

The 2020-21 Budget:  
**Resources and  
Environmental Protection**





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# Executive Summary

In this report, we assess several of the Governor's budget proposals in the natural resources and environmental protection areas. Based on our review, we recommend various changes, as well as areas that would benefit from additional legislative oversight. In this summary, we describe our major findings and recommendations. We provide a complete listing of our recommendations at the end of this report.

In addition, our office has published two separate reports that include assessments and recommendations related to natural resources and environmental protection programs. *The 2020-21 Budget: Climate Change Proposals* reviews four proposals by the Governor related to climate change mitigation and adaptation efforts: (1) the cap-and-trade expenditure plan (\$965 million), (2) climate-related research and technical assistance (\$25 million), (3) a Climate Catalyst Revolving Loan Fund (\$250 million), and (4) a climate bond (\$4.8 billion). *The 2020-21 Budget: Wildfire-Related Proposals* reviews 22 different proposals related to wildfire prevention, mitigation, and response, including for the California Department of Forestry and Fire Protection and the California Natural Resources Agency. This report includes a brief summary of the key recommendations from each of these reports.

## Budget Provides \$11 Billion for Programs

The Governor's budget for 2020-21 proposes a total of \$11.4 billion in expenditures from various fund sources for programs administered by the California Natural Resources (\$7.1 billion) and Environmental Protection (\$4.3 billion) Agencies. The budget plan for these programs reflects a net reduction of \$1 billion (8 percent) compared to the current-year budgeted level. While there is a net reduction in overall spending authority, the proposed budget is mostly consistent with what was approved for the current year and generally does not reflect significant programmatic reductions. Instead, the overall net spending reduction largely reflects the appropriation of one-time funding in the current year. For example, the current-year budget provides natural resources and environmental protection departments over \$600 million more in one-time bond funds from Proposition 68 (2018) than is proposed for the budget year.

## Budget Includes Several Significant Fiscal and Policy Proposals

***New Oversight Board for Department of Toxic Substances Control (DTSC).*** The Governor's budget plan includes \$3 million from the General Fund for two years to establish a Board of Environmental Safety to oversee DTSC, as well as perform specified responsibilities. We recommend that the Legislature authorize the establishment of a new oversight board in order to improve transparency and promote greater accountability of DTSC. However, if it chooses to authorize a board, the Legislature will want to closely evaluate the different options for the board's structure and responsibilities to ensure that they align with legislative priorities. For example, the Legislature may wish to consider how much authority the board should have to direct DTSC's day-to-day operations.

***New Fee Structure for DTSC.*** The Governor's budget includes two sets of changes to address structural deficits in the Toxic Substances Control Account (TSCA) and Hazardous Waste Control Account (HWCA)—two funds that support DTSC. First, the budget plan includes one-time

General Fund transfers totaling \$13 million to address the structural deficits in the budget year. Second, the Governor proposes budget trailer legislation to restructure various charges that support the two funds on an ongoing basis. We recommend the Legislature wait to take action on the Governor's proposal to transfer General Fund to TSCA and HWCA until the May Revision when updated information about the funds' conditions will be available. We further recommend the Legislature decide whether to establish a Board of Environmental Safety before weighing the merits of the Governor's proposals to restructure charges for TSCA and HWCA. The Legislature may wish to consider whether the Governor's budget trailer legislation to adjust TSCA and HWCA would (1) create a charge structure that would cover the costs of both the departments' existing mandated functions and potential program expansions, and (2) reflect the "polluter pays" principle.

**Purchase of a New State Park.** The Governor's budget includes \$20 million from the General Fund on a one-time basis to acquire land to create a new state park. The proposal lacks numerous critical details, such as the properties the department is considering to create the new park, metrics that will be used to select a property, and potential future costs to build-out and maintain the park. Accordingly, we recommend that the Legislature require the administration to provide additional information on the proposal. Based on the information provided, the Legislature may wish to approve, modify, or reject the proposal based on how the proposal aligns with legislative budgetary and programmatic priorities.

**Funding Enhancements for California Department of Fish and Wildlife (CDFW).** The Governor proposes \$19 million ongoing from the General Fund—transferred from the Habitat Conservation Fund and Wildlife Conservation Board—and \$20 million one time from the General Fund to help CDFW better meet its mission, primarily for activities to protect fish and wildlife. While we find that the proposed activities have merit, funding for the ongoing activities would be shifted from other state conservation programs. We recommend the Legislature adopt the one-time \$20 million funding proposal because the resources will be used to make certain department operations and maintenance activities more efficient. We further recommend the Legislature weigh the relative trade-offs of the ongoing \$19 million proposal with its other conservation and General Fund priorities. Lastly, we recommend deferring action on a third component of the Governor's proposal—to extend funding scheduled to expire in 2021-22—until next year when a more in-depth analysis of CDFW's budget will be available.

# OVERVIEW OF GOVERNOR’S BUDGET

In this section, we provide an overview of the Governor’s 2020-21 budget plan for the state’s natural resources and environmental protection departments, including a brief description of the main changes from the current year. Later in this report, we provide more detailed assessments of many of these specific proposals.

## Overall Plan Mostly Similar to Current Year

### Total Spending of \$11.4 Billion Proposed.

California’s Natural Resources and Environmental Protection Agencies oversee the activities of about 40 state departments, boards, and conservancies whose missions are to protect and restore the state’s natural resources and to ensure public health and environmental quality. The Governor’s 2020-21 budget proposes total funding of \$11.4 billion from all sources—the General Fund, as well as special, bond, and federal funds—for these entities. As shown in **Figure 1**, this reflects a net reduction of \$1 billion (8 percent) compared to the current-year budgeted level. (Later in this section, we compare proposed spending to revised estimates for the current year, which have been updated since the enactment of the budget.)

### Net Reduction Mostly Reflects One-Time Funding in Current Year.

While there is a net reduction in overall spending authority, the proposed budget is mostly consistent with what was approved for the current year and generally does not reflect significant programmatic reductions. Instead, the overall net spending reduction largely reflects the appropriation of one-time funding in the current year. For example, the current-year budget provides natural resources and environmental protection departments over \$600 million more in one-time bond funds from Proposition 68 (2018) than is proposed for the budget year. Partially offsetting these reductions, the proposed 2020-21 budget also includes

various proposals for increased funding. We summarize the most significant proposed budget adjustments later in this section.

## Summary of Natural Resources Budget Changes

### Total of \$7.1 Billion Proposed for Natural Resources Departments.

As shown in **Figure 2** (see next page), the Governor’s budget plan for entities within the California Natural Resources Agency (CNRA) includes a total of \$7.1 billion. Almost half of this funding (including most of the General Fund support) is for the California Department of Forestry and Fire Protection (CalFire) and debt service on past natural resources-related general obligation bonds. More than half of the total for natural resources departments is proposed to be funded from the General Fund, with the remainder mostly from special funds and bond funds. Of the total proposed, \$5.4 billion (76 percent) is to administer state programs, and most of the remainder is for local assistance—generally grants to local governments and nonprofits to implement projects.

### Key Changes for Natural Resources Departments.

Compared to updated estimates of current-year expenditures, proposed 2020-21 spending for natural resources departments is lower by \$2.3 billion (25 percent). This reduction largely reflects the expiration of one-time funding provided in the *2019-20 Budget Act*, as well as technical budget adjustments made since enactment of the budget, rather than significant programmatic changes.

**Figure 1**

**Proposed Spending Compared to 2019-20 Budgeted Level**  
(Dollars in Millions)

Agency	2019-20 Budgeted	2020-21 Proposed	Change	
			Amount	Percent
Natural Resources	\$7,429	\$7,095	-\$334	-4%
Environmental Protection	5,007	4,313	-694	-14
<b>Totals</b>	<b>\$12,436</b>	<b>\$11,408</b>	<b>-\$1,028</b>	<b>-8%</b>

- General Fund.** On net, General Fund spending for natural resources entities is proposed to decrease by \$28 million (1 percent). This decrease reflects a number of one-time, current-year appropriations, including about \$170 million provided for various local assistance projects administered by CNRA or the Department of Parks and Recreation. The budget also includes significant General Fund increases, including (1) an additional \$221 million in debt service costs to repay previously approved, natural resources-related general obligation bonds and (2) roughly \$120 million for CalFire to enhance wildfire staffing and other resources. (The Governor’s budget also reflects a

reduction of roughly \$220 million from the General Fund in both the current and budget years for the Emergency Fund, which is used to support certain costs associated with fighting wildfires.)

- Bond Funds.** The Governor’s budget provides \$1.8 billion less for bond funded activities and projects than estimated for the current year. As noted above, some of this reflects a net reduction in funds provided from Proposition 68—over \$400 million compared to the current-year budget—for natural resources programs. In addition, much of this apparent budget-year decrease is related to how certain bonds are accounted for in the budget, making year-over-year comparisons

**Figure 2**

**Natural Resources Budget Summary**

*(Dollars in Millions)*

	2018-19 Actual	2019-20 Estimated	2020-21 Proposed	Change From 2019-20	
				Amount	Percent
<b>Total</b>	<b>\$7,286</b>	<b>\$9,423</b>	<b>\$7,095</b>	<b>-\$2,327</b>	<b>-25%</b>
<b>By Department</b>					
Forestry and Fire Protection	\$2,220	\$1,902	\$2,019	\$117	6%
General obligation bond debt service	988	1,089	1,310	221	20
Parks and Recreation	1,172	1,041	1,029	-11	-1
Water Resources	746	2,317	973	-1,344	-58
Fish and Wildlife	538	560	573	13	2
Energy Commission	370	867	455	-412	-48
Conservation Corps	137	172	137	-35	-21
Conservation	138	146	136	-10	-7
Natural Resources Agency	353	484	130	-353	-73
State Lands Commission	103	85	61	-24	-28
Wildlife Conservation Board	196	195	48	-147	-75
Other resources programs <sup>a</sup>	324	565	223	-342	-61
<b>By Funding Source</b>					
General Fund	\$3,771	\$3,933	\$3,906	-\$28	-1%
Special funds	1,594	2,313	1,792	-521	-23
Bond funds	1,645	2,887	1,106	-1,781	-62
Federal funds	277	288	291	3	1
<b>By Purpose</b>					
State operations	\$5,261	\$5,684	\$5,423	-\$261	-5%
Local assistance	1,795	2,620	1,356	-1,264	-48
Capital outlay	231	1,119	316	-803	-72

<sup>a</sup> Includes state conservancies, Coastal Commission, and other departments.



difficult. Specifically, bonds that were appropriated but not spent in prior years are often carried over to the current year. The 2019-20 amount will be adjusted in the future based on actual expenditures.

## Summary of Environmental Protection Budget Changes

**Total of \$4.3 Billion Proposed for Environmental Protection Departments.** As shown in **Figure 3**, the Governor's budget plan for entities within the Environmental Protection Agency includes a total of \$4.3 billion. Most of this supports three departments—the California Department of Resources Recycling and Recovery (CalRecycle), California Air Resources Board (CARB), and State Water Resources Control Board (SWRCB). Of the total budgeted, \$3.8 billion (88 percent) is proposed to be funded from special funds, and \$2.6 billion (59 percent) is for local assistance.

**Key Changes for Environmental Protection Departments.** Compared to updated estimates of current-year expenditures, proposed 2020-21 spending for environmental protection departments is lower by \$1.2 billion (22 percent). Similar to natural resources departments, this reduction largely reflects the expiration of one-time funding provided in the *2019-20 Budget Act*, as well as technical budget adjustments.

- **General Fund.** The proposed budget reflects a significant net reduction in General Fund—\$533 million (79 percent)—compared to the current year. However, this mostly reflects one-time costs for CalRecycle to conduct debris cleanup activities following recent wildfires, as well as for funding provided in the current year to accelerate cleanup of lead contamination near the Exide battery recycling facility.
- **Special Funds.** Special fund expenditures are estimated to decrease by \$318 million

**Figure 3**

### Environmental Protection Budget Summary

(Dollars in Millions)

	2018-19 Actual	2019-20 Estimated	2020-21 Proposed	Change From 2019-20	
				Amount	Percent
<b>Total</b>	<b>\$8,014</b>	<b>\$5,552</b>	<b>\$4,313</b>	<b>-\$1,240</b>	<b>-22%</b>
<b>By Department</b>					
Resources Recycling and Recovery	\$3,584	\$2,102	\$1,589	-\$512	-24%
Air Resources Board	1,759	1,422	1,139	-284	-20
Water Resources Control Board	2,242	1,528	1,093	-435	-28
Toxic Substances Control	282	335	325	-10	-3
Pesticide Regulation	103	114	114	—	—
Other departments <sup>a</sup>	45	52	53	1	1
<b>By Funding Source</b>					
General Fund	\$2,176	\$676	\$143	-\$533	-79%
Special funds	4,284	4,101	3,783	-318	-8
Bond funds	1,191	406	18	-388	-96
Federal funds	364	370	369	—	—
<b>By Purpose</b>					
State operations	\$3,611	\$2,216	\$1,757	-\$459	-21%
Local assistance	4,403	3,336	2,556	-781	-23
Capital outlay	—	—	—	—	—

<sup>a</sup> Includes the Environmental Protection Agency, Office of Environmental Health Hazard Assessment, and general obligation bond debt service.

(8 percent). The biggest change affecting this spending is the Governor’s cap-and-trade expenditure plan, which decreases the allocation to CARB by almost \$200 compared to the current-year budget.

- **Bond Funds.** The Governor’s budget provides \$388 million (96 percent) less for bond-funded activities and projects than estimated for the current year. This largely reflects a reduction of over \$200 million provided from Proposition 68 for SWRCB. Similar to what is described for natural resources bonds, much of this apparent budget-year decrease is related to how certain bonds are accounted for in the budget.

### Budget Includes Several Significant Fiscal Proposals

Figure 4 lists the most significant budget-year funding changes proposed for natural resources and environmental protection departments. Most of the funding increases are proposed as one time or limited term. (The figure does not include year-over-year changes in allocations of cap-and-trade auction revenues to various programs.)

**Figure 4**

### Significant Natural Resources and Environmental Protection Budget Changes

(In Millions)

Proposal	2020-21 Amount	Fund Source
<b>Forestry and Fire Protection</b>		
Fire protection: relief staffing	\$93	Mostly GF
Fire protection: mobile equipment replacement	19	GF
Fire protection: direct mission support	17	Mostly GF
Various air attack base infrastructure projects	14	GF
Emergency Fund adjustment	-219	GF
<b>Department of Water Resources</b>		
Systemwide flood risk reduction projects	\$96	BF
Urban flood risk—American River project	46	GF
Sustainable groundwater management	40	GF
Tijuana River project	35	GF
New River Improvement Project	28	GF, BF
<b>Natural Resources Agency</b>		
LiDAR data	\$80	GF
<b>Conservation Corps</b>		
Residential Center—Ukiah	\$62	BF
<b>Energy Commission</b>		
ARFVTF expenditures	\$51	SF
<b>Department of Parks and Recreation</b>		
New state park	\$20	GF
Outdoor environmental education grant	20	GF
Museum storage facility	15	BF
<b>Department of Fish and Wildlife</b>		
Funding enhancements	\$39	GF, SF
<b>State Water Resources Control Board</b>		
Cannabis program	\$23	SF
<b>Department of Conservation</b>		
Oil and gas oversight	\$14	SF
<b>Department of Toxic Substances Control</b>		
Base funding to maintain operations	\$13	GF

GF = General Fund; BF = bond funds; LiDAR = light detection and ranging; ARFVTF = Alternative and Renewable Fuel and Vehicle Technology Fund; and SF = special funds.

# CROSSCUTTING ISSUES

## CLIMATE CHANGE PROPOSALS

**Major Proposals Related to Climate Change Mitigation and Adaptation.** The Governor’s budget includes four major proposals related to climate mitigation and/or adaptation—(1) the cap-and-trade expenditure plan (\$965 million), (2) expanded funding for climate-related research and technical assistance (\$25 million), (3) establishment of the Climate Catalyst Revolving Loan Fund (\$250 million), and (4) a climate bond (\$4.8 billion). Our recent report, *The 2020-21 Budget: Climate Change Proposals*, includes a description of each proposal, our assessment, and associated recommendations.

**Key Issues to Consider.** There are a variety of important considerations that the Legislature will want to weigh as it constructs a climate change package that best reflects its priorities and achieves its goals effectively. Notably, the Governor proposes a significant increase in the amount of General Fund resources allocated to climate-related activities, including significant out-year General Fund commitments to pay off the proposed bond. We urge the Legislature to think broadly about its priorities and the role of the General Fund, Greenhouse Gas Reduction Fund (GGRF), and other funds—as well as nonfinancial tools, such as regulatory programs—in achieving its climate goals. Some of the key considerations when developing an overall approach include:

- Is the overall spending amount consistent with legislative priorities, considering the potential need and the wide variety of other potential uses of the funds?
- How does the Legislature want to prioritize funding for adaptation versus mitigation?

As part of that evaluation, the Legislature might want to consider the past and current levels of spending for each type of activity, as well as the relative merits of relying on funding to achieve these goals versus other strategies, such as regulations.

- How should funds be allocated in order to most effectively achieve the Legislature’s climate goals? Programs that receive funding should (1) have clearly defined goals and objectives, (2) be well coordinated across different government entities, (3) address clear market failures and complement regulatory programs, and (4) have effective strategies and resources for evaluating future outcomes.

**Recommendations.** We summarize our recommendations on each of the proposals in **Figure 5**. Overall, the Governor’s approach includes some positive steps intended to help reduce climate change risks, including additional focus on adaptation activities. In many cases, however, the Legislature could consider modifications to the

**Figure 5**

### Summary of LAO Recommendations

**Cap-and-Trade Expenditure Plan**

- Ensure multiyear discretionary expenditures do not exceed \$800 million.
- Direct administration to provide additional information on expected outcomes.
- Allocate funds according to legislative priorities.
- Consider other funding sources for high-priority programs.

**Climate Research and Technical Assistance Funding**

- Expand state’s climate adaptation activities with approach that reflects legislative priorities.
- Delineate key climate policy goals and activities in statute.

**Climate Catalyst Loan Fund**

- Reject funding for Climate Catalyst Revolving Loan Fund.
- Consider a pilot project to gauge demand for loans.

**Climate Bond**

- Consider bond proposal as part of future General Fund priorities.
- Ensure focus of any bond package reflects legislative priorities.
- Ensure project selection criteria is designed to maximize effectiveness.
- Adopt evaluation requirements sufficient to inform future climate response activities.

proposals that might better reflect its priorities and achieve its climate goals more effectively. In one case—the proposed Climate Catalyst Revolving Loan Fund—we find that the administration has not provided adequate justification to merit adoption, though the Legislature could consider creating a pilot program to gauge the type and number of appropriate projects that might qualify for the program.

## WILDFIRE PROPOSALS

In recent years, California has experienced some of the deadliest and most destructive wildfires in the state's history. While wildfires have always been a natural part of California's ecosystems, recent increases in the severity of wildfires and the adverse impacts on communities have increased the focus on the state's ability to effectively prevent, mitigate, and respond to wildfire risks. In our recent report *The 2020-21 Budget: Governor's Wildfire-Related Proposals* we assess: (1) the state's overall approach to addressing wildfire risks and (2) the Governor's wildfire-related budget proposals that involve multiple departments. In this section, we summarize the findings and recommendations from our recent report as they relate to natural resources departments.

**State Should Develop Strategic Wildfire Plan to Address Risks.** In assessing the state's overall approach to addressing wildfire risks, we find that several factors contribute to increasing risks, including increased development in fire-prone areas, unhealthy forestlands, climate change, and the role of utility infrastructure management. In the coming decades, the state will likely continue to face demands for additional funding and resources to respond to wildfire risks. Yet, without a broad and comprehensive evaluation of wildfire risks

and mitigation strategies, it will be difficult for the Legislature to efficiently and effectively allocate additional funding related to wildfires. Accordingly, we recommend that the Legislature require the development of a statewide strategic wildfire plan. The purpose of the plan would be to inform and guide state policymakers regarding the most effective strategies for responding to wildfires and mitigating wildfire risks. In particular, this would include guidance on the highest-priority and most cost-effective programs and activities that should receive funding, as well as an assessment of how the state can achieve an optimal balance of funding for prevention and mitigation activities with demands to increase fire response capacity.

**Governor's Wildfire-Related Budget Proposals.** The Governor's budget provides a total of \$492 million (mostly from the General Fund) for 22 proposals for wildfire-related augmentations across multiple natural resources and other departments. The total includes \$179 million for CalFire, \$119 million jointly for CalFire and the Governor's Office of Emergency Services, \$80 million for CNRA, and \$210,000 for the Forest Management Task Force.

