Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 2 Agenda

Byron Sher, Chair
Sheila Kuehl
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Upon Adjournment of Session
Room 112

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Resources—Environmental Protection—Public Safety—Energy

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0555 Secretary for Environmental Protection

Background. The Secretary for Environmental Protection heads the California Environmental Protection Agency (Cal-EPA). The secretary is responsible for overseeing and coordinating the activities of the following departments that make up Cal-EPA:

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

Governor's Budget. The Governor's budget proposes $8.2 million to support the Secretary for Cal-EPA in 2004-05. This is approximately 4 percent less than the level of expenditures estimated in the current year.

Secretary for Environmental Protection
Governor's Budget Spending Totals
(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Type of Expenditure:				
Support Program	$7,977	$8,529	$8,151	-4%
Total	**$7,977**	**$8,529**	**$8,151**	**-4%**
Funding Source:				
General Fund	$2,459	$1,325	$1,325	0%
Special Funds	2,740	2,973	2,721	-8%
Budget Act Total	*5,199*	*4,298*	*4,046*	*-6%*
Reimbursements	2,644	2,080	1,971	-5%
State Water Quality Control Fund	134	151	134	-11%
Environmental Enforcement and Training Account	0	2,000	2,000	0%
Total	**$7,977**	**$8,529**	**$8,151**	**-4%**

Budget Change Proposals. No 2004-05 budget change proposals were submitted for the Secretary for Cal-EPA.

1. April Finance Letter

Summary. The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for the Secretary for Cal-EPA.

Secretary for Environmental Protection
April Finance Letter, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Positions
Environmental Education Account. Proposes (1) expenditure of funds from the Environmental Education Account (EEA), which was established by Chapter 655, Statutes of 2003 (AB 1548, Pavley) to fund environmental education programs. The EEA currently has no funds on deposit, but the administration anticipates receiving funds from private organizations for expenditure in the budget year and has proposed (2) budget bill language to limit expenditures on this program to qualified funds deposited in this account. The administration also proposes (3) trailer bill language to amend Chapter 655 to eliminate the potential state mandate it created by requiring school districts to use the materials developed by this program.	-	$150	$150	0
Total	**$0**	**$150**	**$150**	**0**

The Subcommittee may wish to ask the department the following questions.

- What funds does the administration anticipate receiving to fund this program in the budget year?
- What assurances are in place that the curriculum developed by this program will be utilized in schools?

Staff Recommendation. Staff recommends approving the finance letter.

2. Funding Programs that Protect Public Health—Informational Item

Background. After decades of efforts to reduce air pollution, California is still plagued with poor air quality in many parts of the state. As a result, asthma rates among the state's children continue to rise. Mobile sources (cars and trucks) account for over half of the pollution in California. However, despite the magnitude of this problem there is relatively little ongoing funding to support programs that reduce emissions from mobile sources. Many of the state's successful programs that work on reducing emissions from mobile sources such as the Carl Moyer Program do not have an ongoing funding source and have largely relied on onetime General Fund appropriations or bond funds. However, due to budget reductions no funds have been proposed in the Governor's budget to support programs like the Carl Moyer Program that work to directly reduce emissions from mobile sources and improve the state's air quality to provide healthy air for all Californians.

In addition, to air quality another public health problem that has not been addressed by the budget is the cleanup of the thousands of brownfield sites in California. Brownfield sites are often found in low-income neighborhoods and can pose serious health risks to residents living near brownfields. It is estimated that there are over 50,000 brownfields sites in California. Despite the magnitude of this problem there are few ongoing state resources to fund brownfield cleanup. The state's current fiscal situation has resulted limited funds for programs such as the Orphan Share Trust Fund that aid in cleaning up contaminated brownfields.

The subcommittee may wish to ask the Secretary the following questions.

- How do you propose we address the pollution caused by mobile sources? Do you have ideas for funding sources other than the General Fund that would increase the stability of funding for programs like Carl Moyer?
- How do you propose we address the environmental hazards caused by brownfields? Do you have ideas for funding sources other than the General Fund that would increase the stability of funding for programs that facilitate cleanup of brownfields?

3900 Air Resources Board

Background. The Air Resources Board (ARB), along with 35 local air pollution control and air quality management districts, protects the state's air quality. The local air districts regulate *stationary sources* of pollution and prepare local implementation plans to achieve compliance with federal and state standards. The ARB is responsible primarily for the regulation of *mobile sources* of pollution and for the review of local district programs and plans. The ARB also establishes air quality standards for certain pollutants, administers air pollution research studies, and identifies and controls toxic air pollutants.

Governor's Budget. The Governor's budget proposes $130 million to support ARB in 2004-05. This is a reduction of $35 million (21 percent) from the current year estimated expenditures due to a significant reduction in bond funds available to fund programs to reduce mobile source air pollution.

