MEETING ITS GOALS?

When the California Environmental Protection Agency (Cal-EPA) was created in 1991, the Governor committed to the Legislature that Cal-EPA would be a coordinated, accountable agency focusing on the greatest risks to public health and the environment. We find that while the agency has reduced duplication in the regulation of the state's environmental problems, it has not met other major goals.

Background

The Secretary for Environmental Protection heads Cal-EPA. The Secretary is responsible for overseeing the activities of the following departments that make up Cal-EPA:

- Air Resources Board (ARB).
- California Integrated Waste Management Board (CIWMB).
- Department of Pesticide Regulation (DPR).
- Department of Toxic Substances Control (DTSC).
- Office of Environmental Health Hazard Assessment (OEHHA).
- State Water Resources Control Board (SWRCB).

Prior to the creation of Cal-EPA by a Governor's reorganization plan in 1991, the programs of Cal-EPA departments were spread among five agencies and departments, including the Health and Welfare Agency and the Department of Food and Agriculture. The Cal-EPA was proposed as a means of consolidating in one agency programs that were individually focused on particular areas of the environment (such as air or water) or particular pollution sources (such as pesticides or hazardous wastes).

Goals Set for Cal-EPA. In the reorganization plan, the Governor set a number of goals for Cal-EPA:

- To focus on assessing and addressing the greatest environmental and public health risks, using the best available science.
- To coordinate the state's environmental programs, and reduce overlap, duplication, and conflict in the regulation and administration of these programs.
- To serve as a primary point of accountability for these programs.

Goals Are Not Being Met

Our review identifies several examples of where the agency's goals are not being met.

Our review finds that the agency has made progress towards achieving some of its goals. Specifically, progress has been made to reduce overlap, duplication, and conflict in the regulation and administration of the state's environmental programs. For example, the agency has initiated a number of external program reviews and task forces to identify cases of overlap, duplication, and conflict. Findings of these reviews have resulted in statutory and regulatory changes, and coordinating agreements among Cal-EPA departments, to address the identified problem areas. The agency has also served to better coordinate agency-wide efforts in some areas, including environmental technology development, military base cleanup, and permit assistance.

However, we have identified a number of instances where the agency has failed to achieve its goals. For example:

- ***A Failure to Assess Risks.*** In the Department of Pesticide Regulation, there are significant backlogs in completing high-priority risk assessments, and the department has failed to respond to legislative direction to address this. (See our discussion under Item 3930, Department of Pesticide Regulation.) Also, regulatory decisions have been made by Cal-EPA departments without due consideration of the impact on public health and the environment outside their program areas. For example, the ARB has approved the use of MTBE as an ingredient in reformulated fuels to address air quality concerns, but MTBE may create adverse impacts on water quality if fuels migrate to water supplies. Neither ARB nor SWRCB identified and assessed these impacts when the ARB regulation was adopted. In fact, the Legislature had to enact legislation in 1997 to require an assessment of these impacts.
- ***A Failure to Coordinate Programs.*** As discussed below, planning and priority-setting has not been coordinated among Cal-EPA

departments. Moreover, Cal-EPA has failed to coordinate with the Resources Agency to submit a single statewide environmental plan to the Legislature—a statutory requirement since the 1970s.

- ***A Failure to Be Accountable.*** As we have discussed in previous analyses (see *Analysis of the 1995-96 Budget Bill*, page B-33), a substantial number of employees have been loaned or re-assigned from their legislatively approved positions to work in some other capacity at Cal-EPA, such as at Cal-EPA's permit assistance centers. This has made it difficult to hold departments within the agency accountable.

In the following sections, we identify and discuss some of the key reasons why these goals are not being met.

Failure to Focus on Primary Mission

We find that there is not a coordinated, agency-wide vision and plan for achieving Cal-EPA's main mission of protecting public health and the environment. We recommend the enactment of legislation, consistent with a proposal in the reorganization plan creating Cal-EPA, to create an interdepartmental Environmental Protection Council that would report annually to the Legislature on environmental protection priorities and plans to address these priorities.

The primary mission of Cal-EPA and its constituent departments is to protect public health and the environment. However, for the reasons discussed below, we find that the creation of Cal-EPA has not resulted in a coordinated, *agency-wide* vision and plan for protecting public health and the environment. Lacking this, it is difficult for the agency as a whole to focus its efforts on addressing the greatest risks to the environment overall.

Agency's Strategic Plan Lacks Vision for Environmental Protection. Our review of the most recent strategic plan of the agency (the 1996 plan) finds that there is little coordination between the development of the agency's plan and that of individual Cal-EPA boards and departments. Specifically, the agency's plan does not demonstrate how it coordinates with the environmental protection goals set out in the strategic plans of the constituent departments. Furthermore, the agency's plan does not provide a vision, goals or a plan for where the state should focus its efforts in the protection of all environmental media (air, water, etc.). Rather, the agency's strategic plan focuses on strategies to increase efficiencies, reduce costs, and improve service delivery. While these strategies may have merit, they fail to address the agency's primary mission of public health and environmental protection.

Agency Lacks Process to Establish Agency-Wide Environmental Protection Priorities. We find that Cal-EPA does not have a formal, interdepartmental process to identify the top environmental protection priorities and to direct agency-wide efforts on an ongoing basis. Such a process is needed in order that the agency as a whole can be held accountable for meeting its primary mission, and to provide the Legislature and the administration with a rational basis for allocating resources among environmental programs.

The Governor stated his intent in the reorganization plan to establish such a process by creating an Environmental Policy Council (consisting of the heads of each Cal-EPA board and department and the Governor's Office of Planning and Research) which was to "develop recommendations for the Legislature and Governor as to actions necessary to effectively protect and enhance the environment." However, that process has not been established. While the agency and its constituent departments meet informally to discuss priorities, the objectives for the meetings are not defined, and the Legislature is not advised of the group's findings and decisions about environmental protection priorities.

We also find that a statutory requirement for the Governor to submit a comprehensive statewide environmental plan to the Legislature has not been met since 1978. Specifically, the Governor is required to prepare and update every four years a comprehensive statewide environmental plan which contains an overview—looking 20 to 30 years ahead—of state growth and development, and a statement of goals relating to land use, conservation of natural resources, and air and water quality. While Cal-EPA, together with the Resources Agency, are the appropriate agencies to prepare such a report, no attempt has been made.

Agency's Allocation of Resources Not Based on Goal of Environmental Protection. We find that the agency's review of the budget proposals of its constituent departments is not based primarily on how they relate to the mission of protecting public health and the environment. Rather, according to Cal-EPA, in deciding how to allocate resources among environmental programs, the highest priority is assigned to proposals that either promote environmental technology development, enhance enforcement, streamline regulations, or implement the Governor's "California Competes" initiative (an effort to streamline and reduce duplication among state programs).

Analyst's Recommendation—Establish Environmental Protection Council Accountable to Legislature. We believe that the Legislature should be able to assess the *agency-wide* environmental protection priorities at Cal-EPA. This information is necessary for the Legislature to determine whether (1) the agency's priorities are consistent with the Legislature's own priorities and (2) the agency is assessing and addressing the greatest risks to public health and the environment, as proposed in the reorganization plan. To facilitate this, we recommend the enactment of legislation establishing an Environmental Protection Council, made up of the Cal-EPA secretary, the directors of Cal-EPA departments, and the chairpersons of Cal-EPA boards. We recommend that this Council be charged with the following responsibilities:

- To submit an annual report to the Legislature on it plans for protecting public health and the environment. This report should be provided in conjunction with the annual budget request submitted by the Governor. This report should include information on: (1) the risks which the Council identifies as posing the greatest threat to public health and the environment, (2) actions that ought to be taken in the short and long run to reduce those risks, and (3) how the programs of Cal-EPA and its constituent departments address the identified priorities for environmental protection and relate to their strategic plans. In addition, the report should provide a status report on the implementation of the priority list of actions identified in the prior-year's report .
- As part of the first annual report, the Council should assist Cal-EPA in developing a single, consolidated strategic plan for the agency as a whole.

Current Organizational Structure Inherently Problematic

We recommend that the Legislature appoint a task force to evaluate, and make recommendations to the Legislature, on other ways of organizing the California Environmental Protection Agency to make it more capable of achieving its mission.

We believe that formalizing the interdepartmental priority-setting process (as discussed above) will help provide a more coordinated, agency-wide vision for protecting public health and the environment. However, we think that Cal-EPA will continue to have problems in coordinating policy-making, implementing environmental programs among departments and boards, and serving as a primary point of accountability for these programs. This is mainly because under the current organizational structure, there are 12 independent boards in Cal-EPA: the Air Resources Board (ARB), the California Integrated Waste Management Board (CIWMB), the State Water Resources Control Board (SWRCB), and nine regional water quality control boards. These boards make independent decisions and are not directly responsible to the Secretary for Environmental Protection. Specifically, ARB, CIWMB, and SWRCB are policy-making bodies. In the case of ARB and SWRCB, the board members are appointed by the Governor and approved by the Senate. For CIWMB, the board members are appointed by the Governor, the Assembly Speaker, and the Senate Rules committee, and approved by the Senate. Similarly, the regional boards make independent decisions in implementing state board policies. As a result, the lines of accountability for making and implementing policies are unclear.

The Cal-EPA has made some efforts in coordinating enforcement across the agency by promoting "cross-media" (air, water, and land) training and inspections. However, the independent boards, who make enforcement decisions in a public setting, have varied widely in their implementation of enforcement policies.

The U.S. EPA Model. There are different ways of organizing environmental agencies. Our review shows that around 30 other states have organized their environmental agencies as "super departments," with divisions (air, water, etc.) that parallel the divisions of the U.S. Environmental Protection Agency. The department head has clearly defined authority over division directors. As single departments, the lines of accountability are relatively clear. Some states' structures include a council, comprised mainly of citizens appointed by the Governor, to advise the state's environmental department on environmental priorities. Yet other states' structures are comprised of a single environmental department, and an appointed board that serves mainly an enforcement function.

Restructuring Cal-EPA in any of these ways would present both advantages and disadvantages. For instance, there might be enhanced accountability in program and policy implementation. However, by eliminating existing boards, the opportunity for public participation might be reduced. In addition, the boards' function as an adjudicatory and appeals body would need to be provided in an alternative manner.

Analyst's Recommendation—Appoint Task Force on Environmental Agency Organization. We think that a thorough evaluation of the pros and cons of the different organizational structures of environmental agencies would provide the Legislature with valuable information to determine what might be the most appropriate structure to facilitate Cal-EPA in achieving its mission. Therefore, we recommend that the Legislature appoint a task force to (1) evaluate other environmental agency structures in terms of their ability to facilitate Cal-EPA achieving its mission, and (2) make recommendations to the Legislature. The task force should consist of representatives from Cal-EPA and its constituent departments, fiscal and policy committees of the Legislature, the environmental community, and the regulated community.

Cal-EPA Should Be Held Accountable for Failing to Comply With Legislative Direction

We recommend that the Legislature withhold action on the budget of Cal-EPA (the Secretary for Environmental Protection) until the agency provides a report that responds to the Legislature's direction.

Last spring, the Legislature adopted supplemental report language directing Cal-EPA to submit a plan by November 1, 1997 which implements the recommendations of the January 1997 report of the Unified Environmental Statute Commission. This commission, convened by Cal-EPA, made a number of recommendations on how Cal-EPA could better achieve its mission. In particular, the Legislature expressed interest about actions Cal-EPA has taken or plans to take to consolidate Cal-EPA departments' physical operations, implement a consolidated permitting system, unify informational and reporting requirements for the regulated community, and unify strategic planning. At the time this analysis was prepared, no report has been submitted to the Legislature.

In failing to follow the Legislature's direction, Cal-EPA has failed to live up to its goal to serve as the primary point of accountability for environmental programs. We recommend that the Legislature withhold action on Cal-EPA's budget until a report that is responsive to the Legislature's direction is submitted.

Increase in Permit Assistance Center Staffing Not Justified

The budget proposes to almost double the staffing for the permit assistance centers, but Cal-EPA has not provided any workload data justifying this increase. Therefore, we recommend that the Legislature deny the proposed funding request of $957,000. (Reduce Item 3985-001-0001 by $957,000.)

Permit Assistance Centers. Between 1992 and 1996, Cal-EPA administratively established 13 permit assistance centers (PACs) throughout the state. The PACs are designed to provide (1) a single point of contact for businesses to obtain information on all required permits and (2) assistance in applying for such permits. These could be federal, state, and local permits necessary to start a business, including environmental, land use, and health and safety permits.