Based on our review, we classify the budget proposals in three categories. Specifically, we find (1) that even in the absence of a strategic plan, some proposals appear reasonable; (2) several proposals are promising but lack important implementation details; and (3) some proposals raise more significant concerns because they might not align with some of the key elements we think should be included in a strategic wildfire plan, they lack basic workload justification, or both. **Figure 6** (see pages 10 and 11) summarizes the wildfire-proposals for natural resources departments and our recommendations for each proposal.

## DEPARTMENT OF PARKS AND RECREATION

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The state park system, administered by the Department of Parks and Recreation (Parks), contains 280 parks and serves about 75 million visitors each year. State parks vary widely by type and features, including state beaches, museums,

historical sites, and ecological reserves. The size of each park also varies, ranging from less than one acre to 600,000 acres. In addition, parks offer a wide range of amenities—including campsites, golf courses, ski runs, visitor information centers,

tours, trails, fishing and boating opportunities, restaurants, and stores. Parks also vary in the types of infrastructure they maintain, including buildings, roads, power generation facilities, and water and wastewater systems.

For 2020-21, the Governor's budget proposes \$1 billion in total expenditures—including \$213 million from the General Fund—for the department. More than half of the department's proposed budget supports state park operations, with most of the remainder for local assistance grant programs. The proposed budget is \$11 million (1 percent) lower than the estimated current-year spending level for Parks. This decrease largely reflects the net effect of certain one-time funding provided in the current year—particularly for the development of the Native American Heritage Center and grants for various local park projects—offset by various funding increases proposed in the 2020-21 budget.

## NEW STATE PARK

***The Governor's budget includes \$20 million (one time) to acquire land to create a new state park. The proposal lacks numerous critical details, such as the properties the department is considering to create the new park, metrics that will be used to select a property, and potential future costs to build-out and maintain the park. We recommend that the Legislature require Parks to provide additional information on the proposal. Depending on the information provided, the Legislature may wish to approve, modify, or reject the proposal.***

## Background

Parks regularly acquires land to augment existing state parks. Less frequently in recent years, the department establishes a new state park. The department has acquired properties for four new state parks in the past 19 years—including Los Angeles State Historic Park (2001), Fort Ord Dunes State Park (2009), the California Indian Heritage Center State Park (2011), and Onyx Ranch State Vehicular Recreation Area (2014). According to the department, it has not made a large land

acquisition (over 45,000 acres) since the state acquired Anza Borrego State Park in the 1940's.

## Governor's Proposal

The Governor's budget provides \$20 million from the General Fund (one time) to acquire property to create a new state park. According to the department, the intent of the proposal is to expand public access to state parks by adding more acreage of park land. (The budget also includes a separate proposal of \$4.6 million from three bond funds for smaller park land acquisitions intended to expand existing state parks.)

At the time of this analysis, the specific property, or properties, that the department is considering purchasing have not been identified. The department, however, has developed a list of potential large-acreage properties it is considering. In addition, the administration hopes other landowners will come forward to express interest in selling their property to the department, which would increase the number of potential sites for a new park.

## Assessment

The concept of creating a new state park is consistent with the department's mission of providing outdoor recreation and protecting natural resources. However, the specific proposal put forward by the department lacks sufficient details, which make it difficult for the Legislature to assess its merits. We identify several key pieces of information that are lacking from the proposal.

***Department Will Not Disclose Properties Under Consideration.*** While the department indicates it has a list of properties it is considering to create a new state park, it indicates that it will not share the list with the Legislature. Not knowing the potential sites for a new park makes it difficult for the Legislature to weigh the merits of the proposal. One key problem is that the Legislature will not be able to determine the extent to which the sites under consideration will effectively increase access to parks, such as by ensuring that sites under consideration are located in areas (1) with relatively few existing parks or (2) near large population centers that would ensure access to a greater number of people. Another

issue is that without knowing the properties under consideration, it is unclear whether the \$20 million being requested is an appropriate level of funding for acquiring a new state park. Some properties under consideration might cost less than \$20 million to purchase, while others may cost considerably more. In addition, it is unclear what type of park the department will acquire, such as a forest, beach, or desert, as well as what other key features the park will have, such as preserving important ecological or historical sites or providing for recreational opportunities.

**Proposal Lacks Key Information Needed to Assess Future Costs.** Without knowing the details of a specific property, the department indicates it is unable to estimate the costs to build-out the new park with various infrastructure improvements.

Some properties under consideration might already have usable infrastructure, while others may require significant funding to construct or repair basic amenities such as trails, restrooms, roads, parking, or a visitor center. Similarly, Parks has not estimated the ongoing operational costs to support the new park with staff, routine maintenance, and interpretive programs.

Further, the department has not identified the source of funding for these future costs. State parks typically are supported by a combination of General Fund and special funds—particularly the State Parks and Recreation Fund (SPRF), which gets most of its revenues from various park user fees. While a new park, especially if it has a high volume of visitors, could generate significant fee revenue to offset future operating costs, it is likely

**Figure 6**

**Summary of Natural Resources Wildfire Proposals and Recommendations**

Proposal	Description	Recommendations
<b>Department of Forestry and Fire Protection (CalFire)</b>		
Relief staffing	\$93.4 million mostly General Fund in 2020-21 (increasing to \$142.6 million ongoing) to support 294 positions in 2020-21 (increasing to 555 positions ongoing) for (1) additional firefighting staff, (2) increased training academy staff, and (3) 14 fire engines for training purposes.	<ul style="list-style-type: none"> <li>• Make funding for training staff limited term.</li> <li>• Provide additional seasonal staffing rather than permanent staff.</li> <li>• Reject funding for training fire engines.</li> </ul>
Various capital outlay projects	\$39.4 million General Fund for new capital outlay projects (\$11.9 million) and to continue previously approved projects (\$27.5 million). New projects include replacing two helitack bases, a conservation camp, and an auto shop.	<ul style="list-style-type: none"> <li>• Approve.</li> </ul>
Mobile equipment replacement	\$19 million General Fund for two years to replace CalFire vehicles and mobile equipment.	<ul style="list-style-type: none"> <li>• Approve.</li> </ul>
Direct mission support—administrative staffing	\$16.6 million ongoing (\$10.8 million General Fund and \$5.8 million reimbursements) to support 103 administrative positions.	<ul style="list-style-type: none"> <li>• Require additional workload justification; reject if sufficient information not provided.</li> <li>• If justification is provided, align proposal with positions that are justified.</li> </ul>
Wildland firefighting research grant	\$5 million one-time General Fund to fund firefighting research related to protective equipment and safety.	<ul style="list-style-type: none"> <li>• Approve.</li> </ul>
Hired equipment staffing	\$2.9 million General Fund in 2020-21 (\$2.4 million ongoing) to support ten positions to operate a program to contract for firefighting equipment from private vendors.	<ul style="list-style-type: none"> <li>• Require additional workload justification; reject if sufficient information not provided.</li> <li>• If justification is provided, align proposal with positions that are justified.</li> </ul>
Mobile equipment staffing	\$1.7 million General Fund in 2020-21 (\$1.5 million ongoing) to support nine positions related to processing and procurement of vehicles and mobile equipment.	<ul style="list-style-type: none"> <li>• Require additional workload justification; reject if sufficient information not provided.</li> <li>• If justification is provided, approve staffing on limited-term basis.</li> </ul>

(Continued)

the new park would require some ongoing General Fund support. (The SPRF currently is being fully utilized to support existing parks and likely does not have a significant enough operating balance to support a new park on an ongoing basis.) Parks indicates that it is exploring options for partnerships with private and nonprofit groups to offset at least a portion of build-out and operational costs. However, different locations are likely to vary substantially in the opportunities for private or nonprofit funding.

**Department Has Not Identified Selection Criteria.** While Parks has indicated it is considering multiple properties, the department has not identified the metrics it will use to evaluate these properties and select a preferred site for the new park. The process Parks plans to use to select a property is important, particularly given that it does not intend to provide the Legislature with a

list of the properties under consideration. Based on the stated intent for the budget proposal, we might expect one key metric to be an assessment of the extent to which each property would benefit an area that currently has relatively low access to state parks and other outdoor recreation. However, departmental staff has indicated that Parks has not conducted an analysis of park access to identify such “park-poor” areas. Without an assessment of the biggest gaps in parks access, it is unclear how the department will select a location for the new park that best meets the goal of providing additional park access. In addition, clearly defining selection criteria would help to ensure that the department fully considers other important factors in its decision-making process, such as future state capital and operating costs, as well as the degree to which each location conserves land that has unique ecological features, historical significance, or is otherwise of statewide interest.

Proposal	Description	Recommendations
Building standards and defensible space education—SB 190	\$689,000 Building Standards Administration Special Revolving Fund to support two positions for the Office of the State Fire Marshall to implement provisions of SB 190 related to defensible space inspections and fire safety building standards training.	<ul style="list-style-type: none"> <li>• Approve.</li> </ul>
<b>CalFire and Office of Emergency Services Joint Proposals</b>		
Home hardening pilot program—AB 38	\$110.1 million—including (1) \$100 million one time (\$75 million federal funds and \$25 million General Fund); (2) \$8.3 million in 2020-21 GGRF (decreasing to \$6.1 million ongoing); and (3) \$1.8 million General Fund (decreasing to \$1.6 million annually for next four years)—to implement AB 38. Provides 33 positions. Includes establishing a \$100 million home hardening grant program, conducting defensible space inspections related to real estate transactions, training defensible space inspectors, hiring mobile equipment positions, and purchasing a new fire engine.	<ul style="list-style-type: none"> <li>• Approve majority of proposal related to grant program with additional implementation guidance.</li> <li>• Provide funding for training and mobile equipment staff for CalFire only on a limited-term basis.</li> <li>• Reject funding for additional fire engine.</li> </ul>
Wildfire Forecast and Threat Intelligence Integration Center—SB 209	\$9 million General Fund and PUCURA (decreasing to \$6.3 million ongoing) to establish a weather forecasting intelligence and integration center required by SB 209.	<ul style="list-style-type: none"> <li>• Approve.</li> </ul>
<b>Other Entities</b>		
Light detection and ranging data (LiDAR) (CNRA)	\$80 million one-time General Fund to contract for the collection of LiDAR data of the entire state.	<ul style="list-style-type: none"> <li>• Withhold action and require CNRA to provide a detailed implementation plan.</li> <li>• If no plan is provided, reject the proposal.</li> <li>• Consider funding a pilot project.</li> </ul>
Administration and research support (Forest Management Task Force)	\$210,000 ongoing Environmental License Plate Fund to support two positions to conduct various workload required by executive order.	<ul style="list-style-type: none"> <li>• Approve and establish a statutory framework for the task force.</li> </ul>
<small>SB 190 = Chapter 404 of 2019 (SB 190, Dodd); AB 38 = Chapter 391 of 2019 (AB 38, Wood); GGRF = Greenhouse Gas Reduction Fund; SB 209 = Chapter 405 of 2019 (SB 209, Dodd); PUCURA = Public Utilities Commission Utilities Reimbursement Account; and CNRA = California Natural Resources Agency.</small>		

## Recommendations

### ***Require Parks to Provide Additional Details.***

We recommend the Legislature require the department to provide it with the list of potential properties under consideration during the course of spring budget hearings. For each potential property, we also recommend that Parks be required to include estimates of the potential infrastructure build-out costs, ongoing operational costs, and revenues (from fees or partnerships). In addition, we recommend that the Legislature require Parks to report on the metrics and process it will use to select a site for a new state park.

***Determine Action on Proposal Based on Additional Information Provided.*** If the Legislature receives sufficient information and determines that a new state park is consistent with its short-term and ongoing budgetary priorities, it may want to approve the proposal. The Legislature also could choose to modify the proposal based on the additional information provided by Parks, such as by providing a different level of funding to align with the range of potential acquisition costs associated with the size and type of park the Legislature would like to see developed.

If the Legislature does not receive sufficient information on the proposal, it may wish to reject the proposal and direct the department to report next year with a more fully developed plan to acquire a new park. While information on the location and type of the new park will be important for the Legislature to weigh the benefits of the proposal, we think that information on the future costs and funding sources to support a new park are particularly critical.

***Consider Adopting Reporting Language.*** To the extent that the Legislature provides funding for a new park in 2020-21 before a specific site is identified, we recommend that the Legislature approve budget bill language requiring that the department notify the Joint Legislative Budget Committee (JLBC) regarding key details of the acquisition prior to Parks having the authority to spend any of the \$20 million. This notice to the JLBC should identify the property the department selected, other properties that were under consideration, the process used to select the

property, an estimate of future capital outlay and operational costs, and identification of the funding sources that will be used to fund these future costs.

## INCREASING STUDENT ACCESS TO STATE PARKS

***The Governor's budget includes two proposals to increase student access to state parks. In general, the proposals appear consistent with recent legislative priorities. However, the proposals lack details to fully assess their merits. We recommend the Legislature require Parks to report additional information before taking action on the proposals, as well as consider several oversight questions regarding the broader goals and outcomes of student park access programs.***

### Background

***Increasing Student Access to Parks Has Been a Legislative Priority.*** Improving student access to state parks has been a priority for the Legislature in recent years. To support this priority, the Legislature has increased funding for park access programs with various funding augmentations from Proposition 68, Proposition 64 (2016), and SPRF. In addition, last year the Legislature passed Chapter 675 of 2019 (AB 209, Limón) to create the Outdoor Environmental Education Grant Program to provide grants to increase access to outdoor environmental education experiences for underserved and at-risk youth.

***Parks Has Several Access Programs.*** Parks has several programs that increase access to state parks. Two programs that focus specifically on K-12 students are the Parks Online Resources for Teachers and Students (PORTS) program and the Summer Learning Program (SLP). The PORTS program provides virtual field lessons for students using videoconferencing technology to allow a classroom of students to interact with a park interpreter located at a state park. The department estimates that 74,000 students were served by the PORTS program in 2018-19. The SLP program coordinates with various nonprofit organizations to host K-12 students at state parks for day trips and overnight camping trips during the summer. Parks



estimates that 4,900 students visited state parks under the SLP program in 2018-19.

## Governor's Proposals

The Governor's budget includes two budget proposals that would provide augmentations for programs designed to increase student access to state parks.

- ***K-12 Access Program Expansion (\$2.9 Million)***. The budget provides \$2.9 million from the Environmental License Plate Fund and 19 positions to expand the PORTS and SLP programs. A portion of the requested positions will replace existing limited-term or seasonal positions with permanent positions.
- ***New Outdoor Environmental Education Grant Program (\$20 Million)***. The Governor's budget includes \$20 million (one time) from the General Fund to establish the Outdoor Environmental Education Grant Program created by AB 209.

## Assessment

The proposals to expand student access to state parks appear consistent with recent legislative priorities, including the adoption of AB 209. However, the proposals lack basic details necessary to fully assess their merits. For example, the proposal to augment staffing for the PORTS and SLP programs does not identify (1) how many of the requested positions will replace existing limited-term or seasonal positions and how many will augment the programs, (2) how the new positions would be allocated between the programs, or (3) accurate estimated outcome measures. Without this information, it is not possible to assess what outcomes, such as number of students served by the program, are likely to be achieved. In addition, the department indicates that it has not yet determined how it would allocate grant funds for the Outdoor Environmental Education Grant Program because it has not yet had the opportunity to meet with stakeholders and develop program guidelines. (Assembly Bill 209 directs the department to wait to develop

program guidelines until after funding has been appropriated.)

In addition, because the department's student access programs have generally started as limited efforts—such as pilot efforts or ones facilitated with nonprofit partners—the department has not established broad program goals for the programs or evaluated the most critical gaps in student park access. For example, the department has not created a long-term goal of the total number of California students that will be served by the various programs or an assessment of the resources necessary to achieve that goal. In addition, the department has not evaluated how it will prioritize student access for over-subscribed programs.

## Recommendations

***Obtain Details of PORTS and SLP Proposal Before Taking Action.*** We recommend that the Legislature require the department to report information on the level of resources currently dedicated to the PORTS and SLP programs, the allocation of proposed new positions between these two programs, and information on how outcome metrics tie to the level of resources budgeted. Regarding the Outdoor Environmental Education Grant Program, the Legislature may want to ask the department about what process it will go through to develop program guidelines if funding is approved.

***Consider Broader Oversight Questions.*** Given multiple recent funding increases provided for park access programs, we recommend the Legislature use these budget proposals as an opportunity to consider broader questions about the goals, administration, marketing, and implementation of the department's student access efforts. Key oversight questions include:

- ***Goals.*** Does the department have long-term goals for the number of students that it hopes will participate in the PORTS and SLP programs, as well as any other efforts to increase student access? What are the Legislature's goals for ensuring K-12 students have access to state parks and outdoor learning experiences?

- **Funding.** What is it likely to cost to achieve program goals? What are available sources of funding—including potentially nontraditional funding sources for parks—to increase student park access and outdoor learning experiences?
- **Prioritization.** Given limited funding, what are the most cost-effective ways of providing student access? Should programs focus on specific grade levels? How should classes and students be prioritized when programs are over-subscribed? How should the department balance the trade-offs of virtual park experiences with in-person park visits? For example, virtual field trips allow more students to participate at lower costs, while in-person field trips provide a more complete experience and hands-on learning.
- **Communication With Schools.** What are the most effective ways of marketing the various programs and sharing information with schools, students, and nonprofit partners? What is the process for receiving feedback from teachers and schools to ensure programs target appropriate grade-level content and align with curriculum? Are there opportunities for these communication efforts to be streamlined or improved?

## HARBORS AND WATERCRAFT REVOLVING FUND INSOLVENCY

*The Harbors and Watercraft Revolving Fund (HWRP), which is used to support various boating-related activities, will become insolvent in 2020-21 absent any intervention. The Governor’s budget includes a “placeholder” solution of \$26.5 million to keep the fund solvent, but the specific details of the solution are unclear, as well as whether it would prevent insolvency beyond the budget year if ongoing. We recommend the Legislature consider the following key issues: (1) the structure of the vessel registration fee going forward; (2) the current demand of boating programs and the effects of reduced expenditures from the fund; (3) the extent to which solutions should*

*come from increased revenues, decreased expenditures, and fuel tax revenues; and (4) how to prevent operational shortfalls for the fund on an ongoing basis.*

### Background

**Expenditures for Boating-Related Activities.** The HWRP is used to support various boating-related activities, including management of invasive aquatic plants and other species and local assistance grants for boating facilities and safety programs. The administration estimates that a total of \$79 million will be spent from the fund in the current year, primarily by three departments—Parks, Department of Fish and Wildlife, and the California Department of Food and Agriculture. As shown in **Figure 7**, \$61.7 million is to support various Parks operations, local assistance programs, and capital projects.

**Most Revenue Generated From Vessel Registration Fees and Fuel Taxes.** The HWRP receives a significant portion of its revenue from vessel registration and renewal fees, as well as a transfer from Motor Vehicle Fuel Account (MVFA).

- **Vessel Registration and Renewal Fees.** Vessel registration in the state is conducted on a biennial basis. The state charges an initial registration fee of \$65 for most vessels (\$37 in even years, the second year of the two

**Figure 7**

### Parks Expenditures From the HWRP (In Millions)

Program	2019-20 Estimated
Aquatic invasive plant removal	\$12.5
Public safety grants	11.5
Launch facility grants	11.0
Loan program for boating facilities	5.5
Quagga and zebra removal grants	3.8
Abandoned watercraft abatement	2.8
Capital outlay projects	2.7
Oceanography research	1.5
Beach erosion control	1.0
Other	9.4
<b>Total</b>	<b>\$61.7</b>

HWRP = Harbors and Watercraft Revolving Fund.

year cycle). A majority of the fee is deposited into the HWRF, while a small portion is deposited into the Air Quality Improvement Fund and the Alternative and Renewable Fuel and Vehicle Technology Fund. The state also charges a registration renewal fee that is due every two years on odd numbered years. The fee is \$36 for most vessels. The full amount of the renewal fee is deposited into the HWRF. As a result of the renewal fee being collected on a biennial basis, fee revenue fluctuates predictably each year. The HWRF generally receives about \$4 million in even years and \$27 million in odd years. Both the initial registration and renewal fees include a base fee and a supplemental fee for activities to prevent the spread of the quagga mussel, an invasive species.