Air Resources Board
Governor's Budget Spending Totals
(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Type of Expenditure:				
Mobile Source	$97,704	$118,370	$81,927	-31%
Stationary Source	40,464	36,376	38,238	5%
Subvention	10,111	10,637	10,111	-5%
Capital Outlay	2,397	0	0	-
Administration	11,502	11,092	11,092	0%
less distributed administration	*-11,502*	*-11,092*	*-11,092*	-
Total	**$150,676**	**$165,383**	**$130,276**	**-21%**
Funding Source:				
General Fund	$23,598	$4,493	$2,224	-51%
Special Funds	86,008	122,670	112,923	-8%
Bond Funds	25,000	23,000	0	-100%
Budget Act Total	*134,606*	*150,163*	*115,147*	*-23%*
Federal Funds	10,810	11,540	11,352	-2%
Reimbursements	5,261	3,680	3,777	3%
Total	**$150,677**	**$165,383**	**$130,276**	**-21%**

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for ARB.

Air Resources Board
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
Fine Particulate (PM2.5) Infrastructure Improvement. Proposes one-time funding from the Air Pollution Control Fund for equipment to improve the source measurement infrastructure for PM 2.5. The federal government and ARB have placed ambient air quality standards on PM 2.5, which is produced by autos, diesel motors, and other sources. The current equipment does not allow for adequate PM 2.5 measurements to be made.	-	$3,000	$3,000	0
Non-Toxic Dry Cleaning Incentive Program. Proposes funding to implement the nontoxic dry cleaning incentive grant program established by Chapter 821, Statutes of 2003 (AB 998, Lowenthal). Funding for this program is proposed from fees on the manufacturers and importers of percholoroethylene (perc). The program provides grants to help dry cleaners transition from perc-based systems to nontoxic systems and to fund demonstration projects that showcase nontoxic dry cleaning alternatives.	-	1,500	1,500	0
General Fund Reduction. Proposes to shift support for the stationary source program from the General Fund to the Air Pollution Control Fund.	-2,600	2,600	0	0
Total	**-$2,600**	**$7,100**	**$4,500**	**0**

1. April Finance Letter

Summary. The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for ARB.

Air Resources Board
April Finance Letter, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
Attorney General Billings. Proposes increasing funding to cover the increase in the rates the Attorney General charges state departments for legal work.	-	$147	$147	0
Total	**$0**	**$147**	**$147**	**0**

Staff Recommendation. No issues have been raised with the administration's April finance letter. ***Staff recommends approving the finance letter.***

3910 Integrated Waste Management Board

Background. The California Integrated Waste Management Board (CIWMB), in conjunction with local agencies, is responsible for promoting waste management practices aimed at reducing the amount of waste that is disposed in landfills. The CIWMB administers various programs that promote waste reduction and recycling, with particular programs for waste tire and used oil recycling. The board also regulates landfills through a permitting, inspection, and enforcement program that is mainly carried out by local enforcement agencies that are certified by the board. In addition, CIWMB oversees the cleanup of abandoned solid waste sites.

Governor's Budget. The Governor's budget proposes $165 million to support CIWMB in 2004-05. This is an increase of $50 million (44 percent) from estimated expenditures in the current year. This increase is due to the implementation of the Electronic Waste Recycling Program created by Chapter 526, Statutes of 2003 (SB 20, Sher).

California Integrated Waste Management Board
Governor's Budget Spending Totals
(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Type of Expenditure:				
Permitting	$125,545	$120,549	$169,738	41%
Administration	8,592	8,413	8,413	0%
less distributed administration	*-8,592*	*-8,413*	*-8,413*	-
less loan repayments	*-6,653*	*-5,960*	*-4,663*	-
Total	**$118,892**	**$114,589**	**$165,075**	**44%**
Funding Source:				
General Fund	$46	$0	$0	-
Special Funds	113,035	112,763	164,339	46%
Bond Funds	119	136	136	0%
Budget Act Total	*113,200*	*112,899*	*164,475*	*46%*
Federal Funds	11	106	0	-100%
Special Deposit Fund	5,131	1,000	400	-60%
Reimbursements	550	585	200	-66%
Total	**$118,892**	**$114,590**	**$165,075**	**44%**

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for CIWMB.