In the current year, the budget provides $664,000 from the General Fund for Cal-EPA to oversee the centers and to develop an Internet site for permit assistance. This level of funding does not provide any support for staffing the centers. Rather, 22.8 personnel years are being assigned temporarily to work at the centers in the current year from various departments. Support of these staff are paid by the various departments, and funded mainly from special funds.

Budget Proposal. The budget proposes $2.8 million from the General Fund in 1998-99 to support the PACs. This is an increase of $2.2 million—about 325 percent—over estimated current-year expenditures. This amount would enable Cal-EPA, for the first time, to reimburse the departments that contribute staff to work at the centers, and to do so at an expanded staffing level of 40 personnel years.

Reimbursement Approach and Fund Source Are Appropriate. We think that it is appropriate for the departments who contribute employees to work at the PACs to be reimbursed by Cal-EPA so that their staffing levels are kept whole. This approach addresses the Legislature's past concern that the assignment of employees to the PACs may negatively impact the ability of the contributing departments to handle their workload and address their core mission. Furthermore, we think that from an operational standpoint, it is reasonable for Cal-EPA to reimburse the contributing departments rather than to establish separate positions at Cal-EPA for the PACs. This is because flexibility is needed to meet the centers' staffing needs given that work requirements change frequently throughout a year depending on demand at the centers. The Legislature has also expressed the concern that budgeting positions specifically for the PACs could result in over-budgeting given the variation in workload. We also think that the General Fund is an appropriate funding source given the broad-based business assistance that is provided to customers of the centers.

No Workload Justification for Increase in Employees Assigned to PACs. However, Cal-EPA has provided no workload justification for the proposed increase in employees assigned to PACs. Without this justification, we recommend that the Legislature deny the request for $957,000 which represents the portion of the proposal to increase staffing at the PACs from current-year levels.

DEPARTMENTAL ISSUES

Resources

CALIFORNIA CONSERVATION CORPS (3340)

The California Conservation Corps (CCC) assists federal, state and local agencies, and nonprofit entities in conserving and improving California's natural resources while providing employment, training, and educational opportunities for young men and women.

The CCC provides more than three million hours of conservation work each year. In addition to activities traditionally associated with the CCC like tree planting, stream clearance, and trail building, the CCC responds to emergencies caused by fires, floods, earthquakes and other natural disasters.

The CCC is one of four departments participating in a pilot for performance-based budgeting.

Non-Compliance with Legislatively Required Budget Presentation

The California Conservation Corps has not submitted its budget in the performance based budgeting format required by the Legislature.

The Legislature adopted supplemental report language in 1997-98 requiring CCC to schedule its main support item in the *1998-99 Budget Bill* with performance measures and levels, using a specified format. Our review shows that while the Budget Bill schedules the expenditures in the department's main support item, the budget does not identify any proposed outcomes and their associated expenditures, as directed by the supplemental language. As a result, the Legislature will not be able to assess (1) how the department intends to achieve particular performance outcomes and (2) whether the proposed expenditures are in accordance with the Legislature's priorities.

STATE LANDS COMMISSION (3560)

The State Lands Commission (SLC) is responsible for the management of 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.

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Tidelands Revenues Will Likely Be Less Than Initially Projected

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We recommend that the Secretary for Resources and the Department of Finance jointly report at budget hearings on how the administration proposes to revise its budget proposal regarding the use of Natural Resources Infrastructure Fund money.

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In 1997, DFG began a major reorganization effort to address problems it had identified with its previous organizational structure. At the time this analysis was prepared, the reorganization had not been completed and specific details were only partially available.

Problems With the Previous Organizational Structure. The department indicates that the reorganization is intended to address the following problems with the previous organization:

- ***Overlap and Duplication of Responsibilities and Activities***. According to the department, divisions were formed primarily along functional lines instead of programmatic lines to achieve policy goals, which led to duplication. For example, both the fisheries division and the wildlife division gathered habitat data. One might be gathering the information for a threatened fish species study and the other for a hunting study. Because of the way the department was structured, both of these divisions may have gathered the same information from the same habitat, but for different reasons.

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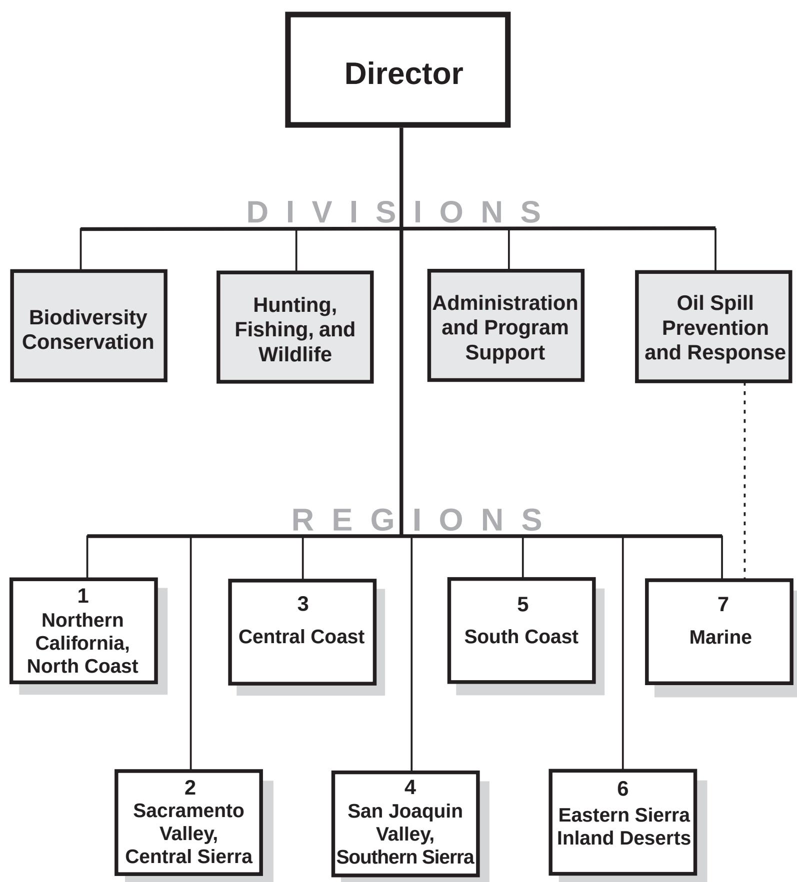
Department of Fish and Game Proposed Reorganization



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Criteria for Evaluating the Reorganization. Because the specific details of the reorganization are only partially available, we are not able to provide an in-depth analysis of the reorganization. Below we offer some criteria for the Legislature to consider in reviewing the department's proposed structure.

- ***Organizational Effectiveness.*** Does the reorganization clearly establish defined roles and responsibilities for DFG's regions and divisions, clear lines of communication, and consistent application of departmental policies that will enable it to meet its goals and legislative mandates?
- ***Efficiency.*** Will this reorganization plan produce savings?
- ***Accountability.*** The department is establishing a new personnel time reporting system. Will this system increase the overall accountability of DFG and each of its divisions?
- ***Fiscal Feasibility***. Does the reorganization provide DFG flexibility in allocating funds to meet programmatic priorities?

Using these criteria, below we offer our assessment and point out some concerns regarding the department's reorganization.

Reorganization Effort Is in the Right Direction. We believe that the department's reorganization is warranted. The department's responsibilities have increased over the years as a result of new programs and policies enacted by the Legislature. However, the department's structure has not evolved to ensure that it can effectively implement the new programs and meet new policy goals. Nevertheless, we have the following concerns regarding the new structure.

Responsibilities of Proposed Marine Region Not Fully Defined. Details about the responsibilities of this region remain unclear. First, while the Marine region would be the region responsible for the oceanic waters under the jurisdiction of the state, the department has yet to identify which region is responsible for protecting the state's bays and lagoons. It is important that the jurisdiction and responsibility for environmentally sensitive areas like the Bay-Delta region of the state also be clearly defined. This is because areas such as the Bay-Delta region represent unique ecosystems and should be managed in a coordinated manner to guarantee that the habitat is protected.

Second, the department has not articulated how it plans to coordinate the Marine region's activities with those of the other regions. Because many activities and programs implemented in the other five regions could affect the marine ecosystem, it is important that the activities of the regions are coordinated. For example, it is not clear what role the Marine region would play in allocating the proposed $8 million in local grants for the protection of salmon habitat and other watershed restoration activities in 1998-99. Specifically, watershed planning and protection are not coastal activities, but how watershed protection is carried out could have an impact on marine habitat.

Similarly, it is not clear how the marine region and other regions would coordinate their efforts to address the special needs of species, such as steelhead trout, which inhabit both the ocean and inland rivers.

Relationship Between OSPR and Marine Region Unclear. The department's reorganization plan provides for a new reporting relationship between the Marine region and OSPR. Specifically, OSPR field personnel (wardens, biologists, and specialists) would report administratively to the Marine region. However, these staff's work plans and assignments would be authorized by OSPR, and they will engage only in activities that are authorized under the Oil Spill Prevention and Response Act of 1990. These activities include establishing a marine safety program for the prevention of oil spills, overseeing oil spill contingency planning, coordinating of cleanup activities in the event of a marine oil spill, and establishing wildlife rescue and rehabilitation stations.

The department maintains this new reporting structure will increase efficiency by increased coordination and reduced duplication. We believe, however, that the change could create a potentially cumbersome reporting system by essentially establishing two reporting chain-of-commands for OSPR staff. Additionally, given this dual reporting system, it is unclear how the department will protect against the misuse of OSPR funds and personnel for activities that are not consistent with statute. Accordingly, the department should provide the Legislature more information on this reporting system.

Allocation of Resources. The department indicates that it will not seek additional funding or personnel as a consequence of this reorganization. However, the reorganization would entail the reallocation of some existing staff. By reallocating resources, the department seeks to increase organizational effectiveness, efficiency, and accountability. However, the extent and manner of the reallocation is not yet known. We recommend the department identify the new staffing levels in each of the divisions and regions, including an identification of which positions are being transferred in and out of divisions and regions.

Fiscal Feasibility. The department relies heavily on various special funds for its support. The use of many of the special funds are restricted to specific purposes. This means that the department has limited flexibility in how it can expend the funds. Given such funding limitations, it is not clear that the proposed structure would provide the department the flexibility to allocate funds to meet its programmatic priorities.

Recommendations. At the time this analysis was prepared, the department had provided us with preliminary details of its reorganization plan. However, many components of the plan remain unclear. We recommend that the department provide the Legislature, prior to budget hearings, with details about the elements of this reorganization and when the department expects it to be completed. We also recommend that the department provide further details on the change in reporting for some OSPR staff to ensure that safeguards exist against OSPR funds being used inappropriately for activities not authorized in statute. Finally, we recommend that the department address the concerns we raised in regard to organizational effectiveness, accountability, and fiscal feasibility.

DEPARTMENT OF PARKS AND RECREATION (3790)

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

The state park system consists of 265 units, including 38 units administered by local and regional park agencies. The system contains approximately 1.3 million acres of land with 280 miles of ocean and 811 miles of lake, reservoir, and river frontage. During 1997-98, approximately 70 million visitor-days are anticipated at state parks and beaches operated by the department.

The budget proposes expenditures totaling $213.9 million for departmental support and local assistance in 1998-99. This is a decrease of $15.3 million, or 6.7 percent, from estimated current-year expenditures. Of the total expenditures, the budget requests $192.8 million for support of the department, which is an increase of $4.9 million, or 2.6 percent, from the estimated current-year level. In addition, the budget proposes a total of $21.1 million for local assistance. This is a decrease of $20.1 million, or 49 percent, below estimated current-year expenditures for local assistance. This decrease is in part due to the depletion of bond funds for local park projects. In addition, it is because the department anticipates a large amount of past appropriations for local assistance to occur in the current year. The budget also proposes $24.9 million for capital outlay expenditures, including $5.9 million from the General Fund. (Please see our analysis of those expenditures in the Capital Outlay chapter of this *Analysis*.)

Concession Revenue Increases

Revenues to the State Parks and Recreation Fund from state park concessions have increased in recent years.