- Transfer From MVFA.** The HWRF also receives an annual transfer from the MVFA. The transfer reflects the estimated amount of state fuel taxes paid by vessel owners. The amount transferred is based on the number of registered boats in the state and has ranged from \$18 million to \$29 million annually in recent years.

**Operational Shortfall and Insolvency.** Over the last several years, the HWRF has periodically faced operational shortfalls—meaning planned expenditures have exceeded combined revenues and transfers. Operational shortfalls have typically occurred in even years when the registration renewal fee is not due. However, prior-year reserves have been able to support the fund during these periods.

The operational shortfalls were exacerbated because of a technical correction that was made as part of the 2019-20 budget. The change was intended to better reflect past legislative intent

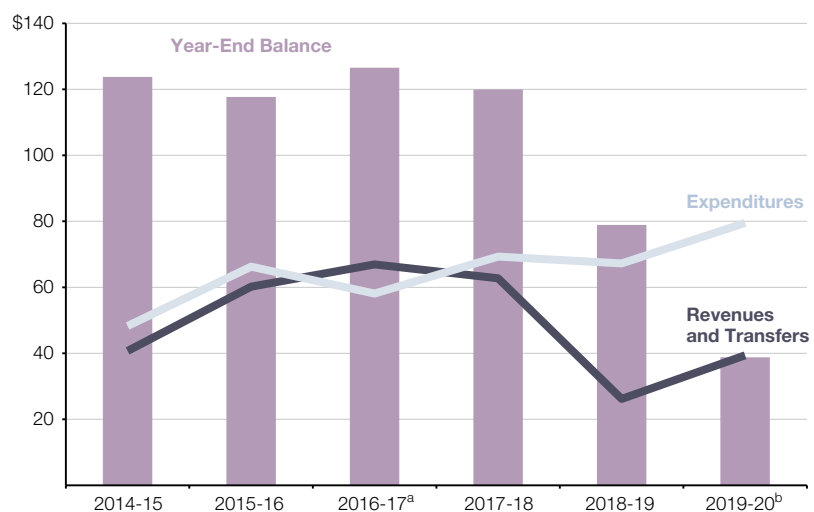
related to how fuel tax revenues associated with vessels is distributed among the HWRF, SPRF, and the General Fund. The outcome of the change, however, is a significant decrease in the amount of MVFA funds transferred to the HWRF. For instance, the MVFA transfer fell from \$23 million in 2018-19 to \$8 million in 2019-20. The 2019-20 budget also included a one-time solution of \$22 million—from a combination of a reversion of unencumbered local assistance appropriations and a transfer from the Public Beach Restoration Fund—to offset the reduced transfer. The fund is still estimated to have an operational shortfall of \$40 million at the end of the current year, which will result in estimated reserves of \$38.8 million. **Figure 8** shows historical revenues and expenditures from the HWRF.

### Governor’s Budget

Absent any corrective actions, the administration estimates that the HWRF will experience an operational shortfall of \$64 million in the budget year. This would cause the fund to fully deplete its remaining reserves and become insolvent. In recognition of this problem, the Governor’s budget

**Figure 8**

### HWRF Revenue and Expenditure History (In Millions)



<sup>a</sup> Revenues include a General Fund loan repayment of \$46 million.

<sup>b</sup> Reflects \$22 million in one-time budget solutions.

HWRF = Harbors and Watercraft Revolving Fund.



includes a placeholder solution of \$26.5 million to keep the HWRF from becoming insolvent. The budget assumes half of this amount would come from increased revenue and half from expenditure reductions. However, at the time of publication, the administration had not identified what specific actions it would propose and, instead, states that it intends to have a more complete proposal later this spring.

## Assessment

***Unclear Whether Placeholder Solution Would Prevent Insolvency Beyond Budget Year.*** While the Governor's budget includes a \$26.5 million placeholder solution, the lack of specificity provided makes it difficult to evaluate whether the solution would prevent the HWRF from becoming insolvent in subsequent years. While the current level of funding assumed in the placeholder solution would allow for the fund to remain solvent in the budget year, it would also force the fund to deplete its remaining reserves to \$1.3 million. Assuming the \$26.5 million solution is ongoing, we estimate that there would continue to be an operational shortfall in 2021-22 of about \$28 million. This would ultimately place the HWRF in a similar situation to what it is currently experiencing. Accordingly, it is in the interest of the Legislature to approve a solution that would keep the fund solvent in future years.

***Options for Addressing the Operational Shortfall.*** While the Governor does not yet have a specific proposal, there are a wide range of options for the Legislature to consider. Accordingly, it will be important for the Legislature to establish its priorities for the HWRF and determine how best to address the projected insolvency in 2020-21. While the Governor's placeholder solution could help the fund remain solvent in the budget year, it is unclear whether it would address the operational shortfalls beyond 2020-21. Accordingly, the Legislature will want to consider long-term solutions in addressing the structural imbalance. In order to assist the Legislature in developing its plan, we identify a framework of options for its consideration:

- ***Increase Revenues.*** The Legislature could generate additional revenues by increasing vessel registration or renewal fees. Roughly,

a \$1 increase in the renewal fee, for instance, would generate about \$750,000 in odd years. We also note that the base registration renewal fee was last updated in 2005. As time has progressed, the fee has lost its relative purchasing power due to inflation. This may provide a rationale for the Legislature to increase the fee to reflect its current year value, which would result in about a \$7 increase in the fee. The Legislature could also consider indexing the registration and renewal fees to inflation, which would align them with similar registration fees placed on motor vehicles.

- ***Reduce Expenditures From HWRF.*** The Legislature could also reduce expenditures by decreasing the amount allocated to specific programs supported by the fund. As noted earlier, overall expenditures from HWRF have increased significantly in recent years from \$48 million in 2014-15 to \$79 million in 2019-20. A reduction in expenditures also may be warranted given the decrease in fuel tax revenue transferred from the MVFA to the HWRF going forward, though the Legislature would want to consider the impact to programs of any reduction in expenditures.
- ***Shift More MVFA Funds to HWRF.*** As mentioned earlier, some of the fuel tax revenue related to vessels is transferred to the General Fund and the SPRF. This is a result of vessel fuel tax revenue not being limited for only transportation purposes under the California Constitution—in contrast to fuel tax revenue collected from motor vehicles. The Legislature could eliminate or reduce the amount transferred into these funds in order to support the HWRF. For instance, the MVFA is expected to transfer \$35 million of fuel tax revenue related to vessels to the General Fund in the budget year. To the extent that a portion of these funds was shifted from the General Fund to HWRF, this would reduce funding available for the Legislature's General Fund priorities.

## Recommendation

### ***Consider Key Issues in Budget Deliberations.***

The Governor's budget plan currently lacks a detailed proposal. However, even in the absence of a proposal, we recommend the Legislature consider key issues when weighing different options for addressing the insolvency in 2020-21 and the longer-term operational shortfall in the HWRF. This could include directing the administration to report additional information on the following topics at budget hearings:

- ***Structure of the Registration Fee.*** How do California's vessel registration fees compare to other states? Would it make sense to have a range of registration and renewal fees that are based on the size of a vessel? What are the trade-offs between a flat fee versus a tiered fee?
- ***Effects on Reducing Expenditures.*** What is the current demand for boating-related

programs—such as facilities, safety, and invasive aquatic plant and species removal? How would a reduction in expenditures from the HWRF affect state goals for each of these programs?

- ***How to Balance Different Options.*** How does the administration intend to reach the \$26.5 million adjustment for the HWRF? To what extent should budget-year or longer-term solutions come from increased revenues, decreased expenditures, and fuel tax revenues?
- ***Future Health of HWRF.*** How does the administration intend on preventing operational shortfalls on an ongoing basis for the HWRF? How will the proposed solution ensure that the fund is supported during even years when the renewal fee is not being collected? What level of ongoing solutions would be needed to ensure that the fund builds reserves going forward?

## CALIFORNIA DEPARTMENT OF FISH AND WILDLIFE

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The California Department of Fish and Wildlife (CDFW) is responsible for promoting and regulating the hunting of game species, promoting and regulating recreational and commercial fishing, and protecting California's fish and wildlife for the public trust. The department manages over 1 million acres of public land throughout the state including ecological reserves, wildlife management areas, and hatcheries.

The *2020-21 Governor's Budget* proposes total expenditures of \$573 million for CDFW from various sources, an increase of \$13 million (2 percent) compared to current-year expenditures. This increase reflects the net total of the proposed augmentations described in the next section and the removal of several one-time, current-year appropriations. Of the total proposed expenditures, \$172 million comes from the General Fund (30 percent), \$115 million from the Fish and Game Preservation Fund (FGPF, 20 percent), \$86 million from federal funds (15 percent), \$46 million from

general obligation bond funds (8 percent), and the rest from other special funds.

### FUNDING ENHANCEMENTS

***The Governor proposes \$19 million ongoing and \$20 million one time in 2020-21 to help CDFW better meet its mission, primarily for activities to protect fish and wildlife. While we find that the proposed activities have merit, funding for the ongoing activities would be shifted from other state conservation programs. We recommend the Legislature adopt the one-time funding proposal and weigh the relative trade-offs of the ongoing proposal with its other conservation and General Fund priorities. We recommend deferring action on a third component of the Governor's proposal—to extend funding scheduled to expire in 2021-22—until next year when a more in-depth analysis of CDFW's budget will be available.***

## Background

**CDFW Has Experienced a Roughly \$20 Million Ongoing Budget Shortfall.** As noted, the FGPF is among the department’s largest funding sources, providing roughly one-fifth of overall CDFW resources. The fund receives revenues from a variety of fees, including recreational hunting and fishing license and permit fees. Expenditures from the FGPF support many of the department’s core activities, including various wildlife conservation efforts, law enforcement, management of both department-owned lands as well as inland and coastal fisheries, and oversight over the state’s commercial fishing industries. In recent years, expenditures from the FGPF have exceeded its revenues by roughly \$20 million annually. This gap developed in large part because the state has created new costs for the fund without adding an equivalent amount of new revenues. These costs have resulted from significant employee salary increases negotiated through the state collective bargaining process, assigning new activities to CDFW without providing new funding, and shifting activities from other funding sources to the FGPF.

**2018-19 Budget Provided Funding for Three Years to Address Shortfall and Expand Programs.** In 2018-19, the Legislature augmented CDFW’s budget by roughly \$30 million, with about \$23 million of this amount expiring in 2021-22. The total augmentation consists of:

- \$20 million in additional General Fund for the department to address its funding shortfall and maintain its existing service levels—roughly \$7 million ongoing and about \$13 million for three years.
  - \$10 million annually for three years—one-half from the General Fund and one-half from the Tire Recycling Management Fund—along with 30 new positions for CDFW to expand its activities.
- Figure 9** summarizes how the department has used that funding augmentation.

### **Legislature Directed CDFW to Undertake a Detailed Review of Its Activities and Budget.**

Along with funding increases, the 2018-19 budget package included a requirement that CDFW conduct a service-based budget (SBB) review by January 2021. This review is intended to provide more clarity regarding the following:

- The core activities that CDFW undertakes.
- The existing gap between the department’s “mission” level of service (defined as the service standards and essential activities required for the department to meet its mission and statutory requirements) and its current service levels.
- Instances where CDFW may be conducting activities outside its mission and statutory requirements.
- Detailed estimates for the costs and staffing that would be necessary to meet mission service levels.
- An analysis of the department’s existing revenue structure and the activities supported by those fund sources, including instances where different funding sources or revenue structures might be allowable or more appropriate.

The budget package also required that the SBB review include development of a new budget tracking system to inform ongoing and future fiscal decision-making processes.

The Legislature has provided \$4 million in one-time General Fund to support these activities.

**Figure 9**

### **Recent CDFW Service Expansions** (Dollars in Millions)

Activity	Funding	Positions
Law enforcement/wildlife trafficking prevention	\$3.7	6
Marine fisheries management	2.7	11
Salmon monitoring and conservation support	1.3	4
Hatchery production support	1.0	1
Status reviews of endangered species	0.6	2
Administrative support	0.4	3
Collaborative conservation activities	0.3	3
<b>Totals</b>	<b>\$10.0</b>	<b>30</b>

CDFW = California Department of Fish and Wildlife

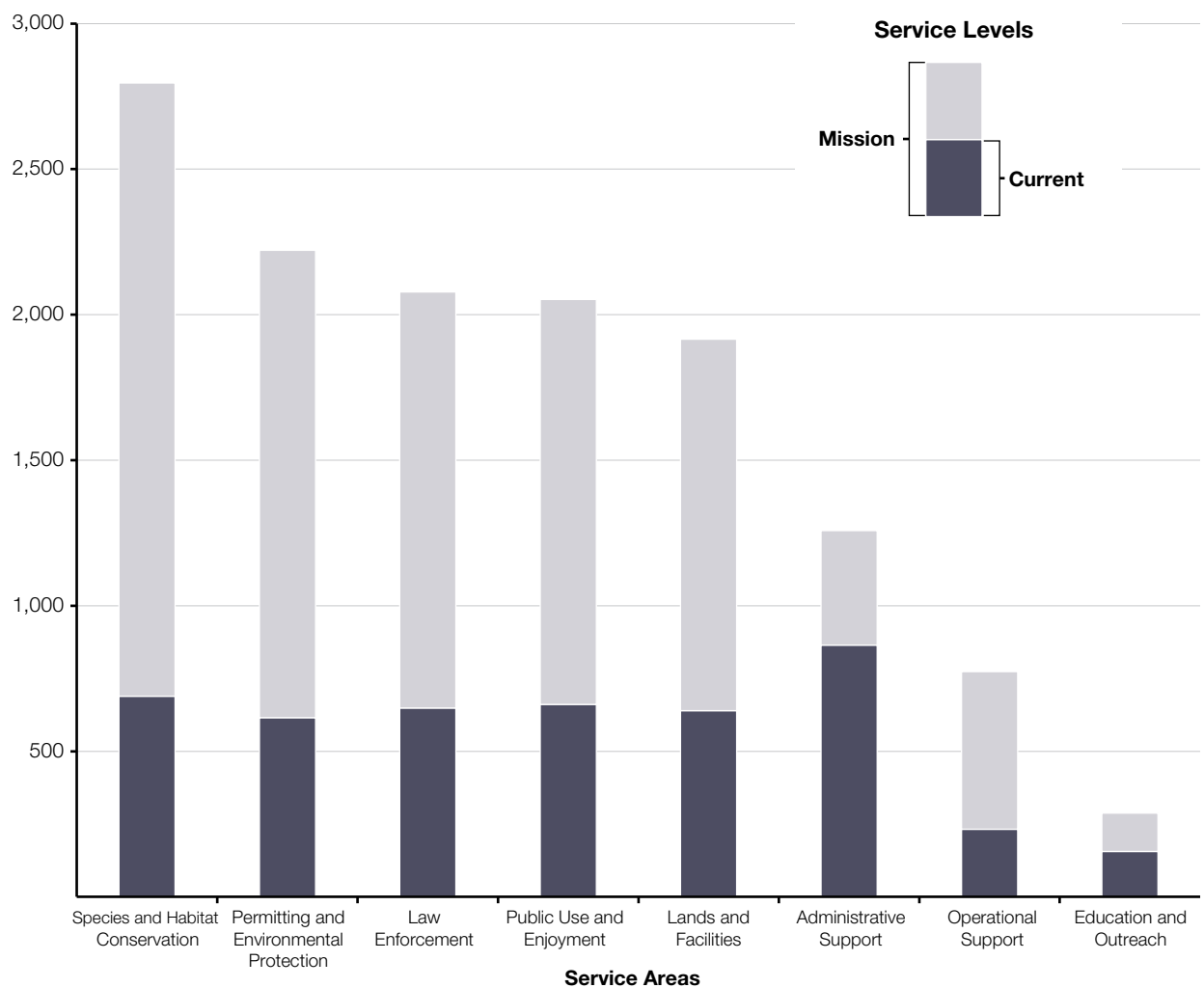
CDFW is still in the middle of the SBB process. Specifically, it has accomplished two of the tasks described—defining current and mission service levels and their relative gap in terms of staffing levels—but has not yet determined what it would cost to fully achieve its mission or analyzed its revenue sources and comparative distribution of funding.

**SBB Review Determined Existing Service Levels Fall Short of Meeting Mission.** While CDFW has not yet completed the SBB review, its initial analysis has identified significant gaps between its existing levels of service and those

it has determined would be necessary to fulfill its mission and meet all of its statutory responsibilities. **Figure 10** displays these results, showing the difference between the number of staff hours currently being dedicated in each of CDFW’s eight areas of service compared to the number of hours the department has determined would be needed to meet its mission. As shown, in most areas, CDFW has determined that current service levels are less than one-third of mission levels. The largest shortfall—both proportionally and in terms of total staff hours—is in species and habitat conservation, the service area the department

**Figure 10**

**Review Found CDFW Is Falling Short of Meeting Its Mission**  
Hours Per Year



CDFW = California Department of Fish and Wildlife.



has determined requires the most comparative workload. Specifically, CDFW staff currently spend about 690,000 hours per year on activities in that service area, compared to the 2.8 million hours the department estimates would be needed to meet its mission. The second largest gap is in the permitting and environmental protection service area—falling short of meeting mission service levels by about 1.6 million hours annually.

**CDFW Reviewing Both Staffing and Other Options to Address Shortfalls.** Notably, while the initial SBB review focused on identifying shortfalls in service levels defined solely by staffing hours, CDFW indicates that the next phase of its analysis will identify strategies for narrowing those gaps through various approaches—not just by seeking to add staffing resources and labor hours. For example, the department plans to investigate whether it could (1) adjust mission level expectations by making legislative, regulatory, or policy changes; (2) increase efficiencies within the department to lessen the number of staff hours needed to meet mission service levels, such as by streamlining processes or acquiring new technology or equipment; and (3) collaborate with partner agencies to help complete some tasks.

**Legislature Recently Reauthorized Funding for Wildlife Conservation Programs.** The Habitat Conservation Fund (HCF) provides \$30 million annually for wildlife conservation efforts. These monies have been used primarily for grants to purchase land to preserve as undeveloped wildlife habitat, as well as to fund habitat restoration projects. Statute prescribes particular categories of uses at certain departments for these funds. For example, \$10 million per year must be spent to protect deer and mountain lion populations, with a particular emphasis on native oak forests. Additionally, at least \$3 million annually must be spent to acquire and restore stream and riparian habitat, and another \$3 million to acquire and restore wetlands.

Of the total \$30 million provided annually, statute requires the following allocations: (1) \$4.5 million to Parks, (2) \$4 million to the State Coastal Conservancy, (3) \$500,000 to the Tahoe Conservancy, and (4) the remainder (which totals \$21 million) to the Wildlife Conservation Board

(WCB). Revenues into the HCF consist of about \$11 million annually from statewide tobacco taxes and roughly \$19 million from the General Fund and are continuously appropriated to the specified departments. The HCF—along with requirements for its annual revenues and specified categories of uses—was originally established in 1990 by a voter-approved initiative, Proposition 117. The requirements are scheduled to expire at the end of 2019-20. As part of the 2019-20 budget package, however, the Legislature adopted budget trailer legislation extending the requirement that the state ensure a total of \$30 million be continuously appropriated into the HCF to continue the existing categories of uses by WCB and the other departments until 2030.

## Governor's Proposals

The Governor proposes three separate augmentations from the General Fund for CDFW. **Figure 11** summarizes the two proposals for 2020-21. The third proposal would not take effect until 2021-22. Next, we describe each of the three proposals.

**\$18.9 Million Ongoing Redirected From WCB's HCF Programs to Expand Species Conservation Activities at CDFW.** The Governor proposes \$18.9 million in new ongoing funding to be used primarily to augment CDFW's habitat and conservation activities. This includes increasing compliance with the California Endangered Species Act (CESA) and a pilot approach to expediting regulatory permitting processes for restoration projects (as described in more detail in the box on page 22). While the proposed \$18.9 million augmentation would provide new resources for CDFW, these funds would not represent new General Fund spending for the state. Rather, the Governor proposes to shift these funds from their existing uses within the HCF. (To implement this shift the Governor proposes budget trailer legislation to undo the recent statutory reauthorization of funding for the HCF.) As described earlier, WCB and other departments currently use these funds—together with funding from voter-approved bonds—primarily to acquire and preserve land for conservation. Because of existing statute specifying the amounts that



must be provided to Parks, the State Coastal Conservancy, and the Tahoe Conservancy, the funding shift would come from WCB’s portion of the HCF—leaving WCB with only about \$2 million of its existing \$21 million in HCF funds. The Governor’s proposal does not include backfilling these funds for WCB.