California Integrated Waste Management Board
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
Electronic Waste Recycling Program. Proposes funding Chapter 526, Statutes of 2003 (SB 20, Sher) to implement the Electronic Waste Recycling Program. The program is funded by a recycling fee on the retail purchase of specified electronic devices. The positions are proposed on a two-year limited term basis so that program support can be reevaluated after the program has had time to mature.	-	$52,323	$52,323	6.0
Total	**$0**	**$52,323**	**$52,323**	**6.0**

1. Electronic Waste Recycling Program Implementation

Background. Chapter 526, Statutes of 2003 (SB 20, Sher) established the Electronic Waste (E-Waste) Recycling Act of 2003. The legislation established a system for the collection and recycling of certain electronic devices that contain hazardous materials. The program is to be funded by a fee assessed at the point of sale of certain electronic equipment. The fee will range from $6 to $10 depending on the size of the screen of the electronic device. The legislation also seeks to reduce the hazardous substances used in certain electronic devices and establishes environmentally preferred purchasing criteria for state agency purchases of certain electronic equipment.

Governor's Budget. The table that summarizes the budget change proposals (above) provides a summary of the Governor's proposal to fund the E-Waste Recycling Program in the budget year. This proposal assumes that the department will enter a contract with the Board of Equalization (BOE) to collect the fee starting in the first quarter of the budget year.

Status of Implementation. The CIWMB indicates that it is currently involved in developing emergency regulations to implement this new program. The board in conjunction with the manufacturers of electronic devices affected by this program has notified all retail outlets of the new recycling fee and program. The board has also started a consumer education campaign to raise awareness of this issue and the new program. The Department of Toxic Substances Control has recently announced the scope of the products to be covered by the E-Waste Recycling Program.

Fee Collection. As mentioned previously, the Governor's budget proposes to fund a contract with BOE for the collection of the fees to fund the e-waste program. However, BOE has indicated that it will not be able to start the fee collection in time to collect the fees until after January 1, 2005. A later start date for collecting fee revenues could have a disproportionately negative impact on the revenues the state is able to generate in the budget year since a large portion of electronics are purchased in the fall in preparation for the school year and during the holiday season.

The subcommittee may wish to ask the department the following questions.

- If BOE does not collect the fees starting July 1, 2004, what options do you have for collecting the fees so funds are available to implement this program in the budget year?

2. April Finance Letter

Summary. The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for CIWMB.

California Integrated Waste Management Board
April Finance Letter, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
Waste Tire Manifest Processing. Proposes funding from the CA Tire Recycling Management Fund for data operator positions to process a backlog of approximately 25,000 tire manifests and logs required to be submitted to and cataloged by the CIWMB to determine whether waste tires have been disposed of appropriately. This activity fulfills the requirements of Chapter 838, Statutes of 2000 (SB 876, Escutia). The positions are proposed on a one-year limited term basis.	-	$195	$195	3.0
Total	**$0**	**$195**	**$195**	**3.0**

Staff Recommendation. No issues have been raised with the administration's April finance letter. ***Staff recommends approving the finance letter.***

3. Study on Health Impacts of Tire Incineration—Informational Item

Background. A trailer bill that accompanied the 2003-04 Budget Act (Chapter 228, Statutes of 2003 [AB 1756, Budget Committee]) barred the expenditure of funds for any activity that provides support or research for the incineration of tires. Furthermore, the legislation listed eligible uses for funds from the Tire Recycling Management Account, including retreading, shredding, and the manufacture of various products made from used tires.

Board Proposes to Fund Study on Health Impacts of Tire Incineration. Despite clear legislative direction prohibiting the expenditure of funds for any activity that provides support or research for the incineration of tires CIWMB staff have proposed funding this activity. Specifically CIWMB staff have proposed that the board approve an interagency contract with the Office of Environmental Health Hazard Assessment for $100,000 to study the health impacts of facilities that use a combination of conventional and tire derived fuels.

The Subcommittee may wish to ask the department the following questions.

- Has the board approved this contract? If so, please explain how this is not a violation of current law.

3930 Department of Pesticide Regulation

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

Governor's Budget. The Governor's budget proposes $57 million to support DPR in 2004-05. This is slightly less than estimated current year expenditures. Legislation (Chapter 741, Statutes of 2003 [SB 1049, Budget]) was enacted in the current year that required DPR to raise its fees and shift its General Fund support to fees. However, the legislation enacted did not allow DPR to raise its mill fee to accommodate this fund shift until January 1, 2004. Therefore, to avoid a shortfall in funding for 2003-04, $5 million General Fund was provided to support DPR's budget. This backfill was a one-time fix until the mill fee could be raised along with registration and licensing fees. Since then, the department has increased the mill fee to 21 mills and has increased licensing and registration fees in accordance with legislation enacted in the current year. The Governor's budget proposal reflects full fee recovery for DPR in 2004-05.

