



Chapter 5

Resource Conservation and Environmental Protection

California spends more than \$5.3 billion annually and employs more than 21,000 people in its environmental, resource and agricultural stewardship programs. The state's commitment to these programs, measured in expenditures alone, exceeds the General Fund budgets of 22 other states. In the last four years, voters approved an additional \$10 billion in general obligation bond spending for parks, clean water, clean air and habitat conservation efforts.

Unfortunately, our fragmented and fractured governmental structure and regulatory schemes undermine this unparalleled commitment of resources. Efforts to create a cohesive and coordinated approach to environmental protection and resource management stifle under a quilt of departments, boards, commissions and offices administering scores of programs that rely on 149 distinct funding sources, accounts and subaccounts for program support.

In ways that are not always apparent, we all pay to support these efforts—from the prices we pay for paper and produce, to gasoline and garbage bags, and to homes and gardens. From smog checks for our cars to the deposit we pay on soda bottles, we are regulated and we pay fees. And we are all beneficiaries. But the incalculable value of clean air, clean water, wholesome food and healthy ecosystems should not deter us from expecting more nor demanding how we can do it better. We all have a stake in the outcome.

The California Performance Review recommends that California's environmental, resources and agricultural stewardship programs focus on outcomes such as cleaner air, water and beaches, rather than on processes such as fines levied. CPR recommends:

- Eliminate programs that have outlived their usefulness or duplicate other functions, such as eliminating the Registered Environmental Assessor Program and abolishing the Structural Pest Control Board.
- Consolidate program administration, combine duplicative hazardous materials cleanup programs, merge waste management functions, focus on pollution prevention and bring together land use and land acquisition efforts.
- Streamline permitting processes, improve regulatory compliance and customer service, deliver information technology for the 21st Century to enhance public access, prioritize

enforcement and inspection efforts according to public health risks and break down barriers to interagency cooperation.

- Implement fiscal reforms that prioritize funding based on public health risk, environmental needs and program performance. Other improvements include improved fee collections and leveraging state and federal funds more efficiently.

Combined, these reforms and efficiencies will produce nearly \$350 million in savings that can be redirected toward our greatest needs, or can supplant General Fund commitments for the benefit of the state's fiscal health or other programs.



RES 01

Establish a Single Point of Contact for all Public Inquiries to the California Environmental Protection Agency

Summary

The California Environmental Protection Agency (Cal-EPA) lacks a central point of contact for the public to obtain information and assistance about its environmental protection programs and its regulatory requirements. The agency does a poor job of providing timely and appropriate customer service to phone inquiries and website visits. The agency should take a number of steps to improve customer service including creating a toll-free phone center, re-engineering its website, linking all regulatory information and developing systems to allow for online submission of information.

Background

Program fragmentation

There are six separate entities within the California Environmental Protection Agency (Cal-EPA) that delegate and share regulatory program responsibilities among state and local government agencies. Each regulatory program is operated independently with little coordination between the programs. This fragmentation of authority and responsibility can be confusing to the public and to those who may be subject to regulation. Each of these entities maintains its own system to provide information to the public. None of these systems are integrated and few can be considered “user-friendly” for the public.

Cal-EPA’s programs and its local government partners regulate more than 150,000 businesses, activities or locations. Many of these businesses are regulated by more than one program and more than one agency.¹ The body of environmental law with which businesses are required to comply covers more than 2,000 pages of text that is difficult to read, requires dedicated study and a significant level of skill and practical experience to understand.² Cal-EPA programs lack an efficient, integrated system to assist people who are required to comply with environmental regulations to understand what is expected of them.³

People who are required to comply with program regulations typically have to make several phone calls or search several websites to reach program staff with their questions. Even then, staff may not be able to provide information about other programs and may not be familiar with all of the regulatory requirements that concern the caller, or the web page may provide incomplete information that is not integrated across programs. This lack of broad understanding of regulatory requirements by staff can lead to confusing, inconsistent responses to the caller; it also may lead the caller to believe that regulatory compliance has

been achieved when it has not. The demand for assistance in understanding regulatory requirements can be appreciated when you consider the volume of contacts made to the various Cal-EPA program websites. During the month of March 2004 the Cal-EPA/CalGold website received 136,000 inquiries and the Cal-EPA homepage received 174,000 inquiries.⁴

Prior attempts to reach out to the public and improve customer service

In 1997, an attempt was made to enhance customer service through the establishment, by the Secretary of Cal-EPA, of the California Government On-Line to Desktops (CalGold) website and local permit assistance centers.⁵

CalGold was created within the Office of the Secretary to improve access to information about required business permits. The website is managed by the Office of the Secretary and provides detailed information on business permit, license and registration requirements for all levels of government. The website can be searched either by geographic location or by type of business. Direct Internet links to many federal, state and local agencies that have permitting are provided. Due to state funding cuts, the website is no longer maintained and the information is becoming outdated.