**\$20 Million One Time From General Fund to Upgrade Equipment and Operations.** The Governor proposes one-time funding to be used primarily to purchase equipment and undertake projects that would improve efficiency throughout the department’s operations. This includes replacing one outdated aircraft and purchasing 43 fish stocking vehicles, 18 hatchery egg-sorting machines, and 18 units of heavy equipment for maintaining state wetlands. The funding would also support 15 projects at state wetlands to improve both energy and water-use efficiency. This includes upgrading pumps and canals and installing solar arrays to power water conveyance.

**\$23.4 Million Ongoing General Fund Beginning in 2021-22 to Backfill Shortfall and Maintain Service Expansions.** The Governor proposes that the Legislature act now to authorize funding for 2021-22 that would allow the department to sustain existing service levels—including the recent expansions described in Figure 9—when the three years of funding provided by the Legislature in 2018-19 is scheduled to expire.

**Assessment**

**Ongoing Funding Addresses Some Service Gaps, but Legislature Could Prioritize Other Activities.** As described previously, CDFW has identified a significant deficit in existing service levels, with the largest gaps in the areas of (1) species and habitat conservation and (2) permitting and environmental protection. Most of the Governor’s proposals for new ongoing funding are targeted in these categories, suggesting they

**Figure 11**

**Summary of Governor’s 2020-21 CDFW Funding Proposals**

*(Dollars in Millions)*

Activity	Description	Funding	Positions
<b>New Ongoing Proposals</b>			
Protect endangered species	Conduct work to implement and enforce compliance with CESA, including reviewing petitions to list new species as threatened or endangered, processing and monitoring CESA-related regulatory permits, and developing and implementing plans to help CESA-listed species recover.	\$10.8	31
Increase awareness about biodiversity and climate change	Conduct climate-risk assessments on CDFW lands. Develop and disseminate education and outreach materials about state’s biodiversity and climate change risks.	1.9	7
Improve permitting process for restoration projects	Direct additional staff resources to consult with restoration project proponents and process environmental permits to expedite time lines and enable permitting for larger scale projects.	3.4	15
Administration and facilities	Provide administrative support and office space proportional to new staff and activities included in overall proposal.	2.8	5
<b>Totals</b>		<b>\$18.9</b>	<b>58</b>
<b>New One-Time Proposals</b>			
New aircraft	Purchase new aircraft to aerially monitor wildlife.	\$6.0	—
Fish hatchery equipment	Purchase equipment to upgrade hatchery operations, including egg sorters and fish stocking vehicles.	6.5	—
Equipment and water conveyance projects at state wetlands	Undertake projects to improve water conveyance, including upgrading canals, levees, and water pumps, and installing solar-panels. Purchase new heavy equipment for maintenance including tractors, graders, and excavators.	7.5	—
<b>Total</b>		<b>\$20.0</b>	

CDFW = California Department of Fish and Wildlife and CESA = California Endangered Species Act.

would help the department be better positioned to carry out its mission. As such, we find that the proposed use of the new \$18.9 million seems well-targeted for addressing existing deficiencies in CDFW's services. For example, as shown in Figure 11, the proposal includes \$10.8 million for activities that would help the department increase statewide compliance with CESA. The SBB review found that CDFW staff time currently is only sufficient to address 23 percent of its mission service levels related to issuing and enforcing CESA permits, and 38 percent of mission-level workload to manage and monitor endangered species. This means that the department is not able to consistently research and monitor the status of species that have been designated as endangered or are most at risk of being threatened with extinction. Similarly, the proposed \$3.4 million to expedite restoration projects could help address the roughly 450,000 hours per year SBB-identified gap between current and mission service levels in the department's programs to restore and enhance wildlife habitats. This deficit means that existing CDFW staff often do not have time to consult with stakeholders who seek to undertake restoration projects to ensure their proposals are effectively designed, focus on state wildlife priorities, and meet regulatory requirements.

While the proposed activities focus on areas in which the department's current level of service is significantly behind mission levels, these are not the only areas for which that is the case. The Governor's proposal prioritizes addressing some important deficiencies, but the Legislature could also adopt a package of funding augmentations that prioritizes improving services in different areas of the department. As shown in Figure 10, the SBB review identified gaps in *all* of DFW's service areas, some of which are not addressed by the proposed new expenditures. For example, the SBB review found that within the operational support service area, the largest gap in service levels was within its genetics research lab programs, which provide scientific information to help guide the department's activities to preserve fish, wildlife, and plants. The Governor's proposal does not provide funding to address this deficiency. Similarly, the proposal does not provide funding to address the largest service level gap identified under the law enforcement service area—workload related to protecting the environment from legal and illegal cannabis growing facilities.

***Permitting Pilot Could Yield Helpful Information, but Lacks Explicit and Measurable Goals.*** We find that the proposal to provide \$3.4 million and 15 new positions to expedite permitting for restoration projects addresses an important problem and could help the state better

### **Proposal Includes Pilot Initiative to Expedite Restoration Projects**

As noted in Figure 11, included within the Governor's proposal is \$3.4 million and 15 new positions to improve the permitting process for habitat restoration projects. This is part of a larger initiative being championed by the Secretary for Natural Resources to "Cut the Green Tape" and make getting regulatory approvals for undertaking restoration projects easier, quicker, and less costly. This effort is in response to feedback from proponents of restoration projects that the prolonged process for attaining necessary permits is onerous, duplicative, and inhibits them from implementing large scale projects. The California Department of Fish and Wildlife's particular proposal would pilot a new approach in one selected region of the state to help expedite time lines for granting environmental permits. Specifically, the requested funding would support a "strike team" of staff working on grant administration and permitting to provide early consultation with project proponents, hold permitting workshops, and seek to incorporate the use of existing "programmatic" permitting options that could facilitate larger scale restoration projects. To start, this pilot effort would be focused on the North Coast region of the state (Humboldt, Mendocino, Del Norte, Sonoma, and Marin Counties).

achieve its species and habitat conservation goals. However, the proposal lacks detail about how objectives and outcomes from this new approach will be measured and communicated. This inhibits the Legislature, state, and stakeholders from evaluating the success of this novel approach and how it might be modified or replicated for other regions or departments.

**Shifting HCF Would Leave WCB's Existing Programs Without Funding.** Shifting \$18.9 million from the HCF to CDFW would leave WCB with less funding to dedicate for its current land acquisition and restoration programs. The Governor's proposal essentially prioritizes increasing ongoing programs at CDFW over sustaining WCB's existing HCF-funded programs on an ongoing basis. Part of the administration's rationale for this change is that WCB has bond funds available right now. Specifically, WCB has roughly \$400 million in remaining funds from voter-approved general obligation bonds and special funds that can support these programs. Those funds, however, are one time and not ongoing. (Absent any change, the HCF would be available annually until its current 2030 statutory expiration.) In addition, CDFW would prioritize conservation and restoration projects that differ somewhat from historical HCF areas of priority. Moreover, the Legislature recently expressed its prioritization of continued General Fund for existing WCB programs by reauthorizing the HCF statutes through 2030.

**One-Time Funding Proposals Seem Likely to Improve Efficiencies.** As noted earlier, one component of CDFW's SBB analysis is seeking to identify ways the department can better carry out its mission with strategies that extend beyond just requesting increased ongoing funding for new staff. We find that the Governor's proposal to spend \$20 million to upgrade equipment aligns with this goal. That is, the proposed activities likely will decrease the amount of staff hours and costs needed to accomplish state objectives for CDFW hatcheries and wetlands. For example, the department proposes to spend \$1.5 million to purchase 18 new egg sorting machines for its hatcheries, and estimates that each machine will cut in half the time that staff currently spend manually sorting eggs using tweezers several times a year. Additionally, CDFW estimates replacing the aging

fleet of fish stocking vehicles would save between \$250,000 and \$400,000 in annual maintenance and labor costs.

The proposals to improve operations at state wetlands—by improving water conveyance and purchasing new heavy equipment—likewise are likely to reduce the staff time and costs needed to conduct ongoing operations and maintenance on those lands. Specifically, the department estimates the new equipment will save between \$150,000 and \$300,000 annually in fuel costs, repairs, and labor charges. The proposed projects should also improve the quality of those wildlife habitats and decrease carbon emissions. Similarly, CDFW estimates its proposal to spend \$6 million to replace an existing aircraft that is over 30 years old would improve performance and could save between \$250,000 and \$300,000 annually in maintenance, repair, and fuel costs.

**Proposal to Address Funding Shortfall Is Premature.** While the Governor's proposal to provide \$23.4 million General Fund in 2021-22 addresses an issue the Legislature will need to confront next year, we find that committing these resources now is premature. We believe a strong case exists for maintaining CDFW's present funding levels and recent augmentations—especially given the service deficiencies that the first phase of the SBB review has identified currently exist even with those resources. However, the Legislature would benefit from seeing the full results of the SBB review before determining how to fund those—and all—department activities on an ongoing basis. In particular, CDFW's forthcoming analysis of its existing funding and distribution of revenues (during the next phase of its SBB review) will be informative in weighing the most appropriate sources of new funding. The review might support the ongoing provision of General Fund, but it might also support increasing other revenues, such as user fees. A desire for this more complete analysis and perspective was the rationale behind the Legislature making CDFW's 2018-19 augmentations limited term. Because those funds do not expire until 2021-22, adopting this component of the Governor's proposal now is not necessary, and the Legislature can delay action for another year without causing disruptions to CDFW activities.

## Recommendations

### ***Weigh Trade-Offs of Different Options for Augmenting CDFW's Conservation Activities.***

As noted above, we find the proposed activities to increase CDFW's species conservation and habitat restoration activities have merit. Because the shift from the HCF would create some impacts on the WCB programs currently receiving those funds, however, the Legislature might want to consider alternative responses to funding this proposal. Yet other options also have associated trade-offs. We recommend the Legislature consider the relative merits of both the existing WCB HCF-funded activities and the proposed CDFW activities in the context of its other General Fund priorities. Moreover, should the Legislature opt to provide new ongoing funding for CDFW, we recommend it specify it be used for activities that reflect the Legislature's priorities, which could differ somewhat from those in the Governor's proposal.

We believe the Legislature has four key options for responding to the Governor's proposal:

- ***Adopt Governor's Proposal to Shift Funds Away From Existing WCB Programs.*** The advantages of adopting the Governor's proposed approach are (1) it would have a neutral effect on the state budget and not result in new net General Fund commitments and (2) many similar WCB programs could continue to be supported with bond funds in the near future. The disadvantages are that programs currently funded by the HCF could be negatively affected by losing these dedicated ongoing revenues and the requirement to spend funds in certain categories.
- ***Reject Fund Shift, Fund Proposed Activities With New General Fund.*** The Legislature could maintain existing General Fund within the HCF for WCB and instead provide an additional \$18.9 million from the General Fund for CDFW's proposed activities. This would avoid impacting existing programs but would increase ongoing General Fund commitments for CDFW.
- ***Fund a More Modest Package of Augmentations.*** The Legislature could opt

to provide new funding for the department only for the activities which it deems to be the highest priorities. This approach would address some of CDFW's existing service deficiencies and at a lower overall cost compared to the Governor's proposal. This approach, however, would leave more of the existing service deficiencies in place. Additionally, such an approach still would require the Legislature to transfer some funding away from existing HCF-funded programs or expend some new General Fund.

- ***Defer Decision Until 2021-22 When Results of SBB Review Are Complete.*** The Legislature could also reject the Governor's proposal without prejudice and revisit it next year once the SBB review is complete. This approach would provide the Legislature with the benefit of additional information about the department's existing revenue structure and whether funds could appropriately be shifted or generated from sources other than the General Fund. However, delaying augmentations for another year would mean continuing CDFW's current deficiencies in the species and habitat conservation and permitting and environmental protection service areas, and forego for another year the opportunity to pilot the proposed new restoration permitting approach.

### ***If Legislature Approves Pilot Strategy for Restoration Projects, Add Reporting Requirements.***

If the Legislature opts to fund the proposal to provide funding and staff to test a new approach for expediting restoration project permitting, we recommend it adopt supplemental reporting language for CDFW to submit two reports. Given this would be a new pilot approach intended to inform future statewide efforts, we believe the goals and information gleaned from this effort must be explicit, transparent, and widely disseminated. Specifically, at the outset of the initiative, CDFW should submit a report communicating the measureable objectives it hopes to accomplish through this new approach, including quantifiable metrics that will indicate success. Such metrics could include how many acres of land might be restored and how much more quickly permits will

be granted compared to current time lines. We recommend this first report be due in the fall of 2020. Additionally, after the pilot approach has been implemented for a few years, the department should report on its successes (as measured by the established metrics), any challenges and lessons learned, and potential recommendations for how the approach could be improved and replicated in other regions of the state. We recommend this second report be due no later than December 2023.

**Approve Proposal to Provide \$20 Million One Time to Improve Efficiencies.** Because it would make certain department operations and maintenance activities more efficient by reducing

some ongoing costs and staffing requirements, we recommend the Legislature approve the proposed \$20 million in one-time General Fund to replace outdated equipment and modernize operations.

**Defer Decision on \$23.4 Million Ongoing General Fund Until Next Year.** Because CDFW has sufficient funding to maintain existing service levels in the budget year, we recommend rejecting the Governor's proposal to commit additional General Fund for 2021-22 before it is needed. Instead, we recommend the Legislature use forthcoming information from the department's SBB analysis to determine the appropriate funding sources and amounts for CDFW as part of the 2021-22 budget development process.

## DEPARTMENT OF WATER RESOURCES

The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, DWR plans for future water development and offers financial and technical assistance to local water agencies for water projects. In addition, the department maintains the State Water Project, which is the nation's largest state-built water conveyance system. Finally, DWR performs public safety functions such as constructing, inspecting, and maintaining levees and dams.

The Governor's 2020-21 budget proposes a total of \$973 million from various funds for support of the department. This is a net decrease of \$1.3 billion (or 58 percent) compared to projected current-year expenditures. This year-to-year decrease is primarily due to the way bond funds are accounted for in the annual budget. Specifically, DWR had \$1.8 billion in 2019-20 spending authority from bond funds appropriated over the past several years, compared to \$628 million proposed for appropriation in 2020-21. (These totals exclude the roughly \$1.7 billion in annual payments from water contractors for DWR's work on the State Water Project, as those funds are not appropriated through the annual budget act.)

### SUSTAINABLE GROUNDWATER MANAGEMENT ACT IMPLEMENTATION

**The Governor proposes providing increased General Fund to facilitate continued implementation of the Sustainable Groundwater Management Act—\$30 million one time for local assistance grants and \$9.6 million ongoing for DWR to conduct additional technical assistance and oversight activities. We recommend approving both proposals but also adopting language to ensure the local assistance funds are used for projects that provide public benefits and focus on efforts needed to effectively implement groundwater sustainability plans.**

#### Background

**State Passed Major Legislation to Regulate Groundwater in 2014.** In 2014, the Legislature passed and the Governor signed three new laws—Chapters 346 (SB 1168, Pavley), 347 (AB 1739, Dickinson), and 348 (SB 1319, Pavley)—collectively known as the Sustainable Groundwater Management Act (SGMA). With the goal of achieving long-term groundwater resource sustainability, the legislation represents the first

comprehensive statewide requirement to monitor and operate groundwater basins to avoid depletion (known as “overdraft”). The act’s requirements apply to 94 of the state’s 515 groundwater basins that DWR has found to be “high and medium priority” based on various factors, including overlying population and irrigated acreage, number of wells, and reliance on groundwater. While comprising less than one-fifth of the groundwater basins in California, the 94 high- and medium-priority basins account for 98 percent of California’s annual groundwater pumping. Of the identified basins, DWR has identified 21 as being “critically overdrafted,” which it defines as a condition where a “continuation of present water management practices would probably result in significant adverse overdraft-related environmental, social, or economic impacts.” The remaining 421 basins ranked as being lower in priority—generally smaller and more remote—are encouraged but not required to adhere to SGMA.

**Local Agencies Are Developing and Beginning to Implement Management Plans.** SGMA assigns primary responsibility for ongoing groundwater management to local entities. Local groundwater sustainability agencies (GSAs)—formed by a single or combination of local public agencies with existing water or land management duties—are responsible for developing and implementing long-term groundwater sustainability plans (GSPs). These plans will define the specific guidelines and practices that will govern the use of individual groundwater basins, including potentially limiting extractions from these basins. For most of the regions of the state subject to SGMA, GSAs must adopt and begin to implement GSPs by January 2022. For the 21 basins identified as being in conditions of critical overdraft, however, GSPs were due on January 31, 2020, and, thus, those GSAs must now begin implementing strategies to manage their basins sustainably. The law requires that critically overdrafted basins achieve sustainability goals by 2040, and that all other basins do so by 2042.

**DWR Tasked With Important Role in Supporting SGMA Implementation.** SGMA tasked DWR with several responsibilities in the initial phases of the act’s implementation,

including defining and prioritizing groundwater basins, collecting and disseminating data and best practices, and providing technical and financial assistance to GSAs. While some amount of its data collection and technical assistance efforts will continue on an ongoing basis, starting in 2020, DWR has also begun to assume significant workload associated with reviewing initial GSPs to ensure they comply with the law. The department must also provide GSAs with assistance as they implement the actions described in their plans, as well as conduct annual reviews to ensure basins are making steady progress towards sustainability goals.

Along with DWR, SWRCB also has certain responsibilities in implementing SGMA, specifically by enforcing the law and intervening when local entities fail to follow the law’s requirements. If any basins ultimately fail to comply with SGMA, the state is charged with taking over their management. Because the act is still in its initial years of implementation, SWRCB has not yet been called upon to play a large role.

**State Has Provided Significant Funding to Support SGMA-Related Activities in Recent Years.** To support DWR’s SGMA-related responsibilities, the state has provided roughly \$160 million total for the department’s state-level activities since 2014-15, primarily from the General Fund. While some of this funding has been used to contract for technical reports and third-party facilitation services to assist GSAs, much of it has been used for DWR staff. The department has gradually been increasing the number of staff working on SGMA, up to a total of 119 funded positions in 2019-20. (The state is also spending \$750,000 per year for five staff at SWRCB for SGMA-related workload.)

In addition to state-level funding, the Legislature has appropriated funds from voter-approved general obligation bonds for grants to local agencies to begin complying with SGMA. These local assistance funds include about \$140 million from Proposition 1 (2014) (appropriated between 2015-16 and 2017-18) and \$46 million from Proposition 68 (appropriated in 2018-19) to develop GSPs. Additionally, the Legislature authorized \$88 million from Proposition 68 in 2019-20 for

grants to GSAs to begin implementing their GSPs and employ practices that bring their groundwater usage into balance. For example, implementation grants might fund projects that increase the rate of groundwater replenishment, such as by building new infrastructure to direct floodwaters onto the land and enable that water to percolate into the groundwater basin.

## Governor's Proposals

***Proposes 37 New Positions, \$9.6 Million to Expand DWR's Role in Supporting SGMA Implementation.*** The Governor proposes \$9.6 million in ongoing General Fund in 2020-21 to support 37 new positions and increase DWR's SGMA-related activities. These staff would primarily be engaged in compliance reviews of GSPs and providing technical assistance to GSAs as they implement their sustainability plans. This augmentation would grow to \$11.2 million in 2021-22 and to \$16.3 million annually beginning in 2022-23 to also cover ongoing data collection contracts, such as for monitoring changes in groundwater levels, land use patterns, and ground elevation (known as subsidence).

***Proposes \$30 Million for Local Agencies to Transition to Next Phase of SGMA Implementation.*** The Governor's proposal also includes \$30 million in one-time General Fund support to provide grants to the critically overdrafted groundwater basins that must start implementing their GSPs in 2020. While DWR has designated 21 basins as being in critically overdrafted status, two currently have or are in the process of having their groundwater usage adjudicated by the courts; as such, only 19 basins will be regulated by SGMA's requirements and be eligible for this funding. DWR states that its current plan for these funds would be to provide roughly \$1.5 million to each of the GSAs to undertake studies or projects that would help limit the economic disruption in their regions from complying with SGMA.