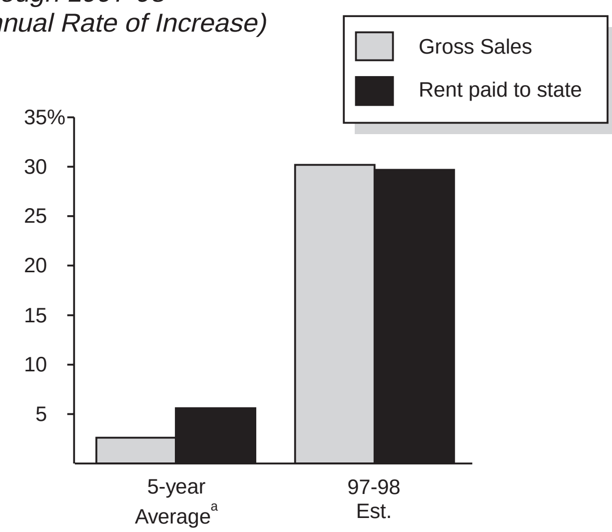
The department administers 226 concession contracts within the state park system. Concessions range in size and activity from a camp store in Big Basin Redwoods State Park, to a series of stores and restaurants in Old Town San Diego State Historical Park. Concessions pay rents to the state. Rents are typically based on some percentage of the concession's gross sales revenues. The rent revenues are deposited in the State Parks and Recreation Fund (SPRF) which is used to support the department.

State's Share of Concession Revenues Increasing. Our review shows that revenues from concessions have increased in recent years. As Figure 21 shows, from 1992-93 through 1996-97, total gross revenues earned by state park concessions grew at an annual rate of 2.6 percent (from $52 million to $58 million). During the same period, rental payments to the state increased by an average annual growth rate of 5.6 percent (from $5.6 million to $6.9 million). Rental revenues have increased at a higher rate than concession gross revenues primarily because many old contracts have expired, and have since been renegotiated at higher rents.

Figure 21

Concession Sales Increase Sharply in 1997-98

1992-93 Through 1997-98
(Average Annual Rate of Increase)



[a] 1992-93 through 1996-97.

The department expects concession revenues to the state to continue to increase. For the first quarter of 1997-98, the state's rents were up 13 percent. For the entire year, the department projects gross revenues to be $75 million with corresponding rental revenues to the state at about $9 million.

According to the department, the growth in gross revenues (and thereby, state rental revenues) is attributable to three main reasons:

- ***Asilomar***. Beginning in 1997-98, gross revenues at Asilomar are being included in the overall revenues and rents. (Prior to this, the concessionaire made capital improvements to the facility in lieu of paying rent to the state.) The department estimates that this concession alone will account for roughly $12 million (out of $75 million) in gross revenues.

- ***Strong Economy***. The state's improving economy has increased visits to state parks, resulting in increased concession sales. The department expects gross sales to increase as long as the economy remains strong.

- ***New Concessions***. Twelve new concessions have been opened in state park units in the past year, including a new OMNI Max Theater at Hearst Castle State Historical Monument. The DPR expects this concession to do well based on the sales volume of another (food service and souvenirs) concession at the same location.

Increasing Concession Rents Help Department's Ongoing Support. The department relies heavily on SPRF for its support. In the current year, SPRF is expected to account for $80.7 million (or 43 percent) of total DPR support expenditures. For 1998-99, the budget proposes $82.5 million in support to come from SPRF. This increased reliance on SPRF in part is due to the continued decline in departmental support from the General Fund. For instance, in 1991-92, the General Fund accounted for 38 percent of the department's support expenditures. For 1998-99, the budget proposes that the General Fund provide 33 percent ($63.9 million) of that support.

The SPRF generates most of its revenues from park and beach fees. A significant portion of fund revenues come from concessions. In order to offset the drop in General Fund support in recent years, the department has proactively sought to increase SPRF revenues by increasing park and beach fees and by pursuing new concessions and revising the terms of expired concessions. As a result, concession rents will account for an increasing portion of total SPRF revenues. For instance, rents accounted for 11 percent of SPRF revenues in 1995-96, and are expected to account for about 14 percent of SPRF revenues in the current year.

Budget Proposes Additional Concessions

The budget includes five new (or renewed) concession proposals. We recommend that the department advise the Legislature, at budget hearings, on the rent to be charged at Columbia State Historic Park and Pfeiffer Big Sur State Park.

We recommend denying the department authority to solicit bids for a concession at Stilwell Hall at the future site of Fort Ord Dunes State Park because the request is premature.

The department has included five concessions proposals in its budget. Of the five proposals, our review found two are warranted. Two other proposals lack sufficient detail on the appropriate rent to be charged. We recommend the department provide these rent figures at budget hearings. Lastly, our review found one concession request to be premature because the proposed concession site is not yet part of the state park system. We discuss these findings in detail below.

1. ***Restaurant at Old Town San Diego State Historic Park***. The department already has authority to bid a five-year contract for a restaurant concession, but is asking for authority to seek a ten-year contract. The existing concessionaire is on a month-to-month contract and pays either 7 percent of gross receipts or $1,500 per month rent, whichever is greater. The new contract would be for ten years with a minimum acceptable bid of no less than 7 percent of gross receipts. Our review found the request to change this concession from a five-year to a ten-year contract to be warranted.

2. ***Golf Course at Pismo State Beach***. The department requests approval to solicit bids to improve, operate, and maintain the nine-hole golf course, pro shop, restaurant, and day-use parking complex located at Pismo State Beach. The current concession has expired and is being held over on a month-to-month basis. The new contract would be for a period of ten years and will require approximately $125,000 in up-front facility repairs and refurbishment. The new contract also details a higher percentage rate to be paid to the state for each component of the concession. Our review found this concession proposal to be warranted.

3. ***Lodge at Pfeiffer Big Sur State Park***. The department proposes a two-to-three year concession contract to continue operation and maintenance of the Big Sur Lodge, grocery store, and gift shop located within

the park. The current contract expires on March 30, 1998. Beginning in April, the monthly rental will be 4 percent on the first $350,000 of annual gross receipts. The rental rate will be higher on the amount of gross receipts exceeding $350,000. The department is asking for a short-term contract because it expects the general plan for Pfeiffer Big Sur State Park to be completed within two-to-three years. The new plan will provide direction for future concession facilities and programs. The proposed short-term contract will include a higher percentage rental rate of no less than 8 percent and may be adjusted upwards based upon the financial information and recommendations provided in an upcoming economic study.

Because the study's findings may have an impact on the terms of the contract, we recommend that the DPR report, at budget hearings, on the findings of this economic study so that the Legislature may determine whether the proposed rental rate is appropriate.

4. ***Hotel at Columbia State Historic Park***. The current concession will expire on January 18, 1999. Under the current contract, the concessionaire does not pay rent to the state but operates and maintains the historic hotel at no cost to the state. The department indicates that the new contract term would be for ten years. The department is unable to identify the rent to be paid to the state, but indicates that it will be based upon an "appropriate" percentage of gross receipts.

   Without information on the rental rate to be charged the concessionaire, the Legislature is not able to determine whether the proposal is in the state's best interest. Accordingly, we recommend that the DPR provide the Legislature, at budget hearings, the percentage of gross receipts it plans to charge the concessionaire.

5. ***Stilwell Hall at Fort Ord Dunes State Park***. Stilwell Hall is located in the proposed Fort Ord Dunes State Park. The historic building and the adjoining 886 acres are scheduled for conveyance to the DPR within the next one-to-two years as part of the federal base closure program. The department however, is unable to advise when the property in question will be conveyed to the state. Additionally, it is not clear if there are any toxic wastes on the property that must be cleaned up before the property is transferred to the state. Without knowing when the property (1) will be under state ownership and (2) can be expected to be used, it is premature to solicit bids for a concession. Accordingly, we recommend the proposal be denied.

New State Park Reservation System Operational

The Department of Parks and Recreation's reservation services contractor filed bankruptcy, leaving the department without a reservation service. The department has, however, awarded a contract for a new reservation system and expects to recoup all reservation money collected by the previous contractor.

All reservations taken for the state's 265 park units are exclusively booked through a contracted reservation service. On December 19, 1997, the DPR's reservation service contractor filed bankruptcy.

Losses to Be Recovered via Bankruptcy Court. The contractor owes the DPR $900,000 in park reservation fees which it collected prior to filing bankruptcy. According to the department, it is likely that the entire amount owed to it for reservations booked by the contractor will be recovered through bankruptcy court.

The loss of the department's reservation system contractor occurred during the off-season for the DPR which is generally a low visitat

DEPARTMENTAL ISSUES

Resources

CALIFORNIA CONSERVATION CORPS (3340)

The California Conservation Corps (CCC) assists federal, state and local agencies, and nonprofit entities in conserving and improving California's natural resources while providing employment, training, and educational opportunities for young men and women.

The CCC provides more than three million hours of conservation work each year. In addition to activities traditionally associated with the CCC like tree planting, stream clearance, and trail building, the CCC responds to emergencies caused by fires, floods, earthquakes and other natural disasters.

The CCC is one of four departments participating in a pilot for performance-based budgeting.

Non-Compliance with Legislatively Required Budget Presentation

The California Conservation Corps has not submitted its budget in the performance based budgeting format required by the Legislature.

The Legislature adopted supplemental report language in 1997-98 requiring CCC to schedule its main support item in the *1998-99 Budget Bill* with performance measures and levels, using a specified format. Our review shows that while the Budget Bill schedules the expenditures in the department's main support item, the budget does not identify any proposed outcomes and their associated expenditures, as directed by the supplemental language. As a result, the Legislature will not be able to assess (1) how the department intends to achieve particular performance outcomes and (2) whether the proposed expenditures are in accordance with the Legislature's priorities.

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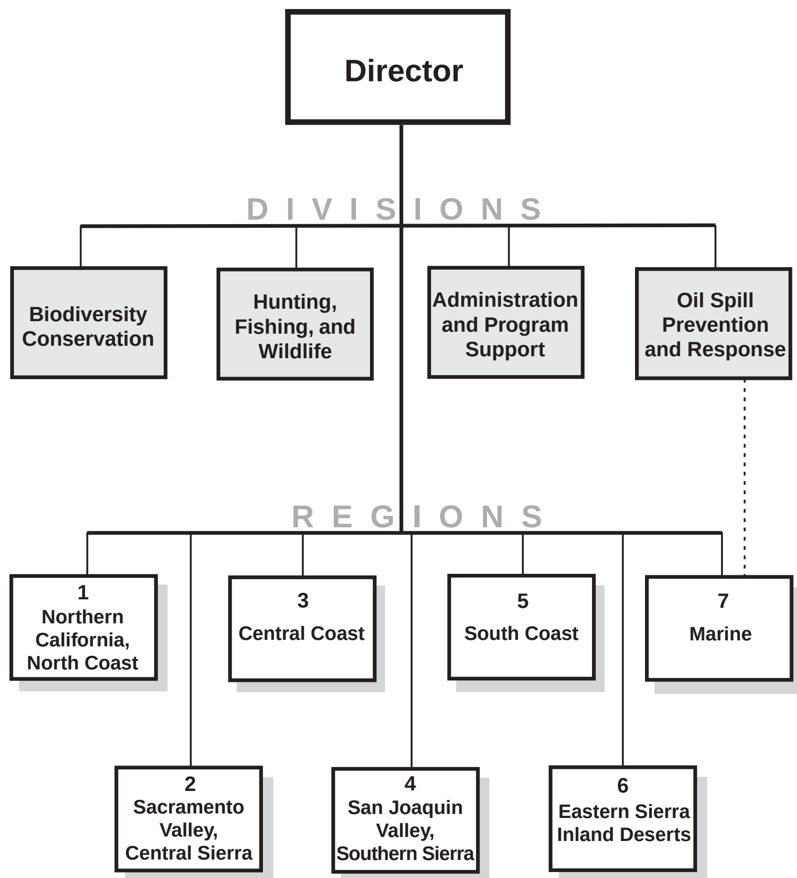

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The second new region would be the Marine region. Under the previous structure, ocean and marine resources were under the jurisdiction of three separate coastal regions. Creating a marine region would allow the department to manage the ocean as an ecosystem which it believes would be more effective than the fragmented species specific approach to management.

Criteria for Evaluating the Reorganization. Because the specific details of the reorganization are only partially available, we are not able to provide an in-depth analysis of the reorganization. Below we offer some criteria for the Legislature to consider in reviewing the department's proposed structure.