Another attempt to provide regulatory assistance to the public was the establishment of permit assistance centers in 1998.⁶ These centers were created to provide local, in-person service to the public. One of the biggest problems with the centers was the lack of convenient locations; not everyone could reach or find them. This made it difficult for business owners to obtain information and services. Between 2001 and 2003, all 19 permit assistance centers were closed because of state budget reductions.⁷ Despite their limited success, it is still a good idea to provide readily available, in-person assistance to the regulated community, if not through centers such as these, then through a centralized call center.

Current situation

The loss of these outreach methods has substantially reduced the agency's ability to provide good customer service. Members of the public who are required to comply with Cal-EPA's regulations must hunt for answers within Cal-EPA on a program-by-program basis. Eliminating the permit assistance centers and failing to update the CalGold website has also put a stop to all attempts to consolidate and coordinate responses to public inquiries that cut across more than one Cal-EPA program.

How other states provide assistance to those required to comply with environmental rules and regulations

Many other states have recognized the problems faced by businesses and the public in understanding, staying current and complying with the many environmental rules and regulations promulgated each year. To address this problem, other states have implemented programs to provide compliance assistance to the businesses that they regulate. Based on the programs established by these states to provide assistance with compliance, it is generally



recognized that the staffing, knowledge base and resource commitment necessary to comply with the various programs and regulations are simply beyond the capacity of small and medium-sized businesses.

Massachusetts, Vermont, Maryland, Rhode Island and Florida are among the states that have extensive online compliance assistance that is directed toward particular industrial sectors such as printers, auto repair facilities, auto body shops and dry cleaners, which are dominated by small business owners.⁸ The U.S. Environmental Protection Agency also provides an extensive collection of compliance assistance materials and service.⁹ These materials and service include publications, compliance checklists, technical guidance, fact sheets and training workshops to help the industry understand what it takes to comply with the law. Field methods, such as site visits and self-administered audits, are used to supplement available information resources. These programs are made even more effective when they are combined with pollution prevention efforts focused on helping businesses avoid creation of pollution at its source. These approaches are rarely used within Cal-EPA. When the approaches are employed, they tend to be limited to a single program rather than cutting across multiple environmental programs.

While California has limited its efforts to provide comprehensive, integrated public outreach and compliance assistance services on the Internet, other states are aggressively moving to provide much of their regulatory information and data to the public online. These state websites are fully integrated so that all the environmental media are included and comprehensive information about a locality or facility is easy to obtain. Many of the websites are linked with Geographic Information Systems (GIS) that provide mapping capabilities, allowing for the display of information the state has on a regulated site by using a map to locate the site. For example, Oregon and New Jersey have very sophisticated GIS applications on state-sponsored websites that are easy to use and are capable of providing information to the public regarding regulatory activities through the use of the Internet. At this time, these services are provided in a limited manner by Cal-EPA.¹⁰

The states of New Jersey, Oregon, Massachusetts, Vermont, and Florida have seen the value of simplifying information; making it readily accessible to people required to comply with environmental rules and regulations; and providing comprehensive answers to questions. This includes providing extensive information and assistance through their websites. The approaches used by these states have significantly improved customer service and could be readily adopted in California.