## Assessment

***Successful Implementation of SGMA Is Fundamental to State's Management of Water Resources*** The passage of SGMA was

a critical first step towards better groundwater management, and successful implementation of the act's requirements should continue to be a state priority. The coming years represent an important period for establishing how SGMA will guide local operations and practices in future years. DWR plays a key role in supporting local efforts, and the proposed increase in positions and funding for state-level activities would better enable the department to carry out its responsibilities. Local agencies are undertaking the work of gathering and analyzing data about their areas' groundwater use, defining sustainability targets for their basins, and developing and beginning to implement enforceable plans and practices for how the basins can be managed to achieve those sustainability goals. The comprehensiveness and effectiveness of these processes and plans will determine the overall success of the act. DWR can support these efforts by providing oversight and support to ensure GSAs stay on track to meet deadlines and work toward their sustainability objectives.

***Critically Overdrafted Basins Would Benefit From Additional Support for Successful Transition...*** As noted previously, the 21 critically overdrafted basins face earlier SGMA deadlines than the remaining 73 basins that are subject to the act's requirements. These areas of the state face the double challenge of experiencing the most severe imbalance between groundwater usage and available groundwater resources, as well as the most expedited time lines to begin addressing that imbalance. As such, we believe the Governor's proposal to provide \$30 million in additional financial assistance to these basins could help facilitate their success in these initial phases of SGMA implementation.

***...However, Governor's Proposal Lacks Safeguards to Ensure Appropriate and Effective Use of Funding.*** While the intention to assist critically overdrafted basins in beginning to implement SGMA is reasonable, the Governor's proposal lacks details about how exactly the funds would and should be used. For example, the proposal does not include language specifying that the use of these funds should be limited to studies or projects that are necessary to enable the GSAs to proceed with implementing their GSPs.

The Governor's proposal also lacks adequate safeguards to ensure these state funds would be used for broad public benefits rather than to address potential economic impacts on private individuals. Moreover, the broad nature of how the administration has described the purpose of these funds—to help GSAs address potential negative economic impacts in the region that could result from SGMA—raises concerns about how they could be used. For example, local stakeholders might seek to use them not just to further implementation of the law, but to address a wide range of associated local impacts—including changes in the local labor markets, shifting land use decisions, and regional economic development. Such ancillary issues are beyond the scope of DWR's expertise and also exceed the responsibilities that SGMA tasks to the state. The state must be careful to avoid setting expectations that it will assume financial responsibility for addressing what could be significant regional economic impacts associated with SGMA implementation.

## Recommendations

**Approve \$9.6 Million Increase for DWR's Implementation Activities.** We recommend the Legislature approve the Governor's proposal to provide DWR with additional staff and funding to implement SGMA. Enhancing DWR's efforts to support GSAs will increase the chances that local agencies will achieve statewide groundwater sustainability goals. Moreover, helping to ensure greater local compliance with the act's requirements will lessen the odds that the state has to assume what likely would be significant costs to take over management of noncompliant basins.

**Approve \$30 Million for Implementation Grants but Add Language Directing Use of Funds.** To help support critically overdrafted basins in their efforts to begin bringing their groundwater use into balance, we recommend approving the Governor's proposal to provide \$30 million in one-time General Fund. However, we recommend the Legislature include provisional language in the budget bill that places parameters around how these funds can—and cannot—be used. For example, we recommend requiring that the funds be used on projects that focus on public

benefits (such as for studies of strategies to assist vulnerable communities that may lose drinking water from dry wells) rather than private benefits (such as to compensate individual farmers who will have to reduce their dependence on groundwater pumping). Moreover, we recommend these funds be focused on local efforts needed to implement GSPs (such as to collect additional data necessary to follow the plans) rather than projects intended to address regional economic impacts that are outside DWR's scope of responsibility for assisting with SGMA implementation (such as responding to potential changes in the local labor market).

## TIJUANA RIVER AND NEW RIVER RESTORATION PROJECTS

***The Governor proposes providing funding for projects to address pollution flowing into Southern California in binational rivers across the border from Mexico—\$35 million for the Tijuana River in San Diego County and \$28 million for the New River in Imperial County. Both the proposals would address serious public health and environmental concerns. For the Tijuana River projects, however, the administration has not yet identified a source for funding ongoing operations and maintenance activities in future years. We recommend approving the New River proposal, but requiring that the administration provide an ongoing funding plan for the Legislature to consider prior to approving the Tijuana River proposal.***

## Background

***Cross-Border Pollution Flows Into Southern California in Rivers From Mexico.*** Areas in Southern California have experienced pollution flowing in binational rivers across the border from Mexico. One prime example is the Tijuana River, which flows from the Mexican city of Tijuana across the border into the Tijuana River National Estuarine Research Reserve in San Diego County and then out into the Pacific Ocean past the city of Imperial Beach. A second example is the New River, which flows from the Mexican city of Mexicali into the city of Calexico in Imperial County, and then



into the Salton Sea. Both rivers are dangerously contaminated, creating public health concerns and negative environmental impacts in their respective regions.

**Raw Sewage and Waste Flow Into Tijuana River Valley.** For many years, contaminated storm and wastewater from the city of Tijuana and its surrounding areas have flowed into California through the Tijuana River and nearby canyons and tributaries. Contaminants found in the river include raw sewage, used tires, residential and industrial waste, building materials, sediment, and some hazardous waste. Polluted flows are most severe during heavy storm events. These toxic conditions have led to illnesses and other negative public health effects in the region, which contains several economically disadvantaged communities. Additionally, the sewage and debris flowing into the Tijuana River National Estuarine Research Reserve compromise state and federal wildlife habitat restoration and species conservation efforts. After the flows pass through the estuary, they empty into the Pacific Ocean, where the waste discharges have led to frequent beach closures that affect public access and local recreation-based economies. The California Attorney General (together with the San Diego Regional Water Quality Control Board and some cities in San Diego County) has filed a lawsuit alleging water quality violations against the International Boundary and Water Commission, a binational federal agency that addresses boundary and water issues and operates a water treatment plant at the Tijuana border.

The state has dedicated some resources towards addressing these persistent issues with the Tijuana River. For example, over the past 15 years, state Parks spent a combined total of nearly \$9 million to remove sediment and trash from the Goat Canyon Sediment Basin facility that is located within the National Research Reserve. Also, Chapter 542 of 2017 (SB 507, Hueso) provided \$500,000 to San Diego County to identify and study potential projects to address pollution in the valley. (The final report from that study is due in spring 2020.) Additionally, the *2019-20 Budget Act* provided \$15 million from Proposition 68 to the State Coastal Conservancy to undertake projects in the valley.

**New River Severely Contaminated by Various Pollutants.** The New River is also heavily polluted, primarily from discharges of waste from domestic, agricultural, and industrial sources in both Mexico and the Imperial Valley. The river contains trash, pathogens, and multiple contaminants at levels that violate numerous state water quality standards. Such conditions pose a threat to public health and result in foul odors that inhibit economic development in the region. These issues are most prevalent in the city of Calexico, but also contribute to the water quality problems that the state has been trying to address where the river ends at the Salton Sea. Because of this, Proposition 68 included \$10 million specifically to address New River water quality issues.

**Mexico and U.S. Governments Making Some Efforts to Address Issues.** Both the U.S. and Mexican governments have dedicated some resources towards addressing the pollution in these rivers. For example, the California Environmental Protection Agency (CalEPA) states that since 1997, the U.S. government has provided about \$330 million for these issues, including (1) \$280 million for the Tijuana River, mostly to help build a wastewater treatment plant near the border (the Mexican government also contributed to the construction and operation of that plant) and (2) \$50 million for wastewater and sanitation projects in Mexicali. CalEPA also reports that in both Tijuana and Mexicali, Mexico is working on upgrading infrastructure to collect and convey sewage on its side of the border. These efforts and expenditures, however, have not yet been sufficient to rectify the significant pollution problems present in both rivers.

The recent trade agreement between the U.S., Mexico, and Canada dedicated up to \$300 million for wastewater treatment along the U.S.-Mexico border. However, how and where these funds will be spent—including how much will be dedicated to issues in California as compared to other border states—has not yet been determined.

## Governor's Proposals

The Governor has two one-time funding proposals to help address these border river pollution issues.

**\$35 Million to Address Pollution Issues in the Tijuana River Valley.** The Governor proposes \$35 million in one-time General Fund support to construct a series of projects in various tributaries of the Tijuana River on the U.S. side of the valley, as well as to operate and maintain them for two years. The projects have the primary goals of capturing trash and sediment and preventing flooding. San Diego County would serve as the lead agency for implementing and managing these projects. The proposal includes:

- \$17 million to build sediment detention basins, automated trash screens, and infrastructure to control flows in Smuggler's Gulch.
- \$4 million to build infrastructure to control flows and manage existing trash collection structures and sediment basins in Goat Canyon.
- \$1 million to construct a flood control channel and to undertake a feasibility study in Yogurt Canyon.
- \$6.5 million annually for two years to operate and maintain the new projects.

**\$28 Million for Improving Water Quality in the New River.** The Governor proposes a total of \$28 million—\$18 million from the General Fund and \$10 million from Proposition 68—for the New River Improvement Project, which would address solid waste and water quality issues that are affecting the city of Calexico and the Salton Sea. Specifically, the proposed funding would help build a bypass structure to divert much of the polluted river water to the city's existing wastewater treatment plant, as well as a system to pump the water back into the riverbed after it has been treated. The proposal would also construct a new trash screen just downstream from the Mexican border to keep debris from flowing further down the river. The city of Calexico would serve as the lead agency for managing and implementing the projects and has committed \$50,000 annually to operate and maintain them on an ongoing basis. The specific components of the proposal include:

- \$15 million to build a bypass encasement.
- \$7.3 million to build a trash screen and diversion structure.
- \$5.4 million to build a pump back system.

## Assessment

***Waiting for Mexican or U.S. Governments to Respond Would Prolong Negative Impacts.*** Many of the negative impacts that the Tijuana River and New River regions are experiencing are caused by pollution that occurs on the other side of the international border. This suggests that Mexico—or our federal government—should take the lead on actions and expenditures to address them. However, given the magnitude of the effects California is experiencing on public health, natural resources, local economies, and recreation, it is reasonable for the state to take action to respond. While the state should not take *full* responsibility for addressing all of the pollution in these rivers, we find that making some contributions to try to mitigate the damaging impacts Californians are experiencing is appropriate.

***Funding for Ongoing Maintenance and Operations of Tijuana River Projects Not Yet Identified.*** While the city of Calexico has committed to funding the ongoing costs to maintain and operate the proposed New River Improvement Project in the future, no similar commitment has yet been arranged with a local entity for the Tijuana River projects. The Governor's proposal would fund the estimated annual costs of \$6.5 million for the first two years, but does not include a plan for how those costs would be covered thereafter.

## Recommendations

***Require Administration Submit Funding Plan for Ongoing Costs.*** We recommend the Legislature require that the administration present a plan for how operations and maintenance for the Tijuana River projects will be funded in future years. The Governor's proposal includes funding for the first two years of these ongoing costs, but does not identify a source for supporting the activities thereafter. A full understanding of the potential funding options—and an evaluation of the likelihood of the state ultimately assuming these costs on an ongoing basis—is essential for the Legislature to adequately evaluate the trade-offs associated with this proposal.

***Withhold Approval of Funding for Tijuana River Projects Until State Has Plan for Funding Ongoing Costs.*** We recommend the Legislature withhold action on approving the proposed \$35 million for the Tijuana River projects until it has more certainty about how ongoing costs to operate and maintain the projects will be funded in future years. We believe the proposed projects have merit and address important needs in the region. Because of this, we believe the state should ensure they will continue to function as intended beyond the two years for which maintenance funding is proposed. Approving funding to construct the projects without a plan for which entities will assume the significant costs of operating and maintaining them on an ongoing basis runs the risk of them falling into neglect and failing to function effectively in the future. This could place future pressure on the state to fund ongoing costs to protect its substantial investment. If the administration believes there is a significant chance that the state will need to assume the \$6.5 million in annual costs to maintain these projects, the Legislature should incorporate that cost into its decision of whether or not to construct these projects now. If the administration is able to submit the aforementioned plan within the coming months, this would still allow the Legislature to consider approving funding for the Tijuana River projects as part of the 2020-21 budget.

***Approve Funding for New River Project.***

Because the proposed projects would address serious public health issues in the city of Calexico and the administration has a plan for how the investments would be maintained in future years by local stakeholders, we recommend approving the Governor's proposal to provide \$28 million for the New River Improvement Project.

## **AUGMENTATIONS FOR EXISTING STAFF**

***The Governor has three proposals to continue funding for a total of about 30 existing positions at DWR, but also requests \$550,000 in additional funding for these positions in 2020-21 compared to subsequent years. Because we find no justification for this higher level of funding, we***

***recommend the Legislature fund the Governor's requests at a level that is \$550,000 less than proposed in the budget year.***

## **Background**

***Newly Established Positions Typically Cost More in Initial Year.*** When departments request that the Legislature approve the addition of new positions, they typically request supplementary resources in the first year for one-time expenses such as computers, cubicle build-out, and potentially for new specialized equipment or vehicles. The overall amount requested for positions is usually less in subsequent years, reflecting a decreased funding need after these one-time purchases have been completed.

## **Governor's Proposals**

***Requests \$550,000 More in 2020-21 Compared to Subsequent Years, but for Existing Positions.*** The Governor has three proposals to continue a total of about 30 existing positions at DWR and to either change their funding source or extend funding that was initially provided on a limited-term basis. Even though these are not newly established positions, the proposals include additional funding for 2020-21 compared to subsequent years. Across the three proposals, the total additional funding requested for these existing positions in the budget year is \$550,000. (In total, the three proposals request \$6.7 million.) The specific proposals are as follows:

- ***Central Valley Flood Protection Board: Continuation of Existing Staffing.*** Extends limited-term General Fund for 19 existing positions to continue core activities at the Central Valley Flood Protection Board—\$322,000 higher costs in 2020-21.
- ***Flood Planning Resourcing.*** Switches funding from bond funds to the General Fund for 8.5 existing positions working on flood planning—\$194,000 higher costs in 2020-21.
- ***Stream Gaging Plan Implementation.*** Switches funding from special funds to the General Fund for 3 existing positions to develop a plan for implementing stream gages—\$34,000 higher costs in 2020-21.

## Assessment

**No Justification for Additional Costs for Existing Positions.** We find no justification for providing DWR with \$550,000 more for the 30 positions in 2020-21. These existing staff will not be assuming new responsibilities or needing new equipment, and the department should be able to sustain them with the same level of resources in the budget year as in future years. The administration states that the difference in requested funding is due to a change in its internal accounting methodology for charging “overhead”

to different funds and programs. A change in internal accounting, however, does not explain why a different amount of resources would be needed across the years or justify the state providing the department with additional funding in one year for conducting the same activities as in future years.

## Recommendation

**Reduce Funding for 30 Existing Positions by \$550,000.** We recommend the Legislature provide \$550,000 less funding than requested by the Governor in 2020-21 for 30 existing positions.

# DEPARTMENT OF TOXIC SUBSTANCES CONTROL

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The Department of Toxic Substances Control (DTSC) is charged with protecting the people of California and the environment from the harmful effects of toxic substances. DTSC administers the following major programs:

- **Site Mitigation and Restoration.** DTSC implements the state’s laws regarding the identification, assessment, and cleanup of sites contaminated by toxic substances, including sites that are part of the federal Superfund program, as well as state-only sites (those where the state is the lead agency). The program currently oversees investigations and cleanup of releases of hazardous substance at approximately 1,300 sites. The department also monitors long-term operations and maintenance activities at more than 230 sites where cleanup is complete.
- **Hazardous Waste Management.** The department regulates the generation, storage, transportation, and disposal of hazardous waste through permitting, compliance monitoring, and enforcement of noncompliance. DTSC oversees more than 95,000 hazardous waste generators throughout the state and permits 71 treatment and storage facilities. Additionally, DTSC supports and oversees 81 local entities, known as Certified Unified Program Agencies (CUPAs), that implement the six elements of the CUPA program—such as regulating

hazardous material release response plans and inventories, and hazardous waste generator and onsite treatment activities.

- **Safer Consumer Products (SCP).** This program is intended to reduce human and environmental exposure to toxic chemicals by working with the industry to develop safer consumer products. The SCP collects information on the presence of toxic chemicals in products in order to identify priority products for possible regulation. It also provides support and guidance to priority product manufacturers for the analysis of safer alternatives, and issues regulatory responses to proposed alternatives.
- **Exide Technologies Facility Contamination Cleanup.** DTSC oversees lead contamination removal and remedial actions in the communities surrounding the Exide Technologies lead-acid battery recycling facility in the City of Vernon.

The Governor’s 2020-21 budget proposes a total of \$325 million for support of DTSC. The proposed amount reflects a decrease of \$10 million, or 3 percent, compared to projected current-year expenditures. Most of the department’s budget is from special funds, particularly the Toxic Substances Control Account (TSCA) and Hazardous Waste Control Account (HWCA). The proposed budget would support a total of 947 positions for the department.

## BOARD OF ENVIRONMENTAL SAFETY

*We recommend that the Legislature establish a Board of Environmental Safety in order to improve transparency and promote greater accountability of DTSC. However, the Legislature could consider a different structure and responsibilities for the board as compared to that proposed by the Governor if such changes would better align with legislative priorities. For example, the Legislature may wish to consider board membership and confirmation requirements, as well as how much authority the board should have to direct DTSC's day-to-day operations.*

### Background

**Legislature Established Independent Review Panel (IRP) to Review DTSC.** Chapter 24 of 2015 (SB 83, Committee on Budget and Fiscal Review) established within DTSC a three-member IRP to assess the department's performance in various areas of operations and administration, as well as to make recommendations to improve its programs. The IRP held 28 public meetings and submitted 11 reports to the Legislature between January 1, 2016 and January 8, 2018. The IRP issued its final report on January 8, 2018, in which it identified five priority areas on which to focus in order to improve DTSC's programs: (1) continuity in executive leadership, (2) human resources, (3) stable fiscal resources and addressing structural deficits, (4) increased transparency and accountability, and (5) reviewing governing statutes that may need revision or repeal. One of the IRP's recommendations was to establish an oversight board or consider other structural changes at DTSC to improve accountability and transparency.

### Governor's Proposal

**Establish Board of Environmental Safety.** The Governor's budget proposes \$3 million from the General Fund for two years and budget trailer legislation to establish a Board of Environmental Safety (board) within DTSC. The five-member board would be composed of a full-time chairperson and four part-time paid members. The board

would be supported by 12 staff including ones with expertise on hazardous substances and environmental science, as well as administrative support staff. Board members would be appointed by the Governor, and four would be required to possess expertise in one of the following areas: public health, environmental science, environmental law, or cumulative impact assessment and management. One board member would be selected from the public. Board members would not be subject to confirmation by the Senate. Beginning January 1, 2021, the board would be required to conduct no fewer than six public meetings per year.

**Key Responsibilities of the Board.** The Governor's proposed budget trailer legislation specifies the board's responsibilities, including the following functions:

- **Establish Charges for HWCA and TSCA.** The board would establish by regulation a schedule of charges for (1) hazardous waste facilities, generators, and handlers subject to HWCA charges and (2) entities subject to TSCA charges. (We discuss HWCA and TSCA funding in greater detail later in this analysis.)
- **Hear and Decide Permit Appeals.** The board would hear and decide appeals of hazardous waste facility permit decisions.
- **Provide Opportunities for Public Hearings.** The board would be required to hold public hearings on individual permitted or remediation sites.
- **Provide Direction to DTSC.** The board would be required to evaluate alternatives and develop recommendations to the director of DTSC for a plan for hazardous waste management in the state. The board would also review and approve the director's annual priorities—including clear performance metrics—for each of DTSC's programs.
- **Develop a Multiyear Schedule for Discussion of Long-Term Goals.** The board would schedule discussions of long-term goals for topics, including improvements to (1) the efficiency of DTSC's hazardous waste facility permitting process, (2) DTSC's ability to meet its duties and responsibilities, (3) the

site mitigation program and how the cleanup of contaminated properties is prioritized, and (4) DTSC's implementation of its enforcement activities.

- ***Provide Ombudsman Services to the Public and Regulated Community.*** The legislation establishes an office of the ombudsman within the board to (1) receive complaints and suggestions from the public, (2) evaluate complaints, (3) report findings and make recommendations to the director and the board, and (4) provide assistance to the public when appropriate.

Under the statutory framework proposed by the administration, the director of DTSC, or a designee, would be required to present and respond to the board on any issue or item brought before the board by the public, ombudsman, or a board member. Furthermore, the board would be required to prepare an annual review of DTSC's performance, including, but not limited to, the director, and provide the review to the Secretary of CalEPA.