- ***Organizational Effectiveness.*** Does the reorganization clearly establish defined roles and responsibilities for DFG's regions and divisions, clear lines of communication, and consistent application of departmental policies that will enable it to meet its goals and legislative mandates?
- ***Efficiency.*** Will this reorganization plan produce savings?
- ***Accountability.*** The department is establishing a new personnel time reporting system. Will this system increase the overall accountability of DFG and each of its divisions?
- ***Fiscal Feasibility***. Does the reorganization provide DFG flexibility in allocating funds to meet programmatic priorities?

Using these criteria, below we offer our assessment and point out some concerns regarding the department's reorganization.

Reorganization Effort Is in the Right Direction. We believe that the department's reorganization is warranted. The department's responsibilities have increased over the years as a result of new programs and policies enacted by the Legislature. However, the department's structure has not evolved to ensure that it can effectively implement the new programs and meet new policy goals. Nevertheless, we have the following concerns regarding the new structure.

Responsibilities of Proposed Marine Region Not Fully Defined. Details about the responsibilities of this region remain unclear. First, while the Marine region would be the region responsible for the oceanic waters under the jurisdiction of the state, the department has yet to identify which region is responsible for protecting the state's bays and lagoons. It is important that the jurisdiction and responsibility for environmentally sensitive areas like the Bay-Delta region of the state also be clearly defined. This is because areas such as the Bay-Delta region represent unique ecosystems and should be managed in a coordinated manner to guarantee that the habitat is protected.

Second, the department has not articulated how it plans to coordinate the Marine region's activities with those of the other regions. Because many activities and programs implemented in the other five regions could affect the marine ecosystem, it is important that the activities of the regions are coordinated. For example, it is not clear what role the Marine region would play in allocating the proposed $8 million in local grants for the protection of salmon habitat and other watershed restoration activities in 1998-99. Specifically, watershed planning and protection are not coastal activities, but how watershed protection is carried out could have an impact on marine habitat.

Similarly, it is not clear how the marine region and other regions would coordinate their efforts to address the special needs of species, such as steelhead trout, which inhabit both the ocean and inland rivers.

Relationship Between OSPR and Marine Region Unclear. The department's reorganization plan provides for a new reporting relationship between the Marine region and OSPR. Specifically, OSPR field personnel (wardens, biologists, and specialists) would report administratively to the Marine region. However, these staff's work plans and assignments would be authorized by OSPR, and they will engage only in activities that are authorized under the Oil Spill Prevention and Response Act of 1990. These activities include establishing a marine safety program for the prevention of oil spills, overseeing oil spill contingency planning, coordinating of cleanup activities in the event of a marine oil spill, and establishing wildlife rescue and rehabilitation stations.

The department maintains this new reporting structure will increase efficiency by increased coordination and reduced duplication. We believe, however, that the change could create a potentially cumbersome reporting system by essentially establishing two reporting chain-of-commands for OSPR staff. Additionally, given this dual reporting system, it is unclear how the department will protect against the misuse of OSPR funds and personnel for activities that are not consistent with statute. Accordingly, the department should provide the Legislature more information on this reporting system.

Allocation of Resources. The department indicates that it will not seek additional funding or personnel as a consequence of this reorganization. However, the reorganization would entail the reallocation of some existing staff. By reallocating resources, the department seeks to increase organizational effectiveness, efficiency, and accountability. However, the extent and manner of the reallocation is not yet known. We recommend the department identify the new staffing levels in each of the divisions and regions, including an identification of which positions are being transferred in and out of divisions and regions.

Fiscal Feasibility. The department relies heavily on various special funds for its support. The use of many of the special funds are restricted to specific purposes. This means that the department has limited flexibility in how it can expend the funds. Given such funding limitations, it is not clear that the proposed structure would provide the department the flexibility to allocate funds to meet its programmatic priorities.

Recommendations. At the time this analysis was prepared, the department had provided us with preliminary details of its reorganization plan. However, many components of the plan remain unclear. We recommend that the department provide the Legislature, prior to budget hearings, with details about the elements of this reorganization and when the department expects it to be completed. We also recommend that the department provide further details on the change in reporting for some OSPR staff to ensure that safeguards exist against OSPR funds being used inappropriately for activities not authorized in statute. Finally, we recommend that the department address the concerns we raised in regard to organizational effectiveness, accountability, and fiscal feasibility.

DEPARTMENT OF PARKS AND RECREATION (3790)

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

The state park system consists of 265 units, including 38 units administered by local and regional park agencies. The system contains approximately 1.3 million acres of land with 280 miles of ocean and 811 miles of lake, reservoir, and river frontage. During 1997-98, approximately 70 million visitor-days are anticipated at state parks and beaches operated by the department.

The budget proposes expenditures totaling $213.9 million for departmental support and local assistance in 1998-99. This is a decrease of $15.3 million, or 6.7 percent, from estimated current-year expenditures. Of the total expenditures, the budget requests $192.8 million for support of the department, which is an increase of $4.9 million, or 2.6 percent, from the estimated current-year level. In addition, the budget proposes a total of $21.1 million for local assistance. This is a decrease of $20.1 million, or 49 percent, below estimated current-year expenditures for local assistance. This decrease is in part due to the depletion of bond funds for local park projects. In addition, it is because the department anticipates a large amount of past appropriations for local assistance to occur in the current year. The budget also proposes $24.9 million for capital outlay expenditures, including $5.9 million from the General Fund. (Please see our analysis of those expenditures in the Capital Outlay chapter of this *Analysis*.)

Concession Revenue Increases

Revenues to the State Parks and Recreation Fund from state park concessions have increased in recent years.

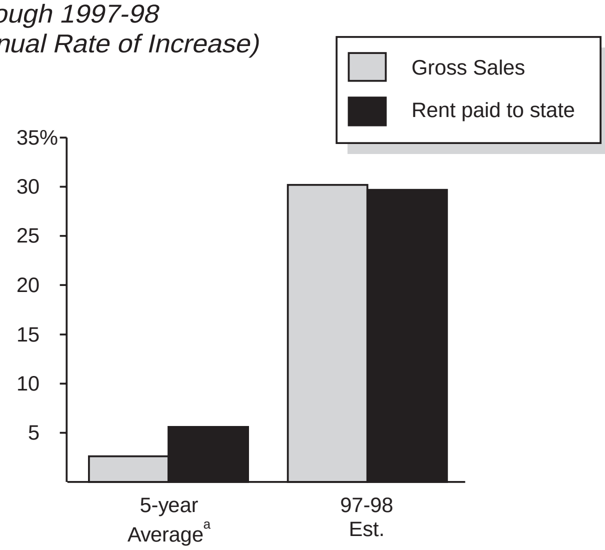
The department administers 226 concession contracts within the state park system. Concessions range in size and activity from a camp store in Big Basin Redwoods State Park, to a series of stores and restaurants in Old Town San Diego State Historical Park. Concessions pay rents to the state. Rents are typically based on some percentage of the concession's gross sales revenues. The rent revenues are deposited in the State Parks and Recreation Fund (SPRF) which is used to support the department.

State's Share of Concession Revenues Increasing. Our review shows that revenues from concessions have increased in recent years. As Figure 21 shows, from 1992-93 through 1996-97, total gross revenues earned by state park concessions grew at an annual rate of 2.6 percent (from $52 million to $58 million). During the same period, rental payments to the state increased by an average annual growth rate of 5.6 percent (from $5.6 million to $6.9 million). Rental revenues have increased at a higher rate than concession gross revenues primarily because many old contracts have expired, and have since been renegotiated at higher rents.

Figure 21

Concession Sales Increase Sharply in 1997-98

1992-93 Through 1997-98
(Average Annual Rate of Increase)



[a] 1992-93 through 1996-97.

The department expects concession revenues to the state to continue to increase. For the first quarter of 1997-98, the state's rents were up 13 percent. For the entire year, the department projects gross revenues to be $75 million with corresponding rental revenues to the state at about $9 million.

According to the department, the growth in gross revenues (and thereby, state rental revenues) is attributable to three main reasons:

- ***Asilomar***. Beginning in 1997-98, gross revenues at Asilomar are being included in the overall revenues and rents. (Prior to this, the concessionaire made capital improvements to the facility in lieu of paying rent to the state.) The department estimates that this concession alone will account for roughly $12 million (out of $75 million) in gross revenues.
- ***Strong Economy***. The state's improving economy has increased visits to state parks, resulting in increased concession sales. The department expects gross sales to increase as long as the economy remains strong.
- ***New Concessions***. Twelve new concessions have been opened in state park units in the past year, including a new OMNI Max Theater at Hearst Castle State Historical Monument. The DPR expects this concession to do well based on the sales volume of another (food service and souvenirs) concession at the same location.

Increasing Concession Rents Help Department's Ongoing Support. The department relies heavily on SPRF for its support. In the current year, SPRF is expected to account for $80.7 million (or 43 percent) of total DPR support expenditures. For 1998-99, the budget proposes $82.5 million in support to come from SPRF. This increased reliance on SPRF in part is due to the continued decline in departmental support from the General Fund. For instance, in 1991-92, the General Fund accounted for 38 percent of the department's support expenditures. For 1998-99, the budget proposes that the General Fund provide 33 percent ($63.9 million) of that support.

The SPRF generates most of its revenues from park and beach fees. A significant portion of fund revenues come from concessions. In order to offset the drop in General Fund support in recent years, the department has proactively sought to increase SPRF revenues by increasing park and beach fees and by pursuing new concessions and revising the terms of expired concessions. As a result, concession rents will account for an increasing portion of total SPRF revenues. For instance, rents accounted for 11 percent of SPRF revenues in 1995-96, and are expected to account for about 14 percent of SPRF revenues in the current year.

Budget Proposes Additional Concessions

The budget includes five new (or renewed) concession proposals. We recommend that the department advise the Legislature, at budget hearings, on the rent to be charged at Columbia State Historic Park and Pfeiffer Big Sur State Park.

We recommend denying the department authority to solicit bids for a concession at Stilwell Hall at the future site of Fort Ord Dunes State Park because the request is premature.

The department has included five concessions proposals in its budget. Of the five proposals, our review found two are warranted. Two other proposals lack sufficient detail on the appropriate rent to be charged. We recommend the department provide these rent figures at budget hearings. Lastly, our review found one concession request to be premature because the proposed concession site is not yet part of the state park system. We discuss these findings in detail below.

1. ***Restaurant at Old Town San Diego State Historic Park***. The department already has authority to bid a five-year contract for a restaurant concession, but is asking for authority to seek a ten-year contract. The existing concessionaire is on a month-to-month contract and pays either 7 percent of gross receipts or $1,500 per month rent, whichever is greater. The new contract would be for ten years with a minimum acceptable bid of no less than 7 percent of gross receipts. Our review found the request to change this concession from a five-year to a ten-year contract to be warranted.

2. ***Golf Course at Pismo State Beach***. The department requests approval to solicit bids to improve, operate, and maintain the nine-hole golf course, pro shop, restaurant, and day-use parking complex located at Pismo State Beach. The current concession has expired and is being held over on a month-to-month basis. The new contract would be for a period of ten years and will require approximately $125,000 in up-front facility repairs and refurbishment. The new contract also details a higher percentage rate to be paid to the state for each component of the concession. Our review found this concession proposal to be warranted.

3. ***Lodge at Pfeiffer Big Sur State Park***. The department proposes a two-to-three year concession contract to continue operation and maintenance of the Big Sur Lodge, grocery store, and gift shop located within

the park. The current contract expires on March 30, 1998. Beginning in April, the monthly rental will be 4 percent on the first $350,000 of annual gross receipts. The rental rate will be higher on the amount of gross receipts exceeding $350,000. The department is asking for a short-term contract because it expects the general plan for Pfeiffer Big Sur State Park to be completed within two-to-three years. The new plan will provide direction for future concession facilities and programs. The proposed short-term contract will include a higher percentage rental rate of no less than 8 percent and may be adjusted upwards based upon the financial information and recommendations provided in an upcoming economic study.

Because the study's findings may have an impact on the terms of the contract, we recommend that the DPR report, at budget hearings, on the findings of this economic study so that the Legislature may determine whether the proposed rental rate is appropriate.

4. ***Hotel at Columbia State Historic Park***. The current concession will expire on January 18, 1999. Under the current contract, the concessionaire does not pay rent to the state but operates and maintains the historic hotel at no cost to the state. The department indicates that the new contract term would be for ten years. The department is unable to identify the rent to be paid to the state, but indicates that it will be based upon an "appropriate" percentage of gross receipts.