Department of Pesticide Regulation
Governor's Budget Spending Totals
(Dollars in Thousands)

			Proposed for 2004-05	
	Actual 2002-03	Estimated 2003-04	Amount	Percent Change
Type of Expenditure:				
Registration and Health Evaluation	$14,976	$18,317	$16,429	-10%
Pest Management and Environmental Activities	37,517	40,303	40,159	0%
State-Mandated Local Programs	1	1	1	0%
Administration	6,816	7,831	7,831	0%
less distributed administration	*-6,816*	*-7,831*	*-7,831*	*0%*
Total	**$52,494**	**$58,621**	**$56,589**	**-3%**
Funding Source:				
General Fund	$12,721	$4,695	$1	-100%
Special Funds	37,205	51,315	53,942	5%
Budget Act Total	*49,926*	*56,010*	*53,943*	*-4%*
Federal Funds	1,770	2,138	2,167	1%
Reimbursements	797	473	479	1%
Total	**$52,493**	**$58,621**	**$56,589**	**-3%**

Budget Change Proposals. No 2004-05 budget change proposals were submitted for DPR.

1. April Finance Letter

Summary. The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for DPR.

Department of Pesticide Regulation
April Finance Letter, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
Attorney General Billings. Proposes increasing funding to cover the increase in the rates the Attorney General charges state departments for legal work.	-	$26	$26	0
Consolidation of Grant Funds. Proposes to make a technical budgeting change to consolidate the department's local assistance funding for restricted materials with its other pesticide enforcement grants and subventions. This proposal would reduce the local assistance item by $2.9 million and increase the subventions item by a like amount and would have no impact on activities supported by these funds.	-	-	-	-
Total	**$0**	**$26**	**$26**	**0**

Staff Recommendation. No issues have been raised with the administration's April finance letter. ***Staff recommends approving the finance letter.***

3940 State Water Resources Control Board

Background. The State Water Resources Control Board (SWRCB), in conjunction with nine semiautonomous regional boards, regulates water quality in the state. The regional boards—which are funded by the state board and are under the state board's oversight—implement water quality programs in accordance with policies, plans, and standards developed by the state board.

The board carries out its water quality responsibilities by (1) establishing wastewater discharge policies and standards; (2) implementing programs to ensure that the waters of the state are not contaminated by underground or aboveground tanks; and (3) administering state and federal loans and grants to local governments for the construction of wastewater treatment, water reclamation, and storm drainage facilities. Waste discharge permits are issued and enforced mainly by the regional boards, although the state board issues some permits and initiates enforcement actions when deemed necessary.

The state board also administers water rights in the state. It does this by issuing and reviewing permits and licenses to applicants who wish to take water from the state's streams, rivers, and lakes.

Governor's Budget. The Governor's budget proposes $505 million to support SWRCB in 2004-05. This is a reduction of $668 million (57 percent) from the current year budget due to the administration's decision to defer the majority of its bond fund proposal until later in the spring. The administration's April finance letter does propose to expend an additional $52 million (mainly bond funds) in 2004-05. However, this still results in a significant reduction in proposed expenditures in 2004-05 due to the large amount of bond funds appropriated in the current year and a reduction in the amount of bond funds available for expenditure by the board.

State Water Resources Control Board
Governor's Budget Spending Totals
(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Type of Expenditure:				
Water Quality	$557,160	$1,163,555	$496,247	-57%
Water Rights	10,141	9,334	8,862	-5%
Administration	17,448	13,512	13,512	0%
less distributed administration	*-17,448*	*-13,512*	*-13,512*	-
Total	**$567,301**	**$1,172,889**	**$505,109**	**-57%**
Funding Source:				
General Fund	$71,858	$37,249	$27,560	-26%
Special Funds	284,730	308,011	312,029	1%
Bond Funds	65,840	679,677	11,352	-98%
Budget Act Total	*422,428*	*1,024,937*	*350,941*	*-66%*
Federal Funds	135,316	126,495	126,481	0%
Reimbursements	4,773	9,920	9,772	-1%
State Water Quality Control Fund	17,480	20,222	20,597	2%
less funding provided by other sources	*-12,695*	*-8,682*	*-2,682*	
Total	**$567,302**	**$1,172,892**	**$505,109**	**-57%**

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for SWRCB.