According to the administration, the proposed board structure is intended to respond to the specific needs for DTSC and has been informed through many years of stakeholder discussions. The administration considered other examples of similar boards in other departments. For example, the administration considered:

- ***Board of Fire Protection Within CalFire.*** Responsible for developing the general forest policy of the state and determining department guidance policies.
- ***State Mining and Geology Board Within the Department of Conservation.*** Responsible for providing oversight and direction to the Office of Mine Reclamation and the California Geological Survey.
- ***Fish and Game Commission Within CDFW.*** Responsible for formulating general policies for the conduct of the department.

(For information about existing boards that are overseen by CalEPA, see the box on page 35.)

## Assessment

***Board Could Be Established Through Legislation.*** Both the policy committee process and the budget process could be used to establish a board. We note that a bill currently making its way through the legislative process would establish a board generally similar to the one proposed by the Governor. Specifically, AB 995 (C. Garcia) would create the Board of Environmental Safety in CalEPA. Under the proposed legislation, each member of the five-member board would fill a different specialized position (representing environmental law, environmental science, public health, regulatory permitting, and cumulative impact assessment and management). There would be a full-time salaried chairperson of the board with the remaining four members receiving per diem, but no salary. Members would be appointed to serve four-year terms—two of the initial appointees would serve two-year terms in order to stagger appointments. The bill specifies the duties of the board, which includes (1) reviewing specified policies, processes, and programs within the hazardous waste control laws; (2) proposing statutory, regulatory, and policy changes; and (3) hearing and deciding appeals of hazardous waste facility permit decisions. The board would be required to hold no less than six public meetings per year. In addition to creating a board, the bill would require the Secretary for CalEPA to convene a task force to review the fee structure for HWCA and TSCA. The Secretary would be required to provide recommendations to the Legislature, by January 10, 2021, on how these funds could be modified to ensure they provide adequate funding to support DTSC's programs.

### ***Concept of Establishing a Board Has Merit.***

A board that holds regular public meetings could improve transparency and allow the public and stakeholders a regular venue to raise issues and discuss their concerns. The board structure could also help to promote greater accountability by requiring the DTSC director to regularly report on the department's progress towards meeting outcome goals. While we think the Governor's concept of establishing a board has merit, the Legislature will want to closely evaluate the specifics of the choices made by the

administration. Specifically, as we describe in our recent report, *The 2020-21 Budget: Assessing the Governor's Reorganization Proposals*, and summarize in the box on page 36, the Legislature will want to keep in mind several key considerations when evaluating the specifics of the proposal. In this section, we discuss how most of these considerations apply to the proposed creation of the Board of Environmental Safety.

**Board Could Make DTSC's Programs More Effective.** Some elements of the Governor's proposal could make DTSC's programs more effective and result in the public receiving improved services. In particular, the proposals to require that the board (1) review and approve the director's annual priorities for each program and (2) provide the Secretary of CalEPA with an annual

performance review appear to be directed towards improving the department's performance.

**Board Would Not Immediately Result in Improved Efficiency.** The proposed board would not result in DTSC using fewer resources or improving the quality of services provided within existing resources in the near term. Under the proposed structure, the board would have limited ability to require the department to make changes, such as those intended to result in improved efficiency. However, to the extent that the board uses its oversight functions to steer the department towards changes that improve its effectiveness—as described previously—this could result in more efficient operations in the long term, if done within existing resources.

## CalEPA Boards

### **Two Boards Operate Under California Environmental Protection Agency (CalEPA).**

CalEPA oversees and coordinates the activities of two boards, three departments, and one office. The two boards that CalEPA currently oversees are:

- **California Air Resources Board (CARB).** CARB is charged with protecting the public from the harmful effects of air pollution and developing programs and actions to fight climate change. CARB consists of 16 members. Twelve are appointed by the Governor and confirmed by the Senate, including five who represent local air districts, four experts in fields related to air quality, two public members, and the Chair, who serves as the only full-time, salaried member. Two members represent environmental justice communities (one appointed by the Senate and one by the Assembly), and two nonvoting members appointed for legislative oversight, (one from the Senate and one from the Assembly). Voting members serve six-year terms. CARB holds monthly meetings. CARB has 35 authorized positions to support its activities including a Small Business Ombudsperson.
- **State Water Resources Control Board (SWRCB).** SWRCB is charged with preserving, enhancing, and restoring the quality of California's water resources and drinking water for the protection of the environment, public health, and all beneficial uses, as well as ensuring proper water resource allocation and efficient use. Each of the five full-time salaried board members fills a different specialized position (representing the public, engineering expertise, water quality expertise, legal expertise, and water supply). Members are appointed to four-year terms and confirmed by the Senate. The board allocates water rights, adjudicates water right disputes, develops statewide water protection plans, establishes statewide water quality standards, and guides the nine Regional Water Quality Control Boards located in the major watersheds of the state. The SWRCB's broad authority over water allocation and water quality protection generally enables it to provide comprehensive protection to California's waters. SWRCB generally meets twice each month. SWRCB has 18 authorized positions to support its activities.

***New Structure Would Improve Accountability.***

The addition of the board would result in a government structure where the Legislature and the public could more easily identify the persons responsible for managing DTSC's programs and hold them accountable. Annual goal setting, long-term goal setting, and an annual performance review of DTSC by the board would establish a public process for identifying performance issues, determining who is responsible for them, and measuring the department's progress towards addressing them. The creation of an ombudsman who would receive complaints from the public, render assistance, and make recommendations to the board and the director would increase

the department's accountability by creating an additional forum for the public to voice its concerns. In addition, providing a public hearing forum to appeal departmental permit decisions could result in a more transparent appeals process.

***Establishment of the Board Is Based Upon a Policy Rationale.*** According to the administration, the proposal to establish the board is designed to address several problems that have occurred in recent years. First, the board is intended to provide strategic guidance for DTSC, which the IRP found to be lacking. Second, as discussed previously, the board structure is intended to enhance public transparency and accountability on DTSC processes, which has eroded the trust of

## Issues to Consider When Reviewing Reorganization Proposals

In our recent publication, *The 2020-21 Budget: Assessing the Governor's Reorganization Proposals*, we recommend that the Legislature consider the following key questions when evaluating proposals to reorganize state departments:

- ***Would the Reorganization Make Programs More Effective?*** A reorganization should result in programs becoming more effective and the public receiving improved government services.
- ***Would the Reorganization Improve Efficiency?*** A reorganization should result in programs using fewer resources or improving the quality of services provided within existing resources.
- ***Would the New Structure Improve Accountability?*** A reorganization should result in a government structure where the Legislature and the public can easily identify the person or entity responsible for managing a program.
- ***Is the Reorganization Based Upon a Policy Rationale?*** A reorganization should be consistent with an underlying policy rationale to address a problem that has been clearly identified.
- ***Does the Reorganization Reflect Legislative Priorities?*** A reorganization should be consistent with the priorities that the Legislature has set for a program or government function.
- ***Do the Benefits Outweigh the Costs?*** The benefits of a reorganization should outweigh the costs to implement the reorganization, which can sometimes be significant.
- ***Is the Reorganization Well Planned?*** A reorganization should be well planned given that it can result in significant complexities—such as the need to reclassify positions and responsibilities.
- ***How Should the Reorganization Be Implemented?*** Government reorganizations can be implemented in a few different ways, though typically they have been pursued either through the formal executive branch reorganization process laid out in statute or budget trailer legislation.



some stakeholders. Third, the proposed fee-setting authority is intended to help ensure that fees are set at levels that will maintain fiscal solvency in TSCA and HWCA in the future.

**Establishment of the Board Is Intended to Be Consistent With Legislative Priorities.** Ultimately, the Legislature will have to determine the extent to which this specific proposal is consistent with its priorities for DTSC. However, through the creation of the IRP, the Legislature signaled its intent to identify options for DTSC to improve its overall operations including permitting, enforcement, public outreach, and fiscal management, and the IRP recommended the creation of a board to provide oversight of DTSC's activities.

**Benefits Could Potentially Outweigh the Costs in the Long Term.** The Governor's budget contains \$3 million from the General Fund for the implementation of the board and for the cost of holding public meetings that are accessible to the communities where they are held. It is difficult to determine whether the benefits of establishing a board—including possible improvements to effectiveness, efficiency, and accountability—would outweigh the monetary costs. However, in the short term, establishment of a board would result in a relatively small increase in costs.

**Proposal to Establish Board Is Supported by Adequate Planning.** The proposal to establish a board appears to be consistent with several years of work by the administration, stakeholders, and the IRP. In our view, the administration has presented a reasonable plan that can serve to facilitate discussions between the Legislature and the administration for the establishment of a board.

**Other Issues for Legislative Consideration.** In addition to considering whether the creation of the board meets general criteria for successful reorganizations, the Legislature faces other, more specific implementation decisions regarding the board. Accordingly, we raise some issues for the Legislature to consider as it deliberates over this proposal.

- **Board Member Confirmation.** The Legislature may wish to consider the degree to which specific details related to board membership would reflect legislative priorities.

For example, the Legislature should consider whether the Governor's proposal to appoint all five board members without making them subject to Senate confirmation is likely to result in a board that reflects the Legislature's priorities. Alternatively, for example, the Senate and Assembly could each appoint one member, and the Governor could have three appointees who would be subject to Senate confirmation. (Requiring Senate confirmation would be consistent with AB 995, as well as for SWRCB and CARB members.)

- **Board Member Qualifications and Compensation.** The Legislature may wish to consider whether it would prefer to have one board member selected from the general public (as proposed by the Governor) or to require professional qualifications for all appointees. Assembly Bill 995, for example, would require the fifth board member to have expertise in the area of regulatory permitting. Also, the Legislature may wish to consider how the board members are compensated and how compensation levels might affect the state's ability to recruit qualified candidates. Under the Governor's plan, the chair of the board would be a full-time salaried position and the remaining four board members would be part-time salaried positions. Under AB 995, for example, the chair would be a full-time salaried position, and the other four members would not receive salaries but would receive per diem compensation.
- **Board's Authority Over the Department.** Under the Governor's proposal, the board would have a complementary role to DTSC and would perform specific functions, while the department would maintain day-to-day management responsibility. The administration's proposed structure was created to respond to its assessment of the specific needs of DTSC as identified through stakeholder discussions and internal discussions. However, other boards under CalEPA's jurisdiction, such as SWRCB and CARB, have greater authority to direct day-to-day operations than is proposed for the Board of Environmental Safety. The

Legislature may wish to consider how much authority to invest in the board to allow it to require changes to DTSC’s operations.

**Recommendation**

We recommend the Legislature establish a board in order to improve DTSC’s transparency and accountability, and thereby help restore confidence in the department within the regulated community and the public. We note that SWRCB and CARB already exist under CalEPA and have demonstrated that a board-based structure can be a successful model for environmental regulatory agencies. In our view, the long-term benefits of establishing a board to oversee DTSC’s activities could eventually outweigh the short-term costs and result in the public receiving improved services.

However, if the Legislature authorizes a new oversight board, we would recommend that it consider a range of issues to ensure that the structure and responsibilities of the board are consistent with legislative priorities. This could include consideration of the board membership and confirmation requirements, as well as the level of authority the board would have over DTSC.

**STRUCTURAL SHORTFALL OF DTSC SPECIAL FUNDS**

*We recommend the Legislature decide whether to establish a Board of Environmental Safety before weighing the merits of the Governor’s proposals to restructure charges for HWCA and TSCA. We further recommend the*

*Legislature wait to take action on the Governor’s proposal to transfer General Fund to TSCA and HWCA until the May Revision when updated information about the funds’ conditions will be available. The Legislature may wish to consider whether the Governor’s budget trailer legislation to adjust TSCA and HWCA would (1) create a charge structure that would cover the costs of both the department’s existing mandated functions and potential program expansions, and (2) reflect the polluter pays principle.*

**Background**

DTSC administers HWCA and TSCA, which combined typically represent about half of DTSC’s total budget. **Figure 12** displays the amount and percent of total funding that TSCA and HWCA comprise in each of DTSC’s four major programs. As shown, the bulk of TSCA funding goes to the Site Mitigation and Restoration program, the SCP program, and the Exide Technologies Cleanup program, while the bulk of HWCA funding goes to the Hazardous Waste Management program.

**TSCA Receives Revenues From Various Sources.** Major sources of revenue for TSCA include various charges, fines, and penalties. TSCA typically receives about 80 percent of its revenue from an environmental charge levied on organizations that use, generate, store, or conduct activities related to hazardous materials. The amount of the charge is scaled based on the number of employees the organization has. For example, organizations with between 50 employees and 75 employees pay \$352 annually.

**Figure 12**

**TSCA and HWCA Support for Major DTSC Programs**

*(Dollars in Millions)*

Program	2018-19			
	TSCA		HWCA	
	Amount	Percent	Amount	Percent
Site Mitigation and Restoration	\$40.8	29.8%	—	—
Hazardous Waste Management	0.6	0.7	\$61.9	74.4%
Safer Consumer Products	13.2	88.0	—	—
Exide Technologies Facility Contamination Cleanup	60.5	96.1	0.9	1.5

TSCA = Toxic Substances Control Act; HWCA = Hazardous Waste Control Account; and DTSC = Department of Toxic Substances Control.

Organizations with 1,000 or more employees pay \$16,681 annually. In addition, over the past few years, TSCA has received General Fund loans to expedite the cleanup of contamination from the Exide Technologies Facility. These loans to TSCA have been large enough in recent years to account for roughly half of TSCA's revenues.

***HWCA Receives Revenues Mainly From Charges.*** Major sources of revenues for HWCA include charges on hazardous waste generators, waste disposal entities, and other facilities that handle hazardous waste. For example, the fee on generators generally is based on the amount of hazardous materials produced, subject to a cap. Some charges on generators and facilities are subject to an annual Consumer Price Index adjustment. Other charges, such as a U.S. Environmental Protection Agency (U.S. EPA) identification verification charge and a manifest charge, are not adjusted for inflation.

***Office of State Audits and Evaluations (OSAE) Conducted a Performance Audit.*** In response to concerns about DTSC's accounting practices, OSAE, within the Department of Finance (DOF), conducted a performance audit of DTSC's accounting practices that was released in December 2019. The audit found (1) an ineffective system of quality control, (2) improper application of accrual policies and procedures, (3) inadequate review of accounting transactions, (4) incorrect revenue account classifications, and (5) an outdated cost allocation plan. DTSC is currently working to address these audit findings.

***TSCA and HWCA Face Structural Imbalances.*** In recent years, the growth in expenditures from TSCA and HWCA has outpaced growth in revenues, transfers, and other adjustments, creating structural imbalances in both funds. According to the most recent estimates available, in 2018-19, HWCA expenditures were \$5.7 million greater than revenues, and TSCA expenditures were \$13.1 million greater than revenues (excluding expenditures and the General Fund transfer for Exide cleanup). We note that the magnitude of the structural imbalances has been unclear until recently because DTSC's accounting unit has experienced significant delays in closing DTSC's monthly financial records and providing accurate

certified financial statements and financial information for use by the State Controller's Office and DOF. DTSC has indicated these delays were partly due to the implementation issues with its transition to the Financial Information System for California (commonly referred to as FI\$Cal).

According to the administration, the structural imbalance is due, in part, to additional operational costs to implement expanded responsibilities the department has been given since 2000. For example, Chapter 559 of 2008 (SB 509, Simitian) established the SCP program, which is currently funded at about \$16 million, most of which is funded from TSCA. Other budget augmentations in recent years—several of which were intended to improve program performance in certain operational areas—have increased costs to TSCA and HWCA.

***HWCA Backfill From General Fund Approved in 2019-20.*** To address the structural deficit identified by the department, the 2019-20 budget plan included a total of \$46 million from the General Fund to keep HWCA fiscally solvent for two years, including \$27.5 million in 2019-20 and \$18.5 million in 2020-21. In the absence of the backfill, the HWCA balance was projected to become insolvent in 2019-20.

## **Governor's Proposal**

***General Fund Transfers to TSCA and HWCA in 2020-21.*** The Governor's budget plan proposes to transfer \$12 million from the General Fund to TSCA. Absent the \$12 million transfer, DTSC would fall an estimated \$10 million short of being able to fund the projected costs for the programs it supports. Under the Governor's proposal, TSCA would start the 2020-21 fiscal year with an estimated beginning balance of \$753,000 and end the year with an estimated reserve of \$2 million. The Governor proposes an additional \$1 million transfer from the General Fund to HWCA, increasing the total transfer for the budget year to \$19.5 million. Under the Governor's proposal, HWCA would begin the 2020-21 fiscal year with an estimated balance of \$5.5 million and end the year with an estimated reserve of \$1.3 million.

***One-Year Change and Increase in Charges for 2021-22.*** The proposed budget trailer legislation makes two sets of changes for the charges that

generate revenues for TSCA and HWCA. First, for HWCA, it replaces the existing generator, U.S. EPA identification verification, manifest, and disposal charges with a new generation and handling charge, which would be based on a price-per-ton model and effective in 2021-22. This change, in combination with proposed elimination of some charge exemptions, is projected to increase revenues into HWCA. **Figure 13** displays the projected revenues for HWCA in 2020-21 and 2021-22 under the Governor’s proposal. Second, the proposed language increases the level of charges that would have to be paid under TSCA’s existing environmental charge. These specific changes would remain in effect until the charges adopted by the board for 2022-23 went into effect.

**New Board Would Set TSCA and HWCA Charges for 2022-23 and Out Years.** The administration proposes budget trailer legislation to provide the proposed Board of Environmental Safety with ongoing authority to set charges for TSCA and HWCA beginning with the 2022-23 fiscal year based on the charge structures established in 2021-22. The board would establish a schedule of charges annually based on its calculations of charges necessary to align TSCA’s and HWCA’s revenues with the amounts appropriated by the Legislature for support of DTSC’s programs.

While the board would have authority to set these charges annually, the administration’s proposed language sets a maximum level for each charge that would be adjusted annually beginning in 2022 to reflect increases or decreases in costs as measured by the Consumer Price Index.

**Issues for Legislative Consideration**

**Long-Term Solution Should Reflect “Polluter Pays” Principle.** The Legislature will want to consider options for modifying the current revenue structure for HWCA and TSCA to ensure that they generate sufficient future revenues to support mandated departmental functions. Importantly, changes to the charges imposed under HWCA and TSCA should reflect the polluter pays principle: those who produce or otherwise contribute to pollution should bear the costs of managing it to prevent damage to public health and the environment. The administration states that this principle is part of its rationale for how it structured this proposal. Generally, we find that the proposal is consistent with the polluter pays principle.

**Are Statutory Maximum Charges Set at a Level That Would Allow for Program Growth?**

The Legislature may wish to consider whether the caps on charges proposed in the Governor’s proposed budget trailer legislation would be sufficient to cover the costs of both the department’s existing mandated functions *and* potential program expansions (such as when the SCP program was created). The administration has not provided an estimate of the potential revenue that could be generated under the new charge structures, which includes potential increases in some charges, as well as elimination of others. This makes it difficult for the Legislature to assess the degree to which the proposed structure would provide a long-term fix to the structural deficits facing TSCA and HWCA. The Legislature may wish to have the department report on whether the proposed charge maximums

**Figure 13**

**HWCA Revenue Projections Under Governor’s Proposal**  
(In Millions)

2020-21		2021-22	
Existing Charges	Projected Revenue	Proposed Charges	Projected Revenue
Generator	\$28.6	Generation and handling	\$61.1
Disposal	6.2		
EPA ID verification	5.4		
Manifest	2.2		
Subtotals	(\$42.4)		(\$61.1)
Facility	\$5.6	Facility	\$11.2
Other	0.1		
Subtotals <sup>a</sup>	(\$5.7)		(\$11.2)
<b>Total Revenue<sup>b</sup></b>	<b>\$48.0</b>		<b>\$72.3</b>

<sup>a</sup> Fee-for-service revenues are not included—fee-for-service charges are calculated based on the Department of Toxic Substances Control’s (DTSC’s) actual costs which are not assignable to DTSC’s nonpermitting activities related to facility permits or to its overall regulatory program costs.

<sup>b</sup> May not total due to rounding.  
HCWA = Hazardous Waste Control Account and EPA ID = Environmental Protection Agency Identification.

would allow enough flexibility to expand existing departmental functions or create new ones in the future without the need to make additional statutory changes to them.