   Without information on the rental rate to be charged the concessionaire, the Legislature is not able to determine whether the proposal is in the state's best interest. Accordingly, we recommend that the DPR provide the Legislature, at budget hearings, the percentage of gross receipts it plans to charge the concessionaire.

5. ***Stilwell Hall at Fort Ord Dunes State Park***. Stilwell Hall is located in the proposed Fort Ord Dunes State Park. The historic building and the adjoining 886 acres are scheduled for conveyance to the DPR within the next one-to-two years as part of the federal base closure program. The department however, is unable to advise when the property in question will be conveyed to the state. Additionally, it is not clear if there are any toxic wastes on the property that must be cleaned up before the property is transferred to the state. Without knowing when the property (1) will be under state ownership and (2) can be expected to be used, it is premature to solicit bids for a concession. Accordingly, we recommend the proposal be denied.

New State Park Reservation System Operational

The Department of Parks and Recreation's reservation services contractor filed bankruptcy, leaving the department without a reservation service. The department has, however, awarded a contract for a new reservation system and expects to recoup all reservation money collected by the previous contractor.

All reservations taken for the state's 265 park units are exclusively booked through a contracted reservation service. On December 19, 1997, the DPR's reservation service contractor filed bankruptcy.

Losses to Be Recovered via Bankruptcy Court. The contractor owes the DPR $900,000 in park reservation fees which it collected prior to filing bankruptcy. According to the department, it is likely that the entire amount owed to it for reservations booked by the contractor will be recovered through bankruptcy court.

The loss of the department's reservation system contractor occurred during the off-season for the DPR which is generally a low visitation period. The department anticipates no loss in revenue during the transition to the new system.

Park Net Awarded New Contract. The DPR has replaced the previous contractor with Info / 2000, Park Net. Park Net has been in business since 1984 and serves a number of other governmental entities including the U.S. Forest Service, the Army Corps of Engineers, and the States of Oregon and Washington. At the time this analysis was prepared, Park Net had started taking reservations.

State Park System Earns "Best In Class"

In 1997, the Department of Parks and Recreation received a prestigious award for superior quality and service results.

Each year the California Council for Quality and Service confers the Eureka Awards for Quality and Service Excellence on selected service-oriented private businesses, nonprofits, and public organizations. The purpose of the awards is to recognize applicants who achieve superior quality and service results. This award is modeled on the Malcolm Baldrige National Quality Awards and is administered in the same fashion, using the same criteria. Thirty-eight states, including California, have developed their own quality awards based on these national awards.

In 1997, DPR won its second Silver Eureka Award for Quality and Service Excellence. Because it also had the highest score in the govern ment category, it won the Best In Class award. This is the highest award ever given in the government category.

Eureka Award applicants compete in one of six categories—large business (over 200 employees), small business (under 200 employees), nonprofit organizations, education, government, and health care. In general, any state or local governmental agency or federal agency that receives tax dollars within the state, is eligible to participate in the government category. All applicants are subject to a rigorous examination which includes an initial review of the application, seven independent evaluations, and a two-day site visit by a team of examiners who perform a fiscal audit and administrative reviews.

AIR RESOURCES BOARD
(3900)

The Air Resources Board (ARB), along with local air pollution control and air quality management districts, protects the state's air quality. The local air districts regulate *stationary sources* of pollution and prepare local implementation plans to achieve compliance with federal and state standards. The ARB is responsible primarily for the regulation of *mobile sources* of pollution and for the review of local district programs and plans. The ARB also establishes air quality standards for certain pollutants, administers air pollution research studies, and identifies and controls toxic air pollutants.

The budget proposes about $121.6 million from various funds, primarily the Motor Vehicle Account (MVA) for support of ARB in 1998-99. This is an increase of about $4.9 million, or 4.2 percent from estimated 1997-98 expenditures. This increase reflects (1) $3.6 million to develop a state implementation plan to control fine particulate matter ("PM 2.5") and (2) $2.5 million for the final year of a grant program to demonstrate technologies for the use of rice straw as an alternative to disposing of this material by burning it.

MVA Funding for Consumer Products Program Inappropriate

We find that the proposed use of $728,000 in Motor Vehicle Account funds for the consumer products program is inappropriate because the proposal focuses on products not related to motor vehicles. We recommend that the program be funded instead from the General Fund. (Reduce Item 3900-001-0044 by $728,000 and increase Item 3900-001-0001 by $728,000.)

Under the state's 1994 long-term implementation plan to meet federal air quality standards, the state is committed to reducing smog-forming emissions from consumer products by 85 percent by 2010.

For 1998-99, the budget proposes an increase of $728,000 from the MVA in the *stationary source* program for research, standards development, product testing, enforcement, and outreach related to the control of emissions from consumer products. Consumer products identified specifically in the budget request as being of particular concern are mainly products that are not related to motor vehicles. These included herbicides, carpet cleaners, and personal hair care products.

Proposed Use of MVA Is Inappropriate. The State Constitution limits the use of vehicle taxes and fees (the main sources of MVA funds) for environmental programs to "the mitigation of the environmental effects of motor vehicle operation due to air and sound emissions." Because the proposal's focus will be on emission sources that are *not* related to motor vehicles, the proposed use of MVA funds therefore is inappropriate.

Proposal Should Be Funded From Broad-Based Funding Source. While the proposal has merit, we think that a more appropriate funding source would be the General Fund. The general public, as end user of the consumer products, is both ultimately responsible for creating the pollution problem and is a beneficiary of a program to reduce the emissions from these products. Therefore, we recommend that the MVA be reduced by $728,000 and the General Fund be increased by $728,000.

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD (3910)

The California Integrated Waste Management Board (CIWMB), in conjunction with local agencies, is responsible for promoting waste management practices aimed at reducing the amount of waste that is disposed in landfills. Cities and counties develop solid waste management plans—which must be approved by CIWMB—showing how 50 percent of solid waste will be diverted from landfills by 2000. The CIWMB administers various programs which promote waste reduction and recycling, with particular programs for waste tire and used oil recycling. The board also regulates landfills through a permitting, inspection, and enforcement program that is mainly administered by local enforcement agencies that are certified by the board. In addition, CIWMB oversees the cleanup of abandoned solid waste sites.

The budget proposes expenditures of $74.2 million from various funds (primarily special funds) for support of CIWMB. This is a reduction of $2.2 million, or 2.9 percent, from estimated 1997-98 expenditures. Major budget adjustments include a reduction of $3.7 million in the tire recycling program (mainly reflecting a one-time increase in 1997-98 due to available revenues) and an increase of $1.5 million for a pollution prevention and education program for the Lake Tahoe Basin.

State Agencies Lag Rest of State in Recycling

We find that state agencies are diverting waste from landfills, by recycling, at rates far below the statewide average. The board, in operating the state agency recycling program, should be more proactive in assisting state facilities in maximizing their recycling efforts. We recommend the adoption of supplemental report language to require a report on making the state's program more effective.

Current Law Regarding State Agency Recycling. Under current law, each state agency is required to initiate activities for the collection, separation, and recycling of "recyclable materials." State law specifies the types of materials that must be included in recycling programs in certain parts of the state. The CIWMB administers the state agency recycling program—known as "Project Recycle"—and is required to approve recycling programs and recycling contracts at each state agency. State agencies are required to report annually to the board on their recycled amounts. To a large degree, it is left to the board's discretion as to the location and content of recycling programs at the site-specific level. In the current year, CIWMB estimates its expenditures for Project Recycle at about $800,000.

Under current law, local governments are required to develop and implement plans to divert 25 and 50 percent of waste from landfills by 1995 and 2000, respectively. Since state facilities generate waste and are located in local jurisdictions, they have a role in helping local governments meet these diversion requirements. In some local jurisdictions, state facilities are among the major contributors to the waste stream. If these facilities do not divert their waste from landfills by recycling, they may significantly hinder a local government in meeting the diversion requirements, potentially subjecting the local government to civil penalties.

For the state as a whole, local governments collectively are on track to meet the statutory goal of 50 percent diversion by 2000. According to the board, the statewide diversion rate was 30 percent as of the end of 1996. State agencies are not themselves mandated to meet particular diversion levels. The board, however, has set the same 25 and 50 percent diversion rates that apply to local governments as program goals for Project Recycle. To the extent that state agencies do not participate fully in recycling efforts in a local jurisdiction, they may impede that jurisdiction's ability to meet the statutory goal of 50 percent diversion by 2000.

Data Are Not Comprehensive. Our review shows that it is difficult to accurately determine the total amount of waste that has been recycled by state facilities. This is because the data relied on by the board to estimate recycled amounts are not comprehensive. One reason for this is that, in spite of statutory and State Administrative Manual provisions requiring periodic reporting to the board on recycled amounts, it appears that many state facilities either do not report at all, or fail to report completely regarding all materials recycled.

State Facility Recycled Amounts Appear to Fall Far Below Statewide Average. Using the data made available by the board, we have developed a rough approximation of the statewide recycled amounts and diversion rates for state agencies, as shown in Figure 22.

As the figure shows, the number of state facility sites with recycling programs and the amount recycled by these facilities have increased steadily since 1991 (the year a Governor's Executive Order regarding state agency recycling went into effect). However, we estimate that currently less than 20 percent of state facility sites have recycling programs. Furthermore, we estimate the diversion rates to vary from a low of 0.3 percent in 1991 to a high of 5.8 percent in 1997. These rates are far below the 25 percent diversion rate that the board set for Project Recycle to meet by 1995 and that the Legislature set for local governments to meet by 1995.

Figure 22

Estimated State Facility Recycled Amounts

1991 Through 1997

	Participating Sites	Estimated Amount Recycled (in tons)	Estimated Diversion Rate[a]
1991	150	2,500	0.3 to 0.5%
1992	480	10,677	1.2 to 1.9
1993	560	15,469	1.7 to 2.8
1994	737	23,184	2.6 to 4.2
1995	927	25,450	2.9 to 4.6
1996	1,086	28,345	3.2 to 5.2
1997	1,111	32,000	3.6 to 5.8

[a] Calculated using the CIWMB's range of estimates of waste generated by state facilities—not including state parks—of 550,000 to 893,000 tons. This level of waste generation represents between 1 percent and 2 percent of the total annual waste stream in California, currently about 47 million tons.

Can State Agencies Do Better? Our review finds that much of the increase in state agency recycling is due to state facilities approaching the board for assistance in setting up a recycling program. In such cases, the board provides valuable technical assistance, including evaluating the feasibility of the proposed program and recommending recycling contractors. However, over the past several years, the board has not initiated any proposals to broaden the program and improve program effectiveness. We think that the board ought to be more proactive by identifying and assisting state facilities in maximizing their recycling efforts and identifying the barriers that are limiting implementation of recycling programs at state facilities.

In order that the Legislature can evaluate actions necessary to facilitate state agency recycling, we recommend adoption of the following supplemental report language:

By December 1, 1998, the California Integrated Waste Management Board shall report to the Chairs of the Joint Legislative Budget Committee and the Senate and Assembly fiscal and policy committees on:

- Actions the board will take to (1) identify state facilities that are not maximizing their recycling efforts, and (2) assist these facilities in establishing recycling programs.
- Barriers identified by the board that are limiting the willingness or ability of state facilities to recycle.

Making Recycling Market Development Zone Loan Program More Effective

From 1991-92 through 1996-97, the Recycling Market Development Zone (RMDZ) loan program has provided loans totaling $22.7 million at an administrative cost of $5.1 million. An external audit has identified opportunities to reduce administrative costs and make the program more effective. We recommend that the Legislature adopt supplemental report language directing the board to report on steps it is taking to address these and other opportunities.

Recycling Market Development Zone Loan Program. The RMDZ loan program was established by Chapter 1543, Statutes of 1990 (SB 2310, Bergeson). The program provides low-interest loans to recycling-based businesses in 40 designated market development zones covering about two-thirds of the state. These loans cannot exceed $1 million and cannot fund more than 50 percent of project costs. The program has been funded by an annual loan of $5 million from the Integrated Waste Management Account to the Recycling Market Development Revolving Loan Account. The goal of the RMDZ program is to develop uses for recycled goods. Without markets for these goods, recycling will not serve its purpose of diverting waste from landfills.

Costs to Administer Program. Figure 23 summarizes the expenditures of the RMDZ program since its inception in 1991-92 through 1996-97.