State Water Resources Control Board

Budget Change Proposals, 2004-05

(Dollars in Thousands)

Description	General Fund	Special Funds	Bond Funds	Total	Personnel Years
Underground Storage Tank Enforcement Unit. Proposes to make permanent 3.9 limited term positions to continue to support various enforcement activities for the underground storage tank fund and to shift funding for these positions to the Underground Storage Tank Cleanup Fund.	-	$310	-	$310	3.9
Underground Storage Tank Cleanup Fund (USTCF). Proposes a one-time increase in funding from the USTCF to clean up contamination caused by underground storage tanks. These funds are available from unexpended appropriations in prior years.	-	17,000	-	17,000	0.0
Timber Harvest Plan Review in Sierra. Proposes to permanently redirect 5.3 positions and $470,000 General Fund from the North Coast regional board to the Central Valley and Lahontan regional boards to reduce the current funding imbalance among the regional boards for timber harvest review activities.	0	-	-	0	-
Water Rights Fees Administration. Proposes to increase administrative support from the Water Rights Fee fund to collect the water rights fees that now support the water rights program.	-	89	-	89	1.0
Border Affairs Position. Proposes to transfer one position and $109,000 General Fund from the office of the Secretary for Environmental Protection to SWRCB to continue border coordination efforts related to water quality.	0	-	-	0	-
General Fund Reductions. Proposes to shift some General Fund expenditures to fees and other funds and reduce or eliminate some functions. About $1.5 million is proposed to be shifted to water quality fees, $1.5 million is proposed to be shifted to all funds, and $2.3 million is proposed in program reductions.	-5,340	3,040	-	-2,300	-14.4
Total	**-$5,340**	**$20,439**	**$0**	**$15,099**	**-9.5**

1. April Finance Letter—Excluding Bond Funds

Summary. The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for SWRCB, excluding bond funds. (Bond funds will be handled at a forthcoming subcommittee meeting.)

State Water Resources Control Board
April Finance Letter - Excluding Bond Funds, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Bond Funds	Total	Positions
Waste Discharge Waivers. Proposes funding to issue and enforce waivers for waste discharge requirements. Resources will also be used to evaluate whether discharges currently regulated under waivers should be issued waste discharge requirements. These activities will be supported with revenues generated from imposing fees on waivers per Chapter 801, Statutes of 2003 (SB 923, Sher). About $1.2 million is requested on a one-time basis.	-	$3,124	-	$3,124	22.3
Lake Tahoe Environmental Improvement Program (EIP). Proposes to reappropriate funds to complete ongoing contract work that supports the Lake Tahoe EIP and the determiniation of Lake Tahoe's Total Maximum Daily Load.	589	-	-	589	0.0
Total	**$589**	**$3,124**	**$0**	**$3,713**	**22.3**

Waste Discharge Waivers. As summarized above, the administration's April finance letter proposes to fund positions to implement SB 923 (Sher) that requires the board to issue and enforce waivers for waste discharge permit. These waivers will largely address the polluted run-off from timber and agriculture operations.

Coordination with Other Programs. The federal government implements the Environmental Quality Incentives Program (EQIP) that provides federal funds and technical assistance to farmers and ranchers implementing farm conservation plans. In addition, state bond funds are available to fund the Agricultural Water Quality Grant Program to provide grants for monitoring, demonstration, research, and construction of projects to reduce pollutants in agricultural drainage water. Both of these programs could help to reduce polluted run-off from agricultural operations. However, it is not clear how the board will coordinate activities in these programs with its efforts to enforce waste discharge waivers for agricultural operations. Coordination of these programs with the board's regulatory program would improve the effectiveness of expending state and federal funds to meet state water quality requirements.

The Subcommittee may wish to ask the department the following questions.

- What is the status of implementing SB 923 to impose fees on waivers?

- How will the agriculture waiver program be coordinated with programs designed to help farmers reduce polluted run-off from agricultural operations?

Staff Recommendation. Staff recommends approving the finance letter.

2. Proposed General Fund Reductions—Informational Item

Governor's Budget. The figure on the next page summarizes the General Fund reductions proposed by the Governor's budget. The Governor's budget proposes a $5.3 million General Fund reduction to the board's activities. Of this reduction, approximately $3 million is proposed to be shifted to other funding sources at the board and $2.3 million is proposes as a real reduction to the board's General Fund supported activities.

Budget Reductions in Past Years. In addition to the proposed General Fund reduction in the budget year, General Fund support for the SWRCB was reduced $33.6 million in the current year. Approximately, $24 million was shifted to fees to support water quality and water rights programs and the remaining $9.6 million was a real reduction to the board's General Fund supported activities. Furthermore, General Fund support in 2002-03 was reduced another $23.9 million. About $15 million was shifted to fees and the remaining $8.9 million was a real reduction to the board's General Fund supported activities. Therefore, while a significant portion of these General Fund reductions at the board have been shifted to fees, the board's General Fund activities have been reduced by $20.8 million since 2001-02.

LAO Identifies Unmet Funding Requirements. The Analyst reported in the *Analysis of the 2002-03 Budget Bill* that the SWRCB had substantial unmet funding requirements for its water quality programs. The Analyst's findings were based on a needs analysis conducted by the board in 2001. This analysis found that the board would need an additional $100 million above the current level of funding to fully address its current workload. In addition, the board estimated that an additional $70 million would be needed to address future workload as the universe of waste dischargers under regulation increased.