Recommendation

The California Environmental Protection Agency, or its successor, should create, on or before January 1, 2005, a centralized Office of Regulatory and Compliance Assistance (ORCA) to

develop an integrated approach to respond to inquiries regarding all state environmental program requirements. The office should, among other things, implement the following:

- By April 1, 2005, create a toll-free phone center, staffed by professionals from all of its divisions that can answer regulatory questions or direct the caller to someone who can. The operation of this call center will be coordinated and integrated with statewide customer service efforts;
- Transfer the responsibility for the CalGold program into ORCA, with the task of updating, improving and maintaining the website, once the office is established;
- Immediately begin to re-engineer the Cal-EPA website to be the initial source for the public to search all the environmental programs via the Internet. This effort should be coordinated and integrated with the state government Internet portal;
- Immediately begin to develop a work plan and schedule for making all of the agency's regulatory databases available for search by the public. This work plan should conform to statewide information technology efforts. The goal should be to complete the work plan and schedule within six months of the date of this report;
- When all of the regulatory databases have been web-enabled for public searches, develop a work plan and schedule to link all the regulatory information for a particular facility into a single, comprehensive report, in conformance with statewide efforts;
- Immediately begin to develop a work plan and schedule to enable regulated businesses to submit required information via the Internet, in conformance with statewide efforts.
- Direct each of the boards, offices and departments within and Cal-EPA, or its subsequent programs, to redirect necessary staff and resources to create the Office of Regulatory Compliance Assistance.

Fiscal Impact

Each of the divisions within Cal-EPA has positions which respond to public inquiries. For example, the Department of Toxic Substances Control has four duty officers who are located in its regional offices throughout the state. The Office of Regulatory and Compliance Assistance and the toll-free call center may be created by redirecting some of the staff and funding being used by each of these divisions to handle public inquiries.

There would, however, be costs associated with re-engineering the CalGold and Cal-EPA websites and web-enabling all of the Cal-EPA regulatory databases. These costs cannot be determined at this time.

The creation of a consolidated assistance center would result in savings. A single point of contact for the public would reduce the variability of responses provided to the public, which should reduce confusion and time spent on public inquiries. A single point of contact would also reduce the time program staff spend responding to phone calls. The savings resulting from these efficiencies cannot be estimated at this time.



Endnotes

- ¹ California Environmental Protection Agency, "Unified Program Annual Summary Report for FY 2004" (Sacramento, California, February 2004); and "Enforcement Progress Report 1999–2002," <http://www.calepa.ca.gov/Enforcement/documents/2002ProgRpt.pdf> (last visited June 15, 2004).
- ² Dwyer and Bergsund, "California Environmental Laws 2004;" and West Group, "Federal Environmental Laws 2002."
- ³ Pub. Res. C. Division 34, Section 71040.
- ⁴ Interview with Gary Arstien-Kerslak, chief information officer, California Environmental Protection Agency, Sacramento, California (June 15, 2004).
- ⁵ California Environmental Protection Agency, "California's Cal Gold Compliance Assistance," www.calgold.ca.gov (last visited June 15, 2004).
- ⁶ State Assembly Bill 1102 (1998–1999 Legislature).
- ⁷ California Environmental Protection Agency, "Permit Assistance Centers," <http://www.calepa.ca.gov/PACs/> (last visited June 15, 2004).
- ⁸ State of Massachusetts, Department of Environmental Protection, "Applications and Forms," <http://www.mass.gov/dep/erp/erpforms.htm> (last visited on June 12, 2004); State of Vermont, Department of Environmental Conservation, Environmental Assistance Division, "Environmental Management Fact Sheets for Autobody Repair Shops," <http://www.anr.state.vt.us/dec/dec.htm> (last visited May 28, 2004); State of Maryland, Department of the Environment, Small Business Assistance Program, http://www.mde.state.us/businessinfocenter/business_assistance/index.asp (last visited June 12, 2004); State of Rhode Island, Department of Environmental Management, Office of Technical and Customer Assistance, <http://www.state.ri.us/dem/programs/benviron/assit/index.htm> (last visited June 12, 2004); State of Florida, Department of Environmental Protection, Compliance Certification Program, <http://www.dep.state.fl.us/waste/pages/autocert.htm> (last visited June 12, 2004); State of Oregon, Department of Environmental Quality, "Databases, GIS and Mapping Applications," <http://www.deq.state.or.us/news/databases.htm> (last visited June 12, 2004); and State of New Jersey, Department of Environmental Protection, "i-Map NJ DEP," <http://www.nj.gov/dep/gis/depsplash.htm> (last visited June 12, 2004).
- ⁹ U.S. Environmental Protection Agency, "Compliance Assistance," <http://www.epa.gov/compliance> (last visited June 12, 2004).
- ¹⁰ State of Oregon, Department of Environmental Quality, "Databases, GIS and Mapping Applications," <http://www.deq.state.or.us/news/databases.htm> (last visited June 12, 2004); and State of New Jersey, Department of Environmental Protection, "i-Map NJ DEP."