As shown in the figure, from 1991-92 through 1996-97, the program expended $5.1 million to initiate and service 55 loans totaling $22.7 million. This translates to administrative costs of about 23 percent of the loan volume. These include costs for staff to market the program, help structure potential recycling-based businesses, and write the loans. These also include legal costs to develop the loan documents, financial consultant costs to evaluate financing alternatives and assist in negotiations with borrowers, loan servicing costs to disburse and monitor the loans, and collection costs.

Figure 23

RMDZ Loan Program
Administration Versus Loan Amounts

1991-92 Through 1996-97
(In Thousands)

Administration:	Six-Year Total
Personnel[a]	$3,199.3
Collection	757.6
Legal	584.0
Loan servicing	305.8
Financial advisor/auditing	281.0
Total	**$5,127.7**
RMDZ loans (55 loans)	**$22,675.8**
Administrative costs as percentage of loan amounts	**22.6%**

[a] Includes staff positions, departmental overhead, pro rata, students, and training.

External Audit of RMDZ Program. In 1997, an audit of the RMDZ program was conducted by a private consultant at the board's direction. The purpose of the audit was to help identify the program's strengths, weaknesses, constraints, and opportunities. The audit found that:

- Administrative costs and time could be saved, and program staff could better focus on activities requiring their technical expertise, if the board contracted with external firms for loan servicing and other tasks.
- The board should establish and document clearer criteria for making loans in order to increase self-screening by applicants and to address the perception that eligibility decisions are made arbitrarily.
- The RMDZ program can increase the leverage of public funds by participating in other state lending programs, including loan guarantee programs.

Making the RMDZ Program More Effective. As discussed below, we find that the board is taking steps to address a number of the issues identified in the audit. Some of the board's actions may lower administrative costs. Others, while not reducing costs, should result in a more effective use of the program's resources.

First, as authorized by Chapter 672, Statutes of 1997 (SB 1066, Sher), the board is planning to participate in other state and federal lending programs so that the RMDZ program's financial contribution can raise or "leverage" other public and private funds for a project. For example, the board is negotiating with the California Pollution Control Financing Authority to provide RMDZ funds which, along with the authority's funds, would serve as a guarantee for commercial loans to higher risk recycling businesses.

Second, the board has begun contracting for loan closing and servicing activities. The board believes that this will lower administrative costs significantly and free up board staff to focus on marketing the program. The board has decided not to contract for loan origination and underwriting services—which account for much of the board's administrative costs. We think that the board is unlikely to reduce expenditures appreciably by contracting for these services. This is because outside contractors are unlikely to have the board's technical expertise which is needed to assist a loan applicant in structuring its business so that it can be eligible for a loan.

In order to keep the Legislature informed of the steps that the board is taking to make the RMDZ program more effective and to lower administrative costs, we recommend that the Legislature adopt the following supplemental report language:

> By December 1, 1998, the California Integrated Waste Management Board shall report to the Chairs of the Joint Legislative Budget Committee and the Senate and Assembly fiscal and policy committees on:
>
> - Steps it has taken and plans to take in the Recycling Market Development Zone (RMDZ) loan program to increase the leverage of public funds, lower administrative costs, clarify and document its loan policies, and generally make the program more effective in developing markets for recycling-based businesses to divert waste from landfills.
> - Actions that can be taken to facilitate the board's efforts to make the RMDZ loan program more effective, including any statutory changes.

This information would enable the Legislature to identify any further actions needed to make the RMDZ program more effective.

Legislatively Required Allocation of Tire Funds Not Submitted

The board has not submitted a legislatively required allocation of proposed 1998-99 tire recycling funds among various purposes authorized in statute. We recommend that the board report at budget hearings on its proposed allocation of these funds.

Legislative Concern About Allocation of Funds in Tire Program. At last year's budget hearings, the Legislature expressed concern about the proposed allocation of funds requested for grants, loans, and contracts in the tire recycling program. In past years, the board allocated funds among the various authorized purposes (including research, business development, and tire site cleanup) many months *after* the budget was passed. These late decisions reduced legislative oversight and also slowed the implementation of the tire recycling program. (Please see *Analysis of the 1997-98 Budget Bill,* page B-79.)

To facilitate an evaluation of the tire recycling program's budget, the Legislature adopted supplemental report language requiring the board to submit a proposed allocation of the tire recycling funds with future years' budget requests. Specifically, the supplemental report required the board to allocate funds among the various purposes for which grants, loans, and contracts can be awarded, so that the Legislature can assess the board's priorities for the tire recycling program.

Allocation Submitted Not Responsive to Legislature's Direction. At the time this analysis was prepared, the board had provided the Legislature with a proposed amount of grants, loans, and contracts to be funded from tire recycling funds. However, the board had not provided an allocation among authorized *purposes* for the funds, as required by the supplemental report. According to the board, it plans to finalize the proposed allocation of these funds at its April board meeting. We recommend that the board make the allocation in a timely manner, and report at budget hearings on its proposal.

DEPARTMENT OF PESTICIDE REGULATION (3930)

The Department of Pesticide Regulation (DPR) administers programs to protect the public health and the environment from unsafe exposures to pesticides. The department (1) evaluates the public health and environmental impact of pesticide use; (2) regulates, monitors, and controls the sale and use of pesticides in the state; and (3) develops and promotes the use of reduced-risk practices for pest management. The department is funded primarily by a tax on the sale of pesticides in the state, and by the General Fund.

The budget proposes expenditures of $48.1 million in 1998-99. Of this amount, $31.4 million is from the Department of Pesticide Regulation Fund (funded mainly by a tax on pesticide sales) and $11.4 million is from the General Fund. The proposed expenditures are about the same as estimated current-year expenditures. Major budget proposals include a continuation of $1 million for grants for research and development of reduced-risk pest management practices.

Department Should Be Held Accountable For Meeting Legislative Direction

The department has failed to submit required reports establishing performance measures that enable the Legislature to hold the department accountable for its performance. We recommend that the Legislature withhold action on the department's budget until the department provides the report that responds to the Legislature's direction.

Legislative Concern About Department's Performance. In general, the department's responsibilities fall into two broad categories: (1) registration and regulation of pesticides to permit their use primarily by agriculture and (2) evaluating and reducing the risk associated with use of pesticides. At hearings on the current-year budget, the Legislature expressed concern about how well the department was meeting its statutory mandates, particularly those that relate to assessing risks of pesticides. To facilitate an evaluation of the department's performance in meeting these mandates, the Legislature adopted supplemental report language requiring the department to develop workload standards and performance measures and to submit draft and final reports to the Legislature by October 1997 and December 1997, respectively.

Legislatively Required Reports Not Submitted. However, in October, the department submitted its 1997 strategic plan to the Legislature and informed the Legislature that it would not be submitting any further reports or information pursuant to the Legislature's supplemental report requirement.

We find that submitting the department's strategic plan does not adequately respond to the Legislature's direction in the supplemental report. In particular, the performance measures found in the strategic plan do not relate specifically to legislative mandates of the department. Moreover, many of the measures in the strategic plan are of an "output" nature—such as "number of grants awarded." Measures of this type do not enable the Legislature to evaluate the department's budget based on how the department is meeting its statutory and legislative mandates, as intended by the supplemental report requirement.

Performance Measures Will Be of Value to Legislature. We think that it is important that the department provide a report that is responsive to the Legislature's direction in the supplemental report requiring performance measures. This is particularly so given the failure of the department to meet a number of statutory mandates and legislative direction.

- ***Backlog in "High Priority" Risk Assessments.*** The department is required under Proposition 65 and various statutes—including The Birth Defect Prevention Act and air toxics and groundwater contamination legislation—to assess the risks of pesticides to public health and the environment. The department maintains a list of active pesticide ingredients for which the department considers it a high priority to conduct a risk assessment. At budget hearings this past year, the Legislature expressed concern about the high number of "high priority" risk assessments awaiting completion by the department. In fact, the backlog has increased from 69 assessments to 75 assessments between January 1997 and January 1998.

- ***Few Results From Department's Implementation of Toxic Air Contaminants Legislation.*** Chapter 1047, Statutes of 1983 (AB 1807, Tanner) requires the department to identify airborne pesticides that might cause death or serious health problems. The department is to present potential candidates for listing as a "toxic air contaminant" to an external scientific review panel for its review and recommendation. Once a pesticide is listed as a toxic air contaminant, the department is required to develop plans to reduce the hazards associated with that pesticide. While a staff-level report in 1994 listed 41 pesticides as high-priority candidates for listing as toxic air contaminants, the department presented only one pesticide for review by the scientific review panel between 1983 and 1997.

- ***Increased Pesticide Use.*** According to a recent study, pesticide use in the state increased by 31 percent between 1991 and 1995. Therefore, the department's responsibility for promoting reduced-risk pest management systems is increasingly relevant. However, in its strategic plan, the department does not establish any performance measures for promoting reduced-risk practices that focus on results. Rather, the only performance measures concern the number of stakeholder partnerships established between the department and pesticide users and the number and amount of grants awarded for research on reduced-risk practices. These measures would not tell the Legislature anything about the degree to which reduced-risk practices are being implemented. This is important information, for example, in light of surveys which found that few school districts implement pest management programs focusing on reduced-risk practices.

According to the department, it faces many competing statutory mandates, and therefore, it has to develop its own priorities for its risk assessment and regulatory activities. Under such circumstances, we think that it is important for the Legislature to be apprised of the department's priorities so that it can assess whether they are consistent with the Legislature's priorities. The development of performance measures by the department that are responsive to the Legislature's direction in the supplemental report will allow the Legislature to make such an assessment.

Therefore, we recommend that the Legislature withhold action on the department's budget until the department submits a report that is responsive to the supplemental report requirement. Specifically, the report should (1) identify quantifiable performance measures for the department; and (2) specify, in support of its budget request, what amount of each performance measure it expects to achieve in 1998-99.

Budget Display Should Provide Accountability

In order to hold the department accountable for its performance in meeting statutory requirements, we recommend that the Legislature adopt supplemental report language directing the department, beginning with the 1999-00 budget, to display expenditures on a programmatic basis that relates expenditures to statutory requirements.

Department Should Account for Expenditures on Programmatic Basis. The department's budget currently displays expenditures only by function. Specifically, expenditures are allocated to one of the department's three divisions, each consisting of three branches. However, while many of the department's programs cut across division and branch lines, the department only monitors its expenditures and displays its budget on the division/branch level. This type of display does not relate the department's workload to its statutory requirements. Therefore, the Legislature is unable to identify the department's actual and proposed expenditures to meet statutory requirements, such as mandates to conduct risk assessments and monitor groundwater contamination. Without this information, the Legislature is unable to evaluate how the department's budget proposal addresses performance measures developed to hold the department accountable for meeting statutory requirements.

In order for the Legislature to be able to evaluate the department's requests in future years, based on how well they would meet statutory requirements, we recommend that the Legislature adopt the following supplemental language directing the department to account for its expenditures on a programmatic basis that relates expenditures to statutory requirements.

> In order for the Legislature to evaluate the Department of Pesticide Regulation's priorities and performance in meeting various statutory requirements, it is the intent of the Legislature that the department, as part of its 1999-00 and future years' budget requests, prepare its budget on a programmatic basis that enables the identification of expenditures to meet various statutory requirements.

STATE WATER RESOURCES CONTROL BOARD (3940)

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

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

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

The budget proposes expenditures of $480.3 million from various funds for support of SWRCB in 1998-99. This amount is a decrease of about $39.8 million, or 7.6 percent, from estimated current-year expenditures. Most of the decrease reflects a one-time expenditure of $48 million in the current year of prior-year appropriations from the Underground Storage Tank Cleanup Fund. Other major budget proposals include (1) $57 million from Proposition 204 bond funds for grants and loans to local governments for various water quality projects, (2) an increase of $1.3 million for monitoring and pollution control of coastal waters, (3) $931,000 to implement the Governor's Watershed Management Initiative, and (4) an increase of $900,000 for enforcement. The budget also proposes to continue funding the Bay Protection and Toxic Cleanup Program at $2.7 million, mainly from the Waste Discharge Permit Fund, instead of from the Bay Protection and Toxic Cleanup (BPTC) Fund, because the BPTC fee sunsetted January 1, 1998.

Watershed Management Initiative

The board requests $931,000 for ten coordinators to assist regional boards to implement their workplans for watershed management.