Since 2002, legislation has been enacted to shift the majority of the water quality programs to fee-based funding. The Analyst indicated that the Legislature should consider the board's funding requirements when enacting legislation to shift program funding from the General Fund to fee-based funding. However, these funding requirements were never addressed and funding levels have been frozen at relatively the same level as when the program was supported largely by the General Fund. Therefore, substantial unmet funding requirements continue for the board's water quality programs. This has likely been further exacerbated by the numerous General Fund reductions made to the board's operations over the past few budget cycles.

The Subcommittee may wish to ask the department the following questions.

- What has the board done to address this funding shortfall identified in its 2001 needs analysis of its water quality programs?
- What water quality activities have been most impacted by the General Fund reductions?

State Water Resources Control Board

Detail on General Fund Reductions Proposed by Governor's Budget, 2004-05

(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
Information Technology (IT). Proposes to shift funding for IT programs from the General Fund to all of the board's funds.	-$1,513	$1,513	$0	0.0
Water Quality Trend Monitoring. Proposes to shift funding for monitoring from the General Fund to water quality permit fees.	-1,327	1,327	0	0.0
Technical Support. Proposes to reduce funding for triennial reviews of statewide plans and policies and other activities.	-614	-	-614	-4.5
Chromium 6 Contract. Proposes to eliminate support for a contract investigating issues related to Chromim 6 contamination.	-462	-	-462	0.0
Basin Planning Program. Proposes to eliminate all student contract support for this program.	-450	-	-450	-2.6
Well Investigation Program. Proposes to eliminate this program that attempts to investigate causes of well contamination.	-386	-	-386	-4.8
Septic Tank Standards. Proposes to eliminate contract to train communities on new standards and proposes to reduce staffing to minimum level needed to complete standards.	-255	-	-255	-0.8
Quality Assurance Program. Proposes to shift funding for this program that assures reliable water quality monitoring data from the General Fund to water quality fees.	-101	101	0	0.0
Operator Certification Program. Proposes to shift funding for this program that certifies operators at wastwater treatment facilities from the General Fund to fees charged applicants for certification.	-79	79	0	0.0
Regional Wetlands Management Plan. Proposes to reduce funding for this pilot program that seeks to integrate permitting activities with other wetland activities.	-53	-	-53	-1.0
CALFED. Proposes to eliminate contract support for the preperation of drinking water policy in the Sacramento region related to CALFED.	-50	-	-50	0.0
MTBE Contract. Proposes to eliminate contract funding to develop guidance for investigating and cleaning up MTBE contamination.	-50	-	-50	0.0
Total	**-$5,340**	**$3,020**	**-$2,320**	**-13.7**

3. Adequacy of Board's Review of New Water Right Diversions—Informational Issue

Background. The subcommittee has received information that indicates that new applications for water right diversions from North Coast rivers, specifically the Russian River, are not well coordinated with previously approved diversions. The subcommittee has been informed that there are 1400 diversions on this river and 200 pending applications. Moreover, it seems that many applicants for water diversions construct their dams or reservoirs prior to receiving permission from the state water board. The penalty for these illegal diversions, typically about $500, is not sufficient to deter the diversion. As a consequence, recreational fishers have questioned the adequacy of review of these applications to protect public trust resources, especially salmon and steelhead. This user group can document this problem in Marin, Napa, Sonoma, Mendocino, and Humboldt counties, but the larger-scale emerging concern is whether this north coast situation is replicated elsewhere in the state.

The Subcommittee may wish to ask the department the following questions.

- What is the current status of new water rights applications on the Russian River?
- What are the current penalties for illegal diversions?
- What process does the board have to assure fish and wildlife are not impacted by new water diversions?

4. Water Rights Fee Implementation—Informational Issue

Background. The SWRCB is responsible for regulating water rights for some surface water rights, including issuing new water rights, approving changes to existing rights, and enforcing existing rights. In the current year, Chapter 741, Statutes of 2003 (SB 1049, Budget Committee) was enacted to implement water rights fees to shift funding for SWRCB's water rights program from the General Fund to fees. The new fees are assessed annually on parties that are applying for or hold water rights that are under the jurisdiction of the SWRCB. The water rights program was reduced by a total of approximately $3.3 million starting in 2002-03 before funding was shifted from the General Fund to fees.

Governor's Budget. The Governor's budget proposes $8.9 million to support the board's water rights program. This is approximately the same level of funding as is estimated for expenditure to support this program in the current year. The majority of the funding for this program is proposed from fees on water rights holders, which is consistent with implementation of SB 1049. The General Fund is not proposed to support this program in the budget year.