Consolidate Cleanup, Spill Prevention and Emergency Response Programs

Summary

Responsibility for environmental cleanup of hazardous materials is divided between several state departments, and the responsibility for spill prevention and emergency response for hazardous materials is divided between several other state departments. This fragmentation results in inefficient government, and is costly and confusing to the regulated entities. Creating a centralized point of authority would increase responsibility and accountability for cleanup and public health protection.

Background

Responsibility for site cleanups is a major source of overlap, duplication and even competition among organizations within state government. The Department of Toxic Substances Control and the Regional Water Quality Control Boards have cleanup responsibilities, and a small program to clean up closed landfills exists in the California Integrated Waste Management Board. Similarly, the state's spill prevention and emergency response programs for hazardous materials are divided among units in the Resources Agency, the California Environmental Protection Agency (Cal-EPA) and the state's Office of Emergency Services.

Shared responsibility, different processes

In a February 2000 report to the Legislature, then Cal-EPA Secretary Winston Hickox discussed the shortcomings of duplicative responsibility possessed by different agencies in the context of pathways of human exposure to toxics and overlapping program responsibilities.

"[T]his issue is especially true in site cleanup situations where the State Water Resources Control Board statutory jurisdiction focuses on protecting the beneficial uses of the waters of the state, whereas the Department of Toxic Substances Control uses multi-pathway analysis to address risks to human health and the environment, including risks of airborne particulates or gases from the site, ingestion of contaminated materials by children, and dermal absorption."¹ Looking primarily at the impact to "beneficial uses of water" or using "multi-pathway" exposure analysis to toxic chemicals suggests highly variable processes and possibly variable cleanup results.

The Department of Toxic Substances Control uses a methodology and administrative process for cleanup based upon federal standards contained in the National Contingency Plan. The methodology looks at all air, water and land pathways for exposure that can impact public health and the environment. While comprehensive, the program is often criticized as being too

slow, too costly and prone to “one size fits all.” In contrast, the Regional Water Quality Control Boards do not follow a single methodology or administrative process. These efforts are generally seen as less costly and more flexible in terms of helping project proponents meet their business needs; but the process is often subject to criticism for being too heavily focused on groundwater impacts and thus does not address multi-media impacts in the cleanup process.² This approach also evokes complaints over inconsistent standards that are applied to similar cleanups, even within the same regional office. One interviewee complained that each staff person sees themselves as a “Little Caesar” for their own project.³

These basic operational approaches lead to jurisdictional disputes that generally revolve around disagreements over best practices to be applied to cleanups. The Cal-EPA stated that, “[T]he degree of enmity between Boards, Departments and Offices varies . . . [but] it is most severe between . . . those most directly involved with site licensing and cleanup activities.”⁴

Apart from concerns over efficiencies and duplication of effort, policy-makers and environmental advocates have expressed concerns that these different approaches and standards for cleanups allow business entities to “forum shop” for the quickest, the cheapest or the easiest cleanup oversight. The consensus opinion among experts interviewed about consolidating cleanup programs favors merging the programs to remedy the problem of overlapping jurisdiction.⁵

Past attempts to consolidate have failed

Legislation enacted in 1993 established the Site Designation Committee as a mechanism to engender cooperation between organizations. The committee receives requests from parties who petition to have one state agency formally designated as the lead agency on cleanup projects. Since its creation, over 100 property owners have taken advantage of the committee process to work through these underlying problems.⁶ Unfortunately, the process has not been successful at limiting the involvement of other agencies once a lead agency is designated. Often, a coordinating committee is established that simply allows all other “subordinate” agencies to maintain a separate oversight role in the cleanup process, which undermines attempts at streamlining the process.⁷

Cal-EPA’s departments have long recognized conflict problems and have devised internal, ad hoc approaches to deal with conflicts caused by overlapping responsibility and functions. The last decade is filled with attempts at improving or resolving the problems through memoranda of agreement, work groups, task forces, panels, coordinated federal grant submittals and executive committees.⁸ While many staff hours have been spent over the years trying to deal with the problem, this fragmented structure remains in place.