The budget proposes $931,000 from the Public Resources Account for watershed coordinator positions at each regional board. These staff would help implement five- to seven-year existing watershed management workplans of the regional boards. These workplans include identifying and assessing major water quality problems in each region (including from polluted runoff, or "nonpoint sources"), targeting resources to the watersheds with the most significant problems, developing an implementation strategy, and evaluating the results. By taking a broad-based approach, SWRCB expects these positions would help to better coordinate the board's activities (such as permitting, monitoring, planning, and nonpoint source pollution control) and target resources more effectively, particularly in addressing nonpoint source pollution. We think the proposal is warranted and recommend approval.

Legislature Requires Information to Assess Funding Needs for Water Quality Protection

The board's assessment of what needs to be done to protect the state's water quality is incomplete and focuses almost exclusively on point source pollution. Thus, it is difficult for the Legislature to assess long-term funding needs to meet state and federal water quality objectives. We recommend that the Legislature adopt supplemental report language to require more complete reporting on needs, specifically those related to infrastructure improvements and nonpoint source pollution. We also recommend that the board report at budget hearings on these matters.

It is the responsibility of the board to advise the Legislature on the extent of water quality problems in the state and on estimated funding needs to meet state and federal water quality objectives. The Legislature requires this information in order to set its priorities among water quality protection and other needs, and to determine an appropriate funding level for water quality protection. This information is particularly important this year as the Legislature will be evaluating various bond proposals in 1998, including a $1.3 billion water management bond proposed by the administration, to address water quality issues.

As discussed below, the type of information currently provided by the board to the Legislature is deficient. In part, this is because the board's activities thus far have focused mainly on point source pollution.

Two Major Types of Water Pollution. Water pollution includes "point source" pollution and "nonpoint source" pollution. Point source pollution involves the discharge of an identifiable amount of waste directly into water bodies by identifiable entities. Nonpoint source pollution, or polluted runoff, is created when water picks up contaminants from pesticide use, mining, logging, and a multitude of other sources and deposits them in water bodies. The extent to which nonpoint sources individually degrade water quality cannot be easily quantified, and technologies to control nonpoint source pollution are not well developed.

Board Activities Focus Mainly on Point Source Pollution. Because of the large number of nonpoint source dischargers, it would be cost-prohibitive for the board to issue permits to these dischargers. As a consequence, the board has focused its resources on the point source dischargers, who are issued permits (which prescribe discharge limits and treatment processes) and whose discharges are monitored.

To address the nonpoint source pollution problem, the board has relied mainly on voluntary compliance by nonpoint source dischargers using best management practices developed by the board. Accordingly, relatively few resources of the board have been spent to identify and control nonpoint source pollution. For example, the budget proposes $8.3 million of mainly federal funds—about 1.6 percent of the board's budget—for the board's nonpoint source program. And, of the $2.9 billion in water bonds issued since 1970, only about $10 million has been spent specifically to address nonpoint source pollution. However, according to the board, nonpoint source pollution is a major cause of degradation of the state's waters.

Needs Assessment Identifies Only Small Part of Problem Relating to Point Source Pollution. Currently, the Department of Finance (DOF) prepares an annual report that projects for a ten-year period the state's potential need for capital outlay, deferred maintenance, and local assistance for capital improvements. The purpose of the report is to identify the state's capital outlay needs. While SWRCB does not have a capital outlay budget, about one-third of its current budget is for local assistance for capital improvements, such as wastewater treatment facility construction. As a result, the board provides its estimates of ten-year funding needs for local capital improvements to DOF for inclusion in the DOF report.

We find that the board's estimate of local needs in the report is deficient because (1) it is based on an assessment of only a small portion of the water quality problem and (2) it is constrained by an estimate of funding that the board expects to be available to address the problem. Specifically, the estimate is based on a survey of the needs of only public wastewater treatment facilities (point sources) to meet federal clean water requirements over a 20-year period. However, sewage treatment accounts for only about 20 percent of water pollution. In addition, the board revises downwards the estimates from the survey by reflecting only the funds the board projects local agencies will be *requesting* during the ten-year (state reporting) period to finance their projects. This approach underestimates the needs of public wastewater treatment facilities to meet water quality standards because the estimate would exclude the needs of those facilities that choose not to meet the standards.

Relatively Little Information on Nonpoint Source Pollution Problem. The board has yet to identify the extent of the nonpoint source problem and what needs to be done, including capital improvements, to meet state and federal water quality objectives.

As discussed above, we think that the proposed watershed management coordinators will help to identify the major cases of water quality degradation related to nonpoint sources. This would provide information that would enable an estimation of funding needs for a range of strategies to correct these problems.

Recommend Adoption of Supplemental Report Language. In order that the Legislature is provided with information on an ongoing basis that enables it to set funding priorities relative to water quality protection, we recommend that the Legislature adopt the following supplemental report language:

> ***Capital Outlay and Infrastructure Needs.*** The State Water Resources Control Board, as part of its 1999-00 and future years' budget requests, shall report to the Legislature on its capital outlay and infrastructure funding needs. The board's estimates of these needs should be comprehensive to enable the Legislature to assess funding needs to meet state and federal water quality objectives. Therefore, the board shall not limit its estimate solely to the projected demand for funds from local agencies or projected funding to be made available to the board. And, the board shall include estimates, to the extent feasible, of capital outlay and infrastructure needs relating to both point and nonpoint source pollution.
>
> ***Nonpoint Source Pollution.*** The State Water Resources Control Board, as part of its 1999-00 and future years' budget requests, shall report to the Legislature on: (1) major cases of water quality degradation by nonpoint source pollution dischargers identified for targeting of resources by the

> board's watershed management initiative, (2) the board's implementation strategies to address these cases, (3) an estimate of long-term funding needs, and (4) how the budget request addresses these needs. The report should also provide details on how the budget request relates to a clearly defined set of goals for addressing nonpoint source pollution.

Board Should Report at Budget Hearings. In order that the Legislature can assess the board's 1998-99 budget, we recommend that the board report at budget hearings on (1) how, and to what extent, the budget request addresses the nonpoint source pollution problem in order to meet state and federal water quality objectives; and (2) long-term funding needs for infrastructure and nonpoint source pollution control to meet state and federal water quality objectives.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL (3960)

The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up or oversees the cleanup of contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded by fees paid by persons that generate, transport, store, treat, or dispose of hazardous wastes; environmental fees levied on most corporations; the General Fund; and federal funds.

The budget requests $135 million from various funds for support of DTSC in 1998-99. This is an increase of $8.3 million, or 7 percent, above estimated current-year expenditures. Major budget proposals include (1) $3.5 million to repay a loan made to the General Fund, (2) an increase of $2 million for direct site cleanup, and (3) $1.4 million to defend a lawsuit connected with the Casmalia Hazardous Waste Management Facility.

Budget Implements Funding Reform Legislation

The budget implements Chapter 870, Statutes of 1997 (SB 660, Sher), which changes the department's funding structure. Chapter 870 provides the department with more stable funding for its programs, thereby averting program reductions in the budget year.

Funding Reform Enacted in 1997. Chapter 870, Statutes of 1997 (SB 660, Sher) makes a number of changes to the fee structure and funding of programs at DTSC. Chapter 870 incorporates a number of the recommendations of the legislatively created Fee Reform Task Force. The task force was set up in 1996 in response to the Legislature's concern that the department's fee structure was overly complex (31 separate fees), and that the funding sources available for the department's programs were unstable and inadequate to meet the needs of the department.

Specifically, Chapter 870:

- Repeals ten fees, reduces five fees, and increases the "environmental fee."
- Deposits regulatory fees from the hazardous waste industry to the Hazardous Waste Control Account (HWCA) and limits the use of the funds to only the hazardous waste regulatory program. (Previously, these fees funded not only the hazardous waste regulatory program, but also most other programs at DTSC, including site mitigation.)
- Creates a new account—the Toxic Substances Control Account (TSCA)—to fund direct site cleanup, emergency response, scientific and risk assessments, and other activities of broad public benefit. Revenues deposited in TSCA include the environmental fee which is levied on all corporations with at least 50 employees, and specified fines and penalties, cost recoveries, and federal funds.
- Specifies legislative intent for minimum and maximum annual funding for various departmental activities. For example, not less than $6,750,000 is to be appropriated annually for direct site cleanup.

Budget Implements Chapter 870. Our review shows that the department's budget implements the provisions of Chapter 870. For example, the budget proposes funding of $6,750,000 for direct site cleanup—an increase of about 40 percent over estimated current-year expenditures—and $1 million from HWCA to implement changes in the hazardous waste manifest tracking system. The budget also proposes to fund expenditures from HWCA and new TSCA according to the authorized uses of these accounts.

Department's Budget Relies Less on Unstable, Declining Revenue Sources. Prior to Chapter 870, the department relied heavily for its support on fees levied on the hazardous waste industry. The fees were based on the amount of hazardous waste generated, stored, treated, or disposed. These fees have been both difficult to project and a declining source of revenues in recent years. These revenues have declined in part because pollution prevention programs have been effective in reducing the amount of hazardous waste generated, stored, treated, or disposed, thereby reducing the activities subject to fees.

Under Chapter 870, the department relies less on fees levied on the hazardous waste industry (Chapter 870 reduced many of these fees) and more on the environmental fee which Chapter 870 increased. The environmental fee is levied on all corporations with at least 50 employees. Because the number of corporations subject to the flat fee does not vary significantly from year to year, fee revenues from this source are more predictable and provide a relatively more stable amount of funds on an ongoing basis.

As a result, there will be sufficient resources to maintain the department's 1998-99 program levels at current-year levels, and in fact provide increased funding for direct site cleanup, as called for in Chapter 870. Our review shows that the department's fee revenues will be about $6.7 million higher in the budget year as a result of Chapter 870. Absent Chapter 870, the department would likely have had to make program reductions in the budget year unless new funding sources were found.

Casmalia: The Next Stringfellow?

The state is appealing the federal court's decision in the Stringfellow litigation, where the state was found liable for cleanup costs that could reach $500 million over many years. A recent lawsuit now alleges that the state is liable for all cleanup costs at the Casmalia Hazardous Waste Management Facility which could reach $250 million.

The state is potentially liable for cleanup costs at two hazardous waste sites that could reach $750 million over many years. The litigation in these two cases will likely take many years to resolve.

The Stringfellow Liability. A 1995 federal court decision found the state liable for all of the cleanup costs at the Stringfellow Superfund Site (in Riverside County) on the basis that state agencies were negligent in issuing permits for the location of the hazardous waste disposal facility. The costs could reach $500 million over many years. The state is appealing this decision, and it is unlikely that a decision will be rendered before 1999-00. According to the Attorney General's Office, it is unlikely that the state would be absolved of all liability at Stringfellow. The state is also pursuing litigation against its insurers, and it is highly uncertain how this litigation will be resolved.

Since 1983, the department has spent about $50 million in investigations and cleanup costs at the site (some of which is potentially recoverable if the state is successful in litigation). In addition, the Attorney General has spent over $6 million to defend the state in the Stringfellow litigation. The budget requests about $11 million from the General Fund in 1998-99 to continue cleaning up the Stringfellow site and to operate a water pretreatment plant at the site.

The Casmalia Liability. Casmalia operated as a hazardous waste treatment, storage, and disposal facility in Santa Barbara County until 1989. The United States Environmental Protection Agency (US-EPA) has taken the lead to clean up this site. The US-EPA has identified parties, including a number of state agencies, that contributed to the contamination by sending large amounts of waste to Casmalia.

The 1996 budget provided $18.1 million from the General Fund to settle with US-EPA for the state's liability at Casmalia. This settlement amount was based on the assumption that the state would be responsible for only 5 percent of the cleanup costs at this site since it contributed a like portion of the total waste disposed at the site. Because a settlement was not reached in 1996-97, the 1997 budget reappropriated these funds for 1997-98. According to the department, it is unlikely that there will be a settlement on the liability issue in either 1997-98 or 1998-99. Therefore, the budget does not request funds for a settlement payment in 1998-99.

State Potentially Liable for Significant Cleanup Costs. Although the budget contains no funds to settle the state's liability for Casmalia with US-EPA, it does provide funds to defend the state against related litigation. In November 1997, a lawsuit was filed against the state by other parties that contributed to the contamination at Casmalia. The lawsuit alleges that the state is responsible for 100 percent of the cleanup costs at Casmalia because the state was negligent in enforcing both clean water laws and hazardous waste laws at this site. The US-EPA estimates that these cleanup costs could reach $250 million.