## Recommendations

***Decide Whether to Establish a Board Before Weighing HWCA and TSCA Proposals.*** We recommend the Legislature decide whether to establish a board within DTSC before weighing the merits of the Governor's proposals to restructure charges for HWCA and TSCA. Under the Governor's proposed budget trailer legislation, full implementation of the proposal to allow a board to set charges for various entities under HWCA and TSCA is contingent upon first establishing such a board. If the Legislature rejects the Governor's proposal to establish a board, the proposed budget trailer legislation regarding HWCA and TSCA charges would require significant revision

before they could be implemented. We recommend the Legislature consider the scope of the board's authority and define its responsibilities consistent with legislative priorities before the Legislature takes up the issue of whether such a board should be given the authority to annually adjust HWCA and TSCA charges.

***Withhold Action on General Fund Transfers Pending May Revision.*** We recommend the Legislature wait to take action on the Governor's proposal to transfer General Fund to TSCA and HWCA. Given the level of uncertainty that has plagued these two funds over the past several years, we believe it makes sense to wait until the May Revision when more information about prior- and current-year revenues and expenditures will be available before taking action on this item. We will provide an updated analysis of TSCA and HWCA fund conditions at the time of the May Revision.

## DEPARTMENT OF CONSERVATION

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The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of (1) geology, seismology, and mineral resources; (2) oil, natural gas, and geothermal resources; and (3) agricultural and open-space land. The Governor's budget proposes \$136 million for DOC in 2020-21, a decrease of about \$10 million, or 7 percent, from estimated expenditures in the current year. The year-over-year decrease is mainly explained by a reduction in one-time bond appropriations from the current year, partially offset by a budget proposal to increase oil and gas regulatory activities (described in more detail in the next section).

### CALIFORNIA GEOLOGIC ENERGY MANAGEMENT (CALGEM) DIVISION: MISSION TRANSFORMATION AND OVERSIGHT

***The administration proposes \$13.9 million and 53 positions in 2020-21, growing to \$24.3 million and 128 positions in 2022-23. We recommend the Legislature approve most of the resources proposed, but recommend withholding action on the public transparency component of the proposal (\$600,000 and three positions in 2020-21) until the department provides additional information to justify the request. Absent additional justification, we would recommend the Legislature reject it. We also recommend the Legislature consider approving only the funding and positions requested in 2020-21, but not for the out-years, thereby providing the Legislature an opportunity to request an update on the division's performance as part of its deliberations on the 2021-22 budget.***

## Background

### **CalGEM Regulates Oil and Natural Gas**

**Production.** Chapter 771 Statutes of 2019 (AB 1057, Limón) changed the name of the Division of Oil, Gas, and Geothermal Resources (DOGGR) to the CalGEM Division. The division regulates onshore and offshore oil, natural gas, and geothermal wells. The division is charged with ensuring the safe development of oil, natural gas, and geothermal resources in the state through sound engineering practices that protect the environment, prevent pollution, and ensure public safety. The division consists of headquarters in Sacramento, and four geographic districts (northern, southern, inland, and coastal). It coordinates with other state and federal agencies on regulatory issues that fall outside of its jurisdiction. For example, it collaborates with the U.S. EPA, SWRCB, and the nine Regional Water Quality Control Boards (RWQCBs) to implement and carry out water pollution and control programs. In order to fulfill its mandate to regulate oil and natural gas operators, the division performs various regulatory activities.

- **Reviews and Approves or Denies Permits.**

Oil and natural gas operators must obtain permits from the division in order to perform a variety of common activities including (1) drilling new wells, (2) reworking or deepening existing wells, and (3) plugging and abandoning wells. The division typically evaluates 7,000 to 10,000 permit applications per year.

- **Witnesses Field Operations.** State law and regulations require division staff to witness about 30 different oil and natural gas production operations and the testing of certain equipment (referred to as “shall witness” operations). For example, the plugging and abandonment of a well encompasses numerous steps that are required to be witnessed by field inspectors. State law and regulations also allow the division to witness certain oil and natural gas production operations and testing of equipment (referred to as “may-witness” operations). Generally, the division places a higher priority on sending field inspectors to

observe “critical” may-witness operations that are performed near a building intended for human occupancy such as a home or school. There were 27,468 shall-witness operations 2018.

- **Evaluates Aquifer Exemptions.** An aquifer exemption is one of a series of requirements to allow an operator to inject oil and natural gas production fluids into the ground if the aquifer is not a current or future source of drinking water. The approval of an aquifer exemption consists of six sequential review and approval steps by multiple agencies—including CalGEM, SWRCB, and U.S. EPA—and takes at least one year to complete. The division is currently involved in 19 aquifer exemption package reviews that are at various stages in the approval process.
- **Regulates Underground Injection Control (UIC).** The UIC program regulates the permitting, drilling, inspecting, testing, and sealing of about 55,000 UIC wells in California that fall into two categories: (1) wells that inject water or steam for enhanced oil recovery and (2) wells that return briny water—typically unusable for drinking or irrigation—from oil and natural gas production back underground. According to the division, there are over 850 UIC projects statewide that require review. These projects are generally defined by a geological zone or area and can be as small as a few wells or as large as thousands of wells that inject fluids.
- **Performs Construction Site Well Reviews.** The division developed the construction site well review program to assist local permitting agencies in identifying and reviewing the location and condition of oil or natural gas wells located near or beneath proposed construction sites. According to the division, this function is important in urban areas, such as Los Angeles, where oil fields are typically older—sometimes more than 100 years old—and urbanization is rapidly occurring. In 2018-19, the division processed 370 construction site reviews which take from days to months to complete depending on the size and complexity of the review and the

availability of data on the wells at or near the construction site.

- **Regulates Pipelines and Facilities.** After oil and natural gas is pumped from the ground, it goes through a production facility that prepares it for sale to refineries or gas utilities. The division's pipelines and facilities unit oversees these facilities and regulates all oil and natural gas production equipment between the wellhead, where oil and natural gas leaves the ground, and the sales meter, where ownership or custody changes hands.
- **Issues Notices of Violation (NOV) and Enforcement Orders.** The division's enforcement program was established in 2018-19 to centralize and standardize the division's statewide enforcement efforts. Field inspectors issue NOVs to operators who are out of compliance with state laws or regulations. NOVs can be followed by enforcement orders to comply (Orders) if a noncompliant operator refuses to voluntarily take action to remedy a violation. Under the enforcement program, staff review NOVs and draft Orders in coordination with the department's legal staff.
- **Regulates Idle Wells.** The division regulates idle wells which are generally defined as wells that have not produced for two years or more and have not yet been properly plugged and abandoned. Idle wells can leak oil or natural gas, which can pose risks to life, health, property, and natural resources if they are not adequately monitored and tested regularly. The division manages different plans for the elimination and testing of idle wells, which require division staff to monitor to ensure all work is being completed by operators in a timely manner, and staff witness well testing to ensure it is done to the appropriate standards. New idle well regulations, that went into effect April 1, 2019, are expected to increase the number of idle wells tested per month from about 200 in 2020 to over 700 in 2023.
- **Regulates Well Stimulation.** Well stimulation treatment refers to processes performed on oil and natural gas wells to increase

production, such as hydraulic fracturing (also known as fracking). The division regulates well stimulation treatments in cooperation with SWRCB, which reviews all proposed projects to determine their potential effect on groundwater. The division performs an extensive engineering review and well integrity evaluation for well stimulation projects.

#### ***Division Has Expanded Over the Past Decade.***

Over the past decade, the state has enacted legislation to strengthen the division's regulatory authority and oversight over oil and natural gas production and provided the division with significant new resources. As shown in **Figure 14** (see next page), between 2012-13 and 2019-20, the Legislature approved proposals to (1) increase field inspections, (2) enhance the UIC program, (3) perform construction site reviews, (4) improve gas pipeline safety through periodic testing, (5) establish a centralized statewide enforcement program, (6) develop a new idle well management program, (7) implement a program to regulate well stimulation, and (8) provide funds to plug abandoned wells.

***Well Statewide Tracking and Reporting (WellSTAR).*** In addition to the regulatory resources shown in Figure 14, the Legislature funded WellSTAR beginning in 2015-16. WellSTAR is an electronic database—now nearing completion—that allows oil and gas operators to submit required information online and allows the public to access information about well stimulation permits, well maintenance data, and other data. WellSTAR was implemented largely in response to U.S. EPA requirements, as well as various changes in state law that required increased collection and reporting of information on well stimulation treatments and disposal of water produced during oil and natural gas drilling operations.

***Recent Legislation Expands the Division's Regulatory Role.*** The Legislature recently passed four pieces of legislation that increased the division's regulatory authority and required the division to perform studies. Some of the major provisions from each piece legislation are as follows:

- Chapter 771 of 2019 (AB 1057, Limón.)**  
 Chapter 771 authorizes the division to require increased financial assurances from an operator based upon the division’s evaluation of the risk that the operator will desert its wells and the potential threats the wells pose

to life, health, property, and natural resources. Chapter 771 also mandates operators provide additional documentation—such as proof of sale and lease agreements—when ownership of wells or facilities changes.

**Figure 14**

**Key CalGEM Enacted Budget Proposals Since 2012-13**

(Dollars in Millions)

Program and Proposal Description	First Year		Ongoing	
	Positions	Amount	Positions	Amount
<b>Oil and Gas Operations</b>				
<b>DOGGR Compliance and Support Staff Augmentation (2012-13)</b> —Funding and positions to enhance DOGGR’s onshore and offshore regulatory programs by improving its (1) construction site review, (2) environmental compliance program, and (3) Underground Injection Control (UIC) program.	18	\$2.5	18	\$2.3
<b>Chapter 313 of 2013 (SB 4, Pavley) Implementation (2014-15)</b> —Funding and positions to implement a program to regulate well stimulation, including hydraulic fracturing, as mandated by SB 4.	65	13.0	60	9.3
<b>SB 4 Contracting Costs (2014-15)</b> —Funding to complete an independent scientific study on well stimulation treatments as required under SB 4.	—	5.7	—	—
<b>UIC Program (2015-16)</b> —Funding and positions to enhance the UIC program and to increase the division’s support staff.	23	3.5	23	3.3
<b>Underground Gas Storage Regulation (2016-17)</b> —Funding and positions for increased regulatory activities for underground gas storage facilities.	20	4.2	20	3.3
<b>Chapter 601 of 2015 (AB 1420, Salas) Implementation (2016-17)</b> —Funding and positions to improve gas pipeline safety through periodic testing.	10	1.4	10	1.2
<b>Oil and Gas Studies (2016-17)</b> —Funding (two year) to contract for independent scientific studies to assess well stimulation practices.	—	3.0	—	—
<b>Chapter 272 of 2016 (AB 2729, Williams) Implementation, Idle Well Testing (2017-18)</b> —Funding and positions to develop a new Idle Well Management Program.	8	1.5	15	2.5
<b>Enforcement Program (2018-19)</b> —Funding and positions to develop a new Centralized Statewide Enforcement Program.	6	1.2	6	1.2
<b>Regulatory Field Inspection (2018-19)</b> —Funding and positions to increase inspections and enforcement and mitigate the risk of urban encroachment on oil and gas fields.	21	4.3	21	3.7
<b>Deserted and Orphan Wells</b>				
<b>Orphan Well Elimination (2012-13)</b> —Funding (three year) to plug orphan oil and gas production wells that pose a threat to the environment and public safety.	—	\$1.0	—	—
<b>Orphan Well Remediation (2016-17)</b> —Funding to plug orphan oil and gas production wells that pose a threat to the environment and public safety.	—	1.0	—	\$1.0
<b>Chapter 652 of 2017 (SB 724, Lara) Implementation (2018-19)</b> —Funding to carry out additional deserted well and production facility work.	—	1.6	—	0.6

<sup>a</sup> The California Geologic Energy Management (CalGEM) Division was formerly known as the Division of Oil, Gas, and Geothermal Resources (DOGGR), until it was renamed by Chapter 771 of 2019 (AB 1057, Limón).



- Chapter 772 of 2019 (AB 1328, Holden).**  
Chapter 772 requires the division—in consultation with CARB—to measure emissions from up to 500 idle and abandoned oil and natural gas wells in California, in order to provide information on hazardous wells and better understand how fugitive emissions may pose a risk to workers and nearby residents. Chapter 772 also requires contracted independent experts to undertake a study that includes an estimate of the hydrocarbon emissions from the state’s idle and abandoned wells.
- Chapter 773 of 2019 (SB 463, Stern).**  
Chapter 773 generally requires (1) an operator to apply for a permit to perform a well stimulation treatment in order to maintain wells that are used for underground storage of natural gas; (2) an operator of a natural gas storage well to provide the division with a complete chemical inventory of the materials that could be emitted from the well in the event of a leak; and (3) the division to review and, if necessary, revise its natural gas storage well policy and regulations.
- Chapter 774 of 2019 (AB 551, Jackson).**  
Chapter 774 requires each operator of an oil or natural gas well to submit a report to the division, beginning July 1, 2022, that estimates the operator’s total costs to plug and abandon all of its wells and to decommission all attendant production facilities, including site remediation.

Chapter 774 requires the division to conduct inspections of certain idle wells and deserted production facilities and to report certain information stemming from these inspections to the Legislature.

**Governor’s Proposal**

The administration proposes \$13.9 million from the Oil, Gas, and Geothermal Administrative Fund in 2020-21 (growing to \$24.3 million in 2022-23 and ongoing) primarily to support the expansion of CalGEM activities. Under the proposal, the department would receive an additional 53 positions in 2020-21 (growing to 128 positions over three years) for these activities. Of the total positions proposed, the division would increase by 120 authorized positions over three years to a total of 427 authorized positions, or by 39 percent. (We note that the Governor’s proposal would also establish eight positions—six administrative and two legal—outside of the division.) **Figure 15** summarizes the seven components of the Governor’s proposal.

**Increase Field Presence.** The Governor proposes \$4.8 million and 22 new positions in 2020-21 (growing to \$14.1 million and 70 new positions in 2022-23 and ongoing) to expand the division’s field presence. The positions would perform the following regulatory functions: (1) witness field operations, (2) review UIC projects and applications, (3) review and manage the aquifer exemption approval packages, (4) process permit

**Figure 15**

**Governor’s Proposed California Geologic Energy Management Division Expansion**

*Oil, Gas, and Geothermal Administrative Fund (Dollars in Millions)*

Description of Expansion Components	2020-21		2021-22		2022-23 and Ongoing	
	Funding	Positions	Funding	Positions	Funding	Positions
Increase field presence	\$4.8	22.0	\$9.9	48.0	\$14.1	70.0
Implement legislation	6.4	16.0	4.9	27.0	4.9	27.0
Regulatory enhancement (enforcement)	0.8	5.0	1.3	8.0	1.6	10.0
Collect data on pipelines and facilities	0.6	3.0	1.4	7.0	1.7	10.0
Improve public transparency	0.6	3.0	0.9	5.0	0.9	5.0
Meet new requirements for idle wells	0.3	2.0	0.6	3.0	0.6	3.0
Address increased well stimulation workload	0.4	2.0	0.5	3.0	0.5	3.0
<b>Totals</b>	<b>\$13.9</b>	<b>53.0</b>	<b>\$19.5</b>	<b>101.0</b>	<b>\$24.3</b>	<b>128.0</b>

applications, and (5) perform construction site reviews. Some of the requested positions could perform more than one of these five regulatory functions. For example, 23 of the positions (Associate Oil and Gas Engineers) could perform field inspections, as well as process permit applications and work on UIC reviews. About 27 of the proposed positions (Engineering Geologists) would spend the bulk of their time in the field, while most of the remaining 20 positions would perform support staff functions or serve in supervisory roles.

**Implement Recent Legislation.** The budget includes \$6.4 million and 16 new positions in 2020-21 (\$4.9 million and 27 positions in 2022-23 and ongoing) to implement recent legislation, including (1) \$1.3 million and 7 positions to implement Chapter 771, (2) \$1 million (one time) to implement Chapter 772, (3) \$400,000 and 2 positions to implement Chapter 773, and (4) \$3.2 million and 18 positions to implement Chapter 774.

**Regulatory Enhancement (Enforcement).** The administration proposes \$800,000 and five new positions in 2020-21 (growing to \$1.6 million and ten positions in 2022-23 and ongoing) to identify and implement enforcement actions. Enforcement staff would perform several functions including collecting and organizing evidence, gathering and evaluating well ownership and lease information, and identifying responsible parties to support the issuance of Orders. Legal staff would support enforcement staff by organizing evidence, building enforcement cases, and prosecuting and adjudicating Orders.

**Collect Data on Pipelines and Facilities.** The Governor proposes \$600,000 and three new positions in 2020-21 (growing to \$1.7 million and ten positions in 2022-23) to collect and analyze information that operators are required to provide, such as maps and data on oil and gas pipelines and tank facilities and pipeline management plans. The staff would utilize this data to identify, map, and categorize wells and facilities to guide regulatory activities. According to the division, this would allow it to better (1) plan for inspections; (2) identify hazards; (3) collect, manage, and analyze facility condition information; (4) retain

data on abandonment costs; and (5) prioritize well abandonment projects.

**Improve Public Transparency.** The budget includes \$600,000 and three new positions in 2020-21 (growing to \$900,000 and five positions in 2022-23) to improve public transparency by (1) conducting more data analysis and improved public reporting, (2) performing ongoing analysis of newly available data from WellSTAR, and (3) adding a second public outreach coordinator for the division in order to increase its ability to work with local government agencies and community organizations.

**Meet New Requirements for Idle Wells.** The Governor proposes \$300,000 and two new positions in 2020-21 (growing to \$600,000 and three positions in 2022-23) to meet requirements imposed by new idle well regulations. The staff would (1) centralize the idle wells program and standardize forms and processes used by division staff and operators, and (2) increase tracking of operator compliance.

**Address Increased Well Stimulation Workload.** The administration proposes \$400,000 and two new positions (growing to \$500,000 and three positions in 2022-23) to address the increasing number of well stimulation applications. The additional staff would analyze data collected under the well stimulation program and review and track well maintenance performed by operators.

## Assessment

**Six Components of the Governor's Proposal Are Reasonable...** We find that most components of the administration's expansion proposal are reasonable based upon three-year workload forecasts and the need to provide additional resources to implement recent legislation. For example, the main driver of additional field presence workload is associated with shall-witness and critical may-witness operations. Data show that shall witness operations increased 59 percent from 2017 to 2018. In addition, the division waived oversight of roughly one-third of all shall-witness oil and natural gas operations from 2016 through 2018, indicating a clear ongoing need for the division to have a greater presence in the field.

As another example, only about 170 of the 850 UIC projects (or 20 percent) were in progress as of July 2019—indicating that a significant number of projects will be forthcoming for the division to review and monitor.

**...But One Component Lacks Detail.** The Governor's proposal provides little information on how the public transparency component would increase public awareness with regard to the division's regulation of oil and natural gas production and storage operators. Specifically, the proposal does not clearly identify the gaps in current public reporting that would be addressed or describe the specific actions the five proposed staff would take to fill those gaps. Furthermore, the proposal neither explains how increasing the number of staff analyzing the data provided by WellSTAR would improve regulatory planning and permitting activities, nor how this, in turn, would improve public transparency.

**Division's Workload Could Vary Due to a Number of Factors.** The division's annual workload is somewhat uncertain and can change over time for a number of reasons. For example, the amount of oil and natural gas produced in California varies depending on market factors. For example, crude oil production in California decreased by 20 percent between 2014 and 2018. Significant production slowdowns in California's oil and natural gas industry result in decreases in some of the division's workload, such as field inspections. Other factors that can affect the division's annual workload include (1) where field inspections are occurring and the associated travel time, (2) varying complexity of project reviews—such as for UIC and construction site reviews, and (3) inherent uncertainty regarding workload associated with new initiatives.

## Recommendations

**Approve Most of the Funding and Positions Proposed for 2020-21.** We recommend the Legislature approve \$13.3 million and 50 positions (out of the Governor's total request of \$13.9 million and 53 positions) for 2020-21. We find that these resources are justified on workload basis and are consistent with recent statutory requirements.

We recommend the Legislature withhold action on the public transparency component of the proposal—\$600,000 and three positions in 2020-21—until the department provides additional information to justify the request. Absent additional justification for this component, we would recommend the Legislature reject the proposed resources related to public transparency.

**Ensure Continued Oversight Such as by Not Approving Proposed Out-Year Expansions.**

The division's workload can vary over time based upon a number of factors, which adds uncertainty to the ongoing level of resources the department will require to implement its programs. Furthermore, the division has been the subject of continuous legislative oversight in recent years due to concerns with department operations, including noncompliance issues in the UIC program as identified by U.S. EPA, as well as other issues. Given the workload uncertainty and historical concerns with the department's operations, the Legislature might wish to engage in ongoing oversight of the division through the budget process. This could be accomplished by only approving the funding and positions proposed for 2020-21 (on an ongoing basis), but not the proposed expansion in the out-years. The administration would be required to come back next year to submit its proposal for 2021-22, thereby providing legislative budget committees the opportunity to request an update on the division's performance in key areas of operations, such as implementing recently enacted legislation, witnessing field operations, reviewing and approving or denying permits, and issuing Orders.