The Subcommittee may wish to ask the department the following questions.

- What is the current status of implementing the water rights fee?
- Is any technical language required to improve the implementation of the fee program?

3960 Department of Toxic Substances Control

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

Governor's Budget. The Governor's budget proposes $160 million to support DTSC in 2004-05. This is about the same level of funding as is estimated for expenditure in the current year.

Department of Toxic Substances Control
Governor's Budget Spending Totals
(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Type of Expenditure:				
Site Mitigation and Brownfields Reuse	$89,176	$87,692	$90,269	3%
Hazardous Waste Management	46,539	60,668	58,327	-4%
Science, Pollution Prevention and Technology	11,611	11,572	11,819	2%
Statewide Support	3,377	0	0	-
Capital Outlay	0	900	0	-100%
Administration	27,831	38,346	32,783	-15%
less distributed administration	*-27,831*	*-38,346*	*-32,783*	*-15%*
Total	**$150,703**	**$160,832**	**$160,415**	**0%**
Funding Source:				
General Fund	$31,299	$20,544	$17,150	-17%
Special Funds	87,578	113,288	115,748	2%
Bond Funds	1,291	545	0	-100%
Budget Act Total	*120,168*	*134,377*	*132,898*	*-1%*
Federal Funds	24,586	20,688	21,516	4%
Reimbursements	7,979	8,369	8,501	2%
less funding provided by other sources	*-2,028*	*-2,600*	*-2,500*	-
Total	**$150,705**	**$160,834**	**$160,415**	**0%**

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for DTSC.

Department of Toxic Substances Control
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Positions
Mobile Hazardous Materials Laboratory. Proposes funding to operate a mobile hazardous materials laboratory in the event of a terrorist or natural disaster.	-	$226	$226	1.0
Electronic Waste Recycling Program. Proposes funding to implement Chapter 526, Statutes of 2003 (SB 20, Sher) that creates a new program and fund source for collecting and recycling hazardous electronic waste. In addition, this proposal shifts one existing position to this program and proposes $130,000 in one-time contracting funding.	-	557	557	4.0
Hazardous Materials Laboratory (HML). Proposes one-time funding to conduct a study with the Department of General Services to assess the Southern California HML operations in preperation for updating or moving the facility.		200	200	0.0
Fund Shift. Proposes shifting funding for a portion of the administraiton program and industrial hygiene support from the General Fund to the Toxic Substances Control Account.	-1,398	1,398	0	0.0
Total	**-$1,398**	**$2,381**	**$983**	**5.0**

1. Electronic Waste Recycling Program Implementation—Informational Item

Background. Chapter 526, Statutes of 2003 (SB 20, Sher) established the Electronic Waste (E-Waste) Recycling Act of 2003. This legislation established the E-Waste Recycling Program that provides for the collection and recycling of certain electronic devices that contain hazardous materials. A fee assessed at the point of sale of certain electronic equipment supports the program. The California Integrated Waste Management Board is implementing this program in conjunction with DTSC. Among other activities, DTSC is required to develop the list of covered electronic devices considered hazardous waste.

Governor's Budget. The table that summarizes the budget change proposals (above) summarizes the Governor's proposal to fund DTSC's activities related to implementing the E-Waste Recycling Program in the budget year.

The subcommittee may wish to ask the department the following questions.

- What is the status of the implementation of SB 20 by DTSC?

2. April Finance Letter

Summary. The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for DTSC.

Department of Toxic Substances Control
April Finance Letter, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Positions
Attorney General Billings. Proposes increasing funding to cover the increase in the rates the Attorney General charges state departments for legal work.	-	$46	$46	0.0
Removal and Remedial (R&R) Account. Proposes to transfer $250,000 in expenditure authority from the R&R account to the Toxic Substances Control Account (TSCA) to reimburse DTSC's oversight costs of cleanup activities at contaminated sites. The R&R account receives settlement funds for cleanup activities at specific contaminated sites. Since DTSC does not fund any administrative costs out of the R&R account this transfer is requested to fund DTSC's oversight costs that are currently funded out of the TSCA.	-	0	0	0.0
Total	**$0**	**$46**	**$46**	**0.0**

Staff Recommendation. No issues have been raised with the administration's April finance letter. ***Staff recommends approving the finance letter.***

3980 Office of Environmental Health Hazard Assessment

Background. The Office of Environmental Health Hazard Assessment (OEHHA) identifies and quantifies the health risks of chemicals in the environment. It provides these assessments, along with its recommendations for pollutant standards and health and safety regulations, to the boards and departments in the California Environmental Protection Agency and to other state and local agencies. The OEHHA also provides scientific support to environmental regulatory agencies.