In the current year, expenditures are estimated at $657,000 to establish a litigation support team (consisting of the department, the Attorney General, and the Central Coast Regional Water Quality Control Board) to defend the state against this litigation. The budget proposes $596,000 for the Attorney General to defend the Casmalia litigation in 1998-99. In addition, the budget requests $1.4 million from the General Fund for the department to (1) provide in-house technical and legal support to develop the state's defense and (2) design and maintain an automated document storage, retrieval, and indexing system for the estimated 750,000 pages of documents in this case. A feasibility study report for this automated system has been approved by the Department of Information Technology and the Technology Investment Review Unit in the Department of Finance. We find that the expenditures proposed for 1998-99 are warranted.

Unified Program: Less Fragmentation and Greater Savings?

We recommend that the Legislature delete $1,226,000 for the department's oversight of the locally implemented Certified Unified Program Agency (CUPA) program because the department has not justified its oversight role. (Reduce 3960-001-0557 by $1,094,000 and reimbursements by $132,000.)

Unified Program Consolidates Administration of Six Hazardous Materials Programs. As a result of Chapter 418, Statutes of 1993 (SB 1082, Calderon), six hazardous materials programs are to be consolidated and administered by a single agency in each locality—known as a Certified Unified Program Agency, or "CUPA." Previously, the six programs were administered by DTSC, the State Water Resources Control Board (SWRCB), the Office of Emergency Services (OES), the State Fire Marshal (SFM), and about 1,400 local agencies, including counties, cities, and fire departments. The DTSC is the lead state agency overseeing implementation of the CUPA program, and has received funding for this purpose from a surcharge levied on local CUPA fees in 1996-97 and the current year. The SWRCB, OES, and SFM also supervise CUPA implementation of program elements related to their programs.

We think that the CUPA program has merit. The purpose of the program is to reduce fragmentation and inefficiencies in the delivery of government programs by substantially reducing the number of separate agencies delivering these programs in a given local jurisdiction. However, as discussed below, we are concerned that the department has failed to effectively oversee the program. As a consequence, it is not clear to what extent the program's goals are being met.

Certification of CUPAs and State Oversight. Chapter 418 requires a local agency to meet certain standards in terms of expertise, staff, funding, and past performance in order to be certified as a CUPA by the Secretary for Environmental Protection (Cal-EPA). Additionally, an agency can be certified as a CUPA only if the unified program will be implemented in a coordinated, consistent manner and result in less fragmented program delivery.

To date, 69 CUPAs have been certified covering all of the state except 15 rural counties. In its oversight role, the department will develop regulations, provide technical guidance to CUPAs, supervise and audit CUPAs to ensure implementation of the unified program, and review CUPAs' implementation of a mandated "fee accountability" program.

The CUPA Program Should Create State Savings and Lower Fee Lev-

els. As we discussed in the *Analysis of the 1996-97 Budget Bill* (please see page B-31), as CUPAs become certified and responsibilities are transferred to the local level, the state's overall workload and costs ought to be lower, and local operations should become more efficient as program delivery is consolidated. This should result in lower overall fees paid by parties regulated under the CUPA program. The department concurred with this assessment and reported at budget hearings in 1996 that it expected significant savings from the CUPA program, and that it would be in a better position to assess the program's impact on state costs and fee levels once the program became fully operational in 1997.

Department Failed to Provide Assessment of Program's Impact. However, our review shows that the department has not provided an assessment of:

- Workload and expenditures of each of the four state agencies overseeing the CUPA program.
- State savings generated as a result of the program.
- How the program has changed the level of state and local fees paid by the regulated community.

Deny Budget Proposal. The budget proposes $1,094,000 from TSCA and $132,000 from reimbursements for the department to continue to oversee the program in 1998-99. We think that as the lead oversight agency, a primary responsibility of DTSC is to ensure that the program is meeting the objectives set for it by the Legislature. The department's inability to provide an assessment of the program's impact suggests that it cannot provide the Legislature with such assurances. Thus, it is not serving effectively in an oversight role and the continued funding of that role is not justified and should be deleted.

Legislative Oversight Needed for Revamping of Manifest Tracking System

We recommend that the Legislature adopt budget bill language requiring the department to notify the Legislature of the recommended design for a new hazardous waste manifest tracking system prior to funds being made available to design and implement the new system.

Tracking System Is Important Enforcement Tool. Under current law, DTSC is required to develop a database to track the transport of hazardous waste in the state. When hazardous waste is shipped, and when such waste is received by a facility for treatment, storage or disposal, a manifest form must be sent to DTSC. A manifest tracking system serves as an important enforcement tool to identify wastes that are illegally disposed of or not managed in compliance with the state's hazardous waste management regulations.

According to the department, the existing manifest tracking system, which is based on a mainframe technology, is deficient in many respects. Problems with the system include processing delays and backlogs, the inability to correct invalid data, limited access to the data, and the lack of electronic reporting mechanisms.

Legislature Has Directed Department to Devise New Tracking System. The Legislature has expressed concerns that the department did not have a reliable manifest tracking system. In the *1997-98 Budget Act*, the Legislature directed (1) the Department of Information Technology (DOIT) to give highest priority to the correction of deficiencies in the manifest tracking system and (2) DTSC to develop and issue a feasibility study by January 1, 1998 related to the development of a new hazardous waste tracking system. Finally, Chapter 870 provides that $1 million be appropriated in the 1998-99 budget to cover the department's one-time costs to implement changes to the manifest tracking system.

Department Has Not Finalized Design of New System. The department is in the process of preparing a feasibility study report (FSR) for a new manifest tracking system. The report, however, will not identify a design for the new system, but rather will propose contracting with outside technical experts to, in turn, recommend a design for the system.

Recommend That Legislature Be Notified of Chosen Design. The budget requests $1 million for the tracking system development in 1998-99, and the budget includes language to make the funds contingent on the approval of the FSR by DOIT and the Department of Finance. However, because the FSR will not provide any details on the system's design, approval of the FSR will not give the Legislature any assurance that deficiencies in the current system are adequately addressed. In order to provide the Legislature with an opportunity to review the system design, we recommend that the following alternative budget bill language be adopted to require notification of the Legislature prior to funds being made available for the new system, as follows:

> Item 3960-001-0014. Of the funds appropriated in this item, $1,000,000 is appropriated pursuant to paragraph (d)(1) of Section 25205.15 of the Health and Safety Code for implementing changes to the hazardous waste manifest tracking system. Of this amount, funds may be expended to contract with an outside vendor to recommend a design for the new system. Funds may be expended to design and implement a manifest tracking system no sooner than 30 days after the department notifies the Chairperson of the

Joint Legislative Budget Committee and the chairpersons of the legislative fiscal committees of (1) the chosen design and (2) the written approval by the Department of Information Technology and the Department of Finance of the design of the tracking system.

FINDINGS AND RECOMMENDATIONS

Resources

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Crosscutting Issues

Fund Conditions for Resources Programs

1.	**Resources Special Fund.** Approving the Governor's spending proposal would leave about $33 million in various special funds for resource protection. The use of some of the funds may be restricted statutorily to specific purposes. Recent projections show revenues to be lower than initially projected in the budget. Funding the Governor's proposals would leave even fewer funds for legislative priorities.	B-15
2.	**Park-Related Bonds.** There will be almost no park bond funds for park projects in 1998-99.	B-21
3.	**Water Bonds.** No bond funds are available in the budget year for (a) the state's unmet share of costs for federally authorized flood control projects and (b) state matching funds for federal safe drinking water loans and grants.	B-22
4.	**New Resources Bonds Proposed.** The administration proposes new bonds totaling $2.1 billion, to be placed on either the June or November 1998 ballots, for various resources-related purposes, including water supply and water quality projects, and park improvements.	B-24

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11.	**Watershed Initiative.** Withhold recommendation on $8.1 million for the Watershed Initiative pending receipt of additional information on how local grants to support community-based watershed efforts will be distributed by the Department of Fish and Game.	B-40
12.	**Coastal Access and Protection Proposal Lacks Detail.** Withhold recommendation on $5.7 million for coastal access pending the receipt of information on how these funds will be spent on the Coastal Trail, San Francisco Bay Trail and "offers-to-dedicate".	B-42
13.	**Southern California Wetlands Clearinghouse Merits Consideration.** Withhold recommendation on $6.9 million for the establishment of the Southern California Wetland Clearinghouse and the associated wetland "mitigation banks" pending the receipt of information regarding the number and cost of mitigation credits, how mitigation banks satisfy the California Environmental Quality Act requirements.	B-43

Funds for Habitat and Wildlife Preservation

14.	**Funds for Habitat and Wildlife Preservation.** The budget provides no details on how $69.2 million will be spent for acquisition, restoration, and enhancement of habitat and wildlife preservation.	B-47

Cal-EPA: How Well Is It Meeting Its Goals?

15.	**Goals Set at California Environmental Protection Agency's (Cal-EPA) Creation.** Reorganization plan creating Cal-EPA promised a coordinated, accountable agency focusing on the greatest public health and environmental risks. While the agency has reduced duplication in the state's environmental regulatory programs, it has not met other major goals.	B-51
16.	**Failure to Meet Goals**. We identify several examples of where the agency's goals are not being met.	B-52

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Department of Fish and Game

23. **Reorganization in Progress: An Overview.** The department is undergoing a reorganization. Recommend that the department report prior to budget hearings regarding the details of reorganization and when the department expects it to be fully implemented. B-63

Department of Parks and Recreation

24. **Concession Revenue Increases.** Revenues to the State Parks and Recreation Fund from state park concessions have increased in recent years. B-71

25. **Budget Proposes Additional Concessions.** Recommend that the department advise the Legislature on rent to be charged at Columbia State Historic Park and Pfeiffer Big Sur State Park. Further recommend denying the department authority to solicit bids for a concession at Stilwell Hall at the future site of Fort Ord Dunes State Park. B-73

26. **New State Park Reservation System Operational.** Department has replaced reservation contractor and new system is on line. B-75

27. **State Park System Earns "Best In Class."** Department received a prestigious award for superior quality and service results. B-75

Air Resources Board

28. **Motor Vehicle Account Inappropriately Funds Consumer Products Proposal. Reduce Item 3900-001-0044 by $728,000 and Increase 3900-001-0001 by Like Amount.** Recommend fund shift to correct inappropriate funding of consumer products program. B-77

Analysis Page

California Integrated Waste Management Board

29. **State Agencies Lag State in Recycling.** Recommend adoption of supplemental report language requiring report on addressing barriers to a more effective state agency recycling program. B-79

30. **Making Recycling Market Development Zone Loan Program More Effective.** Recommend adoption of supplemental report language requiring report on addressing identified opportunities to make program more effective and less costly to administer. B-82

31. **Allocation of Tire Funds Not Submitted.** Recommend board report at budget hearings on proposed allocation of tire recycling funds among various purposes authorized in statute. B-85

Department of Pesticide Regulation

32. **Hold Department Accountable.** Recommend Legislature withhold action on the department's budget until report on performance measures that is responsive to legislative direction is submitted. B-86

33. **Account for Expenditures Based on Statutory Requirements.** Recommend adoption of supplemental report language directing the department to account for expenditures on programmatic basis. B-89

State Water Resources Control Board

34. **Watershed Management Proposal Is Warranted**. Recommend approval of proposal for 10 watershed management coordinators. B-91

35. **Assessment of Long-Term Funding Needs to Meet Water Quality Objectives Difficult.** Recommend Legislature adopt supplemental report language and board B-91

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report at budget hearings to provide more complete information of funding needs to meet water quality objectives.

Department of Toxic Substances Control

36. **Budget Implements Funding Reform.** Budget proposal implements funding reforms of Chapter 870, Statutes of 1997 (SB 660, Sher) which provide more stable funding for the department. B-95

37. **State Potentially Liable for Major Cleanup Costs.** State is potentially liable for up to $750 million of cleanup costs at two hazardous waste sites due to alleged negligent regulation of these sites. B-97

38. **Deny Expenditures to Oversee Certified Unified Program Agency (CUPA) Program. Reduce 3960-001-0557 by $1,094,000 and reimbursements by $132,000.** Recommend deletion of funds to oversee local implementation of the CUPA program since the department has not demonstrated that it is serving its oversight role effectively. B-99

39. **Manifest Tracking System Revamp Requires Legislative Oversight.** Recommend adoption of budget bill language requiring legislative notification of recommended design for new hazardous waste manifest tracking system. B-100