## CALIFORNIA ENERGY COMMISSION

The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission, or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

The Governor proposes to allocate \$455 million for CEC in 2020-21, a net decrease of \$412 million (48 percent) compared to estimated expenditures in the current year. This net decrease is primarily the result of (1) a technical issue related to unspent prior-year funds being carried over into the current year and (2) about \$100 million in one-time GGRF being spent in 2019-20, but no new allocations in the 2020-21 budget. This decrease is partially offset by a proposed \$51 million increase in one-time spending for zero-emission vehicle fueling infrastructure.

### APPLIANCE EFFICIENCY STANDARDS

***The Governor's budget proposes \$750,000 (Public Utilities Commission Utilities Reimbursement Account [PUCURA]) and four positions to adopt and periodically update energy efficiency standards that promote the use of flexible demand technologies pursuant to Chapter 697 of 2019 (SB 49, Skinner). We recommend the Legislature use a different, more appropriate fund source for these activities. We recommend using the Energy Resources Program Account (ERPA) if the structural deficit is addressed this year. If not, we recommend using the AB 32 Cost of Implementation Account (COIA).***

#### Background

State law requires CEC to reduce statewide consumption of energy by adopting efficiency standards for appliances sold in California. The standards, adopted by regulation, must be

technologically feasible and cost-effective, which means that the total lifetime savings from reduced energy is less than the higher up-front costs. Currently, CEC's development and implementation of energy efficiency standards is primarily funded by (1) ERPA, which is supported by a statewide surcharge on electricity consumption, and (2) COIA, which is supported by a fee on large greenhouse gas (GHG) emitters.

Chapter 697 directs CEC to adopt and periodically update standards that promote the use of flexible demand technologies to assist with grid reliability and integration of intermittent renewables. This means developing regulations for appliances that have the capability to shift or reduce electricity use during certain days or times based on electricity prices or other issues related to balancing electricity supply and demand. In addition, Chapter 697 requires CEC to collaborate with CNRA and DWR to assess opportunities for upgrades to the State Water Project to enhance flexible demand capabilities.

#### Governor's Proposal

The budget includes \$750,000 (PUCURA) to implement Chapter 697. The funding would support four new permanent positions to adopt appliance standards, plus one two-year, limited-term position to assess upgrades to the State Water Project. Revenue for PUCURA comes from California Public Utilities Commission (CPUC) fees assessed on regulated investor-owned utilities (IOUs).

#### Assessment

***Unclear Whether PUCURA Is Appropriate Fund Source.*** PUCURA is not currently used to fund implementation of CEC energy efficiency standards. The purpose of the fund is to support CPUC activities, including regulation of IOUs. However, the activities required by Chapter 697 relate to *statewide* appliance standards and changes to the State Water Project. Under the proposal, IOU ratepayers would be paying for CEC activities that are meant to benefit

energy users across the state, including those outside of IOU territories (such as publicly owned utilities). As a result, it is unclear whether PUCURA is an appropriate fund source for these activities.

***Alternate Fund Sources More Appropriate.***

Alternate fund sources are likely more appropriate for these activities. In our view, ERPA is the most appropriate funding source because (1) the fund is supported by a statewide charge on electricity consumption—not just IOU customers and (2) historically, this is the main source of funds used for CEC energy efficiency regulatory activities. However, it is worth noting that there is a structural deficit in ERPA, and the fund is projected to be insolvent in 2025-26. If the Chapter 697 activities are funded with ERPA, the projected date of insolvency would be in 2024-25. Supplemental Report Language adopted as part of the *2019-20 Budget Act* directs CEC to develop a plan by April 1, 2020, to fully address the structural deficit.

Another option would be to shift funding to COIA. This fund is used to pay for administrative

activities related to achieving the state's GHG goals, including CEC energy efficiency regulations and implementation of the Renewables Portfolio Standard. Activities related to Chapter 697 appear to be an appropriate use of these funds because they help integrate zero carbon intermittent renewable resources, which can help reduce GHGs.

**Recommendation**

***Shift Costs to Alternative Fund Source.*** If the administration proposes—and the Legislature adopts—changes that address the ongoing ERPA structural deficit, we recommend the Legislature use ERPA to fund Chapter 697 implementation. In our view, ERPA is the most appropriate fund source because it is tied directly to statewide energy consumption and, historically, is the primary fund used for state energy efficiency activities. However, if the ERPA structural deficit is not addressed in this year's budget, we recommend the Legislature consider shifting the fund source to COIA in the short-term until the structural deficit is addressed.

## CAPITAL OUTLAY AND BOND ADMINISTRATION

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### PROPOSITION 68 IMPLEMENTATION

***The Governor proposes appropriating \$514 million from Proposition 68, primarily for local parks and flood protection projects. We recommend the Legislature approve the proposals, as we find them to be reasonable and consistent with bond language and the multiyear allocation plan the administration previously presented to the Legislature.***

#### Background

***Proposition 68 Provides \$4.1 Billion in General Obligation Bonds.*** In June 2018, voters passed Proposition 68, authorizing the state to sell a total of \$4.1 billion in general obligation bonds for natural resources-related purposes, including habitat restoration, parks, and water projects. (The Legislature placed this bond on the ballot through Chapter 852 of 2018 [SB 5, de León].) The bond measure includes a number of requirements

designed to control how funds are administered and overseen by state agencies. For example, most funds must be used for local assistance—typically allocated through a competitive grant process to local governments, nonprofit agencies, and other organizations to implement projects. The bond also includes several provisions designed to assist “disadvantaged communities” (with median incomes less than 80 percent of the statewide average) and “severely disadvantaged communities” (with median incomes less than 60 percent of the statewide average). For example, it requires that for each use specified in the bond, at least 15 percent of the funds be spent to benefit severely disadvantaged communities.

***About 60 Percent of Proposition 68 Funds Has Already Been Appropriated.***

Proposition 68 provides funding for multiple types of activities. Bond funds are distributed across 20 state departments, including 10 state conservancies. Combined, the 2018-19 and

2019-20 budgets appropriated \$2.4 billion (60 percent) from Proposition 68, leaving \$1.7 billion available for future appropriation. The Legislature has already appropriated the majority of funding for most of the bond's categories.

### Governor's Proposals

*Appropriates Over \$500 Million From Proposition 68.* **Figure 16** displays the Governor's various Proposition 68 proposals for 2020-21. As shown, these proposals total \$514 million

**Figure 16**

### Proposition 68 Overview

(In Millions)

Program	Implementing Department	Bond Allocation	Prior Appropriations	2020-21 Proposed
<b>Natural Resources Conservation and Resiliency</b>		<b>\$1,497</b>	<b>\$873.0</b>	<b>\$74.0</b>
Restoration and conservation projects	Conservancies	\$345	\$185.8	\$26.4
Restoration and conservation projects	WCB	265	197.3	0.8
Voluntary agreements	CNRA	200	70.0	—
Salton Sea management	CNRA	200	141.2	10.0
Habitat restoration and protection	CDFW	95	32.8	3.2
Los Angeles River watershed	RMC/SMMC	75	31.8	14.8
Various specified projects	CNRA	71	69.3	—
Deferred maintenance	CDFW	50	10.0	5.0
Restoration and conservation projects	CCC	40	21.8	12.0
Healthy coastal and marine ecosystems	OPC	35	10.3	0.1
Watershed improvement	SNC	25	23.6	-0.2 <sup>a</sup>
Forest management and urban forestry	CalFire	25	23.5	0.6
Projects that assist coastal communities	OPC	21	10.3	0.1
Working lands and riparian corridors	DOC	20	17.4	1.0
Multibenefit green infrastructure	CNRA	20	18.7	0.1
Healthy soils	CDFA	10	9.5	0.1
<b>Parks and Recreation</b>		<b>\$1,323</b>	<b>\$606.2</b>	<b>\$291.5</b>
Improve and expand local parks	Parks	\$1,035	\$517.7	\$255.0
Improve and expand state parks	Parks	170	35.0	24.6
Lower cost coastal accommodations	SCC/Parks	60	5.4	5.5
Trails, greenways, and river parkways	CNRA	40	37.5	0.1
Deferred maintenance at fairgrounds	CDFA	18	10.6	6.3
<b>Water</b>		<b>\$1,280</b>	<b>\$950.8</b>	<b>\$146.5</b>
Flood protection and repair	DWR	\$460	\$251.6	\$122.9
Sustainable groundwater management	DWR	240	173.6	20.2
Safe drinking water	SWRCB	220	205.8	1.8
Sustainable groundwater management	SWRCB	160	133.3	0.7
Multibenefit stormwater	CNRA	100	93.1	0.5
Water recycling	SWRCB	80	74.3	0.3
Water efficiency and enhancement	CDFA	20	19.0	0.1
<b>Totals<sup>b</sup></b>		<b>\$4,100</b>	<b>\$2,433.0</b>	<b>\$514.0</b>

<sup>a</sup> Governor proposes to revert \$182,000 from the current-year appropriation.

<sup>b</sup> Includes funding for bond administration.

WCB = Wildlife Conservation Board; CNRA = California Natural Resources Agency; CDFW = California Department of Fish and Wildlife; RMC = Rivers and Mountains Conservancy; SMMC = Santa Monica Mountains Conservancy; CCC = California Conservation Corps; OPC = Ocean Protection Council; SNC = Sierra Nevada Conservancy; CalFire = California Department of Forestry and Fire Protection; DOC = Department of Conservation; CDFA = Department of Food and Agriculture; Parks = Department of Parks and Recreation; SCC = State Coastal Conservancy; DWR = Department of Water Resources; and SWRCB = State Water Resources Control Board.

across multiple departments and programs, which represents just under one-third of the total bond funding still available for appropriation. Of the proposed funding, about \$125 million (25 percent) is to continue existing program activities, such as to allocate another round of grant funding or support state staff who are administering the programs.

Almost three-fourths of the Governor's proposed Proposition 68 spending plan is for two program categories—local park grants and flood protection. The spending plan includes only one first-time appropriation for a program—restoration of the New River. We describe each of these three proposals:

- **Grants to Improve and Expand Local Parks (\$255 Million).** State Parks would allocate the majority of these funds (\$203 million) through competitive grants to create and expand safe neighborhood parks in park-poor neighborhoods. Funds would also be dedicated to creating or improving regional parks (\$28 million) and enhancing recreation and tourism in rural communities (\$23 million).
- **Multibenefit Flood Protection Projects (\$123 Million).** DWR would use these funds for a number of new and continuing flood management projects that both achieve public safety improvements and enhance habitats for fish and wildlife. Most of these projects would be undertaken in the Central Valley, including to expand floodwater capacity and habitat in the Yolo Bypass.
- **Salton Sea/New River Improvement Project (\$10 Million).** As described earlier in the "Department of Water Resources" section, these funds would be used to help address pollution in the New River, which flows into the Salton Sea. Bond language reserved these funds specifically to address New River water quality issues.

## Assessment

**Proposals Consistent With Bond Language and Multiyear Plan.** We find the Governor's proposals to be reasonable and consistent with legislative and voter intent. The Legislature and voters structured the bond around specific

priorities, and by continuing implementation of most bond categories, the administration is taking steps to address those identified issues. For the three large or new 2020-21 proposals, the administration has identified projects that are ready to be implemented and utilize the funds. Moreover, the appropriations are consistent with the multiyear "rollout" plan for Proposition 68 that the administration submitted to the Legislature in the 2019-20 budget process.

While a few bond categories have significant proportions of funding left to appropriate—including voluntary agreements, CDFW habitat restoration and deferred maintenance, coastal ecosystems, state parks, and lower cost coastal accommodations—the rationale for continuing to delay the release of these funds has merit. Specifically, these programs either have funding remaining from earlier bonds, or departments are still in the process of undertaking additional planning to prepare for effective implementation before expending funds.

## Recommendation

**Approve Governor's Proposals.** Because they are consistent with both bond language and the multiyear allocation plan the administration previously presented to the Legislature, we recommend the Legislature approve the Governor's 2020-21 Proposition 68 funding proposals.

## SEVERAL NEW NATURAL RESOURCES CAPITAL OUTLAY PROJECTS

The Governor's budget includes \$57 million to begin 12 new major capital outlay projects for departments within CNRA, as well as several minor capital outlay projects. As shown in **Figure 17** (see next page), these proposals include eight projects to acquire, expand, or improve state parks; four projects to replace or relocate CalFire facilities; and various minor projects for CalFire and the Tahoe Conservancy. The total costs for completion of the proposed projects is estimated to be \$254 million (\$157 million General Fund and \$97 million from various bond funds).

In addition, the proposed 2020-21 budget includes \$298 million (\$134 million General Fund and \$164 million from various other funds) for the next phases of previously approved natural resources capital outlay projects. The budget also reappropriates funding for several projects

experiencing delays and reverts \$3.6 million previously provided for the California Conservation Corps Tahoe Base Center equipment warehouse relocation project that is unable to move forward at this time.

**Figure 17**

**Summary of New Natural Resources Capital Outlay**

*(In Millions)*

Project	2020-21 Phase	2020-21 Funding	Total Project Cost
<b>Parks</b>			
New state park acquisition <sup>a</sup>	A	\$20.0	\$20.0
Museum storage facility acquisition	A	15.0	15.0
System acquisition	A	4.6	4.6
Candlestick Point SRA initial build-out	P	2.7	50.0
Old Sacramento SHP riverfront improvements	P	0.6	5.0
Colonel Allensworth SHP visitor center	P	0.6	8.6
Lake Perris SRA: replace lifeguard headquarters	P	0.4	9.2
Humboldt Redwoods State Park: replace restroom	P	0.2	3.8
Subtotals		(\$44.1)	(\$116.2)
<b>CalFire</b>			
Minor projects	Various	\$4.6	\$4.6
Intermountain Conservation Camp replacement	P	3.8	73.3
Lake-Napa auto shop and warehouse replacement	A,P	2.1	22.4
Kneeland Helitack Base relocation	A	0.9	18.3
Howard Forest Helitack Base replacement	A	0.6	18.0
Subtotals		(\$11.9)	(\$136.6)
<b>Other</b>			
Tahoe Conservancy minor projects	Various	\$0.9	\$0.9
Subtotals		(\$0.9)	(\$0.9)
<b>Totals</b>		<b>\$56.8</b>	<b>\$253.6</b>

<sup>a</sup> The proposed project is only the acquisition of land for a new state park. Costs to build-out park infrastructure are not included.  
A = acquisition; P = preliminary plans; SRA = State Recreation Area; and SHP = State Historic Park.



## SUMMARY OF RECOMMENDATIONS

Issue	Governor's Proposal	LAO Recommendations
<b>Climate Change</b>		
Various proposals	(1) \$965 million discretionary cap-and-trade expenditure plan, (2) \$250 million General Fund for new Climate Catalyst Revolving Load Fund, and (3) \$4.75 billion general obligation bond for November 2020 ballot.	Refer to recent report, <i>The 2020-21 Budget: Climate Change Proposals</i> .
<b>Wildfire Prevention and Response</b>		
Various proposals	\$378 million for 12 proposals for CalFire, CNRA, and the Forest Management Task Force related to wildfire mitigation and response activities. <sup>a</sup>	Refer to <i>The 2020-21 Budget: Governor's Wildfire-Related Proposals</i> . (The summary in this report includes a table that briefly describes each proposal and our recommendations.)
<b>Department of Parks and Recreation</b>		
New state park	\$20 million one-time General Fund to acquire land for an unspecified new state park.	Require department to provide additional details on potential properties and future costs. Determine action based on information provided and consistent with legislative priorities. Consider adopting reporting language if funds are approved.
Increasing student access to state parks	\$22.9 million including (1) \$20 million one-time General Fund and (2) \$2.9 million ongoing ELPF to expand student access to state parks.	Direct department to present additional details related to the \$2.9 million ongoing funding. Consider oversight questions regarding broader goals and outcomes of programs.
Harbors and Watercraft Revolving Fund insolvency	\$26.5 million as a "placeholder" solution to keep the fund solvent in 2020-21.	Consider key issues when weighing options for addressing insolvency. Direct the administration to report additional information at budget hearings.
<b>California Department of Fish and Wildlife (CDFW)</b>		
Funding enhancements	\$19 million ongoing shifted from Wildlife Conservation Board and \$20 million one time in 2020-21 to help CDFW better meet its mission, both from General Fund. \$23 million ongoing General Fund beginning in 2021-22 to backfill funding shortfall and maintain service expansions.	Weigh the relative trade-offs of the \$19 million ongoing proposal with other conservation and General Fund priorities. Adopt the one-time \$20 million proposal. Defer action on \$23 million proposal until next year when a more in-depth analysis of the CDFW's budget will be available.

(Continued)

Issue	Governor's Proposal	LAO Recommendations
<b>Department of Water Resources (DWR)</b>		
Sustainable Groundwater Management Act implementation	\$30 million one time for local assistance grants and \$9.6 million ongoing for DWR to conduct additional technical assistance and oversight activities, both from the General Fund.	Approve both proposals but adopt language to ensure the local assistance funds are used for projects that provide public benefits and focus on efforts needed to effectively implement groundwater sustainability plans.
Tijuana River and New River restoration projects	\$35 million General Fund for the Tijuana River and \$28 million—\$18 million General Fund and \$10 million from Proposition 68 bond funds—for the New River to address cross-border pollution issues.	Approve New River proposal but require administration provide a plan for addressing ongoing costs at Tijuana River prior to approving that proposal.
Augmentations for existing staff	\$6.7 million General Fund for 30 existing positions across three proposals to either change their funding source or extend funding that was initially approved on a limited-term basis.	Provide \$550,000 less than requested in 2020-21 for 30 existing positions.
<b>Department of Toxic Substances Control (DTSC)</b>		
Board of Environmental Safety	\$3 million (two years) and 15 positions to establish a 5-member Board of Environmental Safety that would hold regular public hearings and perform specified functions.	Authorize creation of a new oversight board, but consider the specifics of the proposal to determine the degree to which it reflects legislative priorities, including how much authority the board should have to direct DTSC.
Structural shortfall of DTSC special funds	\$12 million General Fund transfer to the Toxic Substances Control Account (TSCA), \$1 million General Fund transfer to the Hazardous Waste Control Account (HWCA), and budget trailer legislation to restructure charges for TSCA and HWCA.	Wait until May Revision to take action on proposed General Fund transfers to get updates on TSCA and HWCA fund conditions. Decide whether to establish a board before weighing the merits of the Governor's proposal to restructure charges. Consider whether the new charges would cover future costs and reflect polluter pays principle.
<b>Department of Conservation</b>		
California Geologic Energy Management Division: mission transformation and oversight	\$13.9 million and 53 permanent positions in 2020-21 growing to \$24.3 million and 128 permanent positions in 2022-23 to (1) strengthen enforcement of existing laws and regulations that govern oil and natural gas operators and (2) implement recent legislation.	Approve most of the 2020-21 request, but withhold action on \$600,000 and three positions intended to improve public transparency until additional justification is provided. Recommend the Legislature consider approving only the 2020-21 request on an ongoing basis to ensure future legislative oversight.

(Continued)

Issue	Governor's Proposal	LAO Recommendations
<b>California Energy Commission</b>		
Appliance efficiency standards	\$750,000 (Public Utilities Commission Utilities Reimbursement Account) and four positions to adopt and periodically update energy efficiency standards that promote the use of flexible demand technologies pursuant to Chapter 697 of 2019 (SB 49, Skinner).	Use a different, more appropriate fund source for these activities. We recommend using the Energy Resources Program Account if the structural deficit is addressed this year. If not, we recommend using the AB 32 Cost of Implementation Account.
<b>Bond Administration</b>		
Proposition 68 implementation	\$514 million from Proposition 68 across multiple departments for various projects and programs.	Approve proposals.
<p><sup>a</sup> Two of these proposals are joint proposals with funding for CalFire and the Governor's Office of Emergency Services.            CalFire = California Department of Forestry and Fire Protection; CNRA = California Natural Resources Agency; and ELPF = Environmental License Plate Fund.</p>		

## NATURAL RESOURCES AND ENVIRONMENT UNIT

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This report was reviewed by Brian Brown and Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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