Governor's Budget. The Governor's budget proposes $12.5 million to support OEHHA in 2004-05. This is a reduction of $1.1 million (8 percent) from current year estimated expenditures. Most of this decrease reflects the elimination of a one-time General Fund appropriation of $1 million in the current year to fund a significant portion of OEHHA's children's health program.

Office of Environmental Health Hazard Assessment
Governor's Budget Spending Totals
(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Type of Expenditure:				
Health Risk Assessment	$13,481	$13,546	$12,479	-8%
Administration	2,934	2,708	2,840	5%
less distributed administration	*-2,934*	*-2,708*	*-2,840*	*5%*
Total	**$13,481**	**$13,546**	**$12,479**	**-8%**
Funding Source:				
General Fund	$10,888	$9,135	$8,135	-11%
Special Funds	733	2,779	2,784	0%
Budget Act Total	*11,621*	*11,914*	*10,919*	*-8%*
Federal Funds	3	0	0	-
Reimbursements	1,857	1,633	1,560	-4%
Total	**$13,481**	**$13,547**	**$12,479**	**-8%**

Budget Change Proposals. There are no 2004-05 budget change proposals for OEHHA.

1. April Finance Letter—Funding OEHHA

Background. The General Fund supports the majority of OEHHA's activities. Activities supported by the General Fund include the identification of cancer-causing chemicals for annual updates of the state list of chemicals in drinking water, health risk assessments of toxic air contaminants, and reviews of health risk assessments of pesticides.

Governor's Budget. The Governor's budget proposes $8.1 million General Fund to support its activities, which is approximately 65 percent of its total budget.

Supplemental Report Past Due. During 2002 legislative hearings concerns were raised about the instability of OEHHA's funding base and whether OEHHA's funding level was adequate to meet its statutory mandates. As a result, supplemental report language was adopted to direct OEHHA to report on its long-term baseline funding requirements to meet its statutory mandates and specific recommendations regarding the appropriate mix of General Fund and special fund sources. This report was due January 10, 2004, but has not yet been received.

LAO Recommendation. The Analyst has found that OEHHA's program has suffered significant General Fund reductions that the Analyst indicates is a result of OEHHA's reliance on the General Fund to support its programs. The Analyst suggests that this has increased the instability of OEHHA's funding base. In order to increase the stability of OEHHA's funding base, the Analyst suggests that there are potential alternative funding sources to the General Fund for many of OEHHA's activities. The Analyst finds that these shifts are appropriate given that OEHHA's activities directly support various regulatory programs supported by fee-based special funds. Based on this criteria, the Analyst has suggested the following fund sources to support OEHHA's activities:

- ***Safe Drinking Water Account***—The fund that supports Department of Health Services' safe drinking water program.
- ***Department of Pesticide Regulation Fund***—This is the depository of the mill assessment that supports the majority of Department of Pesticide Regulation's activities.
- ***Air Pollution Control Fund***—The fund supports the Air Resources Board stationary source program.
- ***Motor Vehicle Account***—The fund is derived from vehicle registrations and drivers license fees.

April Finance Letter. In an April finance letter, the Governor has proposed a $1.4 million augmentation to OEHHA's budget, which would result in OEHHA's budget increasing in the budget year to a level slightly higher than the current year. This proposal would reduce the General Fund support for the program by $719,000 and increase support from the Motor Vehicle Account by $2.1 million to fund activities related to the health impacts of motor vehicle-related pollutant, including the children's health program.

This proposal is consistent with the Analyst's recommendation. However, the Analyst suggests that there may be additional opportunities to shift General Fund support to other funding sources. The administration has indicated that fee increases would be needed to shift additional funding to support OEHHA's activities from the funds suggested by the Analyst.

The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for OEHHA.

Office of Environmental Health Hazard Assessment
April Finance Letter, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Positions
Health Impacts of Motor Vehicle-Related Pollutants. Proposes to shift funding from the General Fund to the Motor Vehicle Account (MVA) for activities related to evaluating the health impacts of motor vehicle-related pollutants. Also proposes to augment funding to backfill the one-time $1 million General Fund augmentation provided in the current year to support the children's health program.	-$719	$2,123	$1,404	0.0
Total	**-$719**	**$2,123**	**$1,404**	**0.0**

The subcommittee may wish to ask the administration the following questions.

- Why has the administration not proposed to support OEHHA's activities using the other funds suggested by the LAO?
- Please provide an update on the supplemental report that is past due. What is the baseline funding level required to meet statutory mandates? What mix of General Fund and special funds should support OEHHA's activities?

Staff Recommendation. Staff recommends approving the April finance letter, which does provide OEHHA with program support at a level similar to estimated expenditures in the current year.