Oil spill cleanup similarly fragmented

Oil spill prevention and emergency response programs that all focus on the same potential environmental threats are currently distributed across three different entities: the Office of Oil Spill Prevention and Response (OSPR) in the Department of Fish and Game (DFG); the Marine Facilities Division in the State Lands Commission; and the Oil Spill Unit in the California Coastal Commission. OSPR has jurisdiction over oil tankers up to the point where the ships connect to marine terminals where crude oil bound for California refineries is unloaded. The Marine Facilities Division begins exercising its jurisdiction on the other side of that same connection of the marine terminal. When a spill occurs, DFG serves as “lead” for the emergency cleanup response and for assessing environmental damage caused by the spill.

In March 1995, the Little Hoover Commission expressed support for merging the State Land Commission’s Marine Facilities Division into DFG’s Oil Spill Prevention program as proposed in Governor’s Reorganization Plan No. 1 of 1995. The Commission suggested that “consolidating similar oil oversight functions will eliminate duplication of activities and provide single points of contact for affected interests.”⁹

Spills requiring an emergency response from Cal-EPA departments require immediate action to mitigate harm to the public and the environment. There is nothing intrinsically different between oil spills and spills of hazardous materials. Organizationally, it is best to place these programs that share the same core function—spill prevention and emergency cleanup response—into a single organization. No compelling policy or technical reason exists to resist integrating the oil spill response activities into a larger, statewide program. Indeed, the Little Hoover Commission concluded that “State programs work best when they are closely coordinated with other programs of similar functions or goals.”¹⁰ Consolidating cleanup programs and the emergency response programs would:

- Eliminate overlap and duplication;
- Maximize the existing resources in all three programs;
- Provide a single point of accountability for cleanup;
- Simplify the process;
- Reduce program costs; and
- Provide a consistent set of policies to provide improved depth for technical knowledge and competence.

Recommendations

- A. The Governor should work with the Legislature to consolidate programs responsible for environmental cleanup of hazardous material into a new cleanup program located within the California Environmental Protection Agency or its successor.**

Programs that should be considered for consolidation include: the Department of Toxic Substances Control’s Site Mitigation program and the Corrective Action program; the

state and regional boards' staff involved with cleanup projects including the Leaking Underground Storage Tank program; and the Integrated Waste Management Board's Remediation, Closure and Technical Services program.

- B. The Governor should work with the Legislature to consolidate programs responsible for spill prevention and emergency response into a single Spill Prevention and Emergency Response program located within the California Environmental Protection Agency or its successor.**

Programs that should be considered for consolidation include: the Department of Toxic Substances Control's Emergency Response program; the Office of Emergency Services' Business Plan and Accidental Release Prevention program; the Department of Fish and Game's Office of Spill Prevention and Response; the State Land Commission's Marine Facilities Division; and the California Coastal Commission's Oil Spill Unit.

Fiscal Impact

Consolidating the seven current cleanup programs with 629 Personnel Years (PY) into one organization will reduce administrative overhead for the combined program. Similarly, consolidating five oil spill/emergency response units with 369 PY in five departments will reduce administrative overhead for the combined program.

Staff analysis of the current organizational structures suggests that, for these two consolidation proposals, a total of 20 PY can be eliminated from the administrative structures. Further, cost savings would be achieved by reducing the number of executive and supervisory positions in the combined programs and by aggregating subordinate units into larger sections, branches and divisions. Of these positions, 2.5 PY would be eliminated in Fiscal Year 2004–2005 and an additional 17.5 PY would be eliminated in FY 2005–2006. These reductions would result in savings to the new cleanup entity of about \$1.3 million and savings to the new oil spill/emergency response entity of about \$691,000 after full implementation. These organizational consolidations also will incur one-time relocation costs of up to \$1.4 million for headquarters staff housed in Sacramento.

Because these consolidated programs should have more effective structures, it is likely that additional unknown savings will occur due to further operational changes in future years.



Special Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$244	\$0	\$244	(2.5)
2005–06	\$1,975	\$1,400	\$575	(20.0)
2006–07	\$1,975	\$0	\$1,975	(20.0)
2007–08	\$1,975	\$0	\$1,975	(20.0)
2008–09	\$1,975	\$0	\$1,975	(20.0)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

- ¹ California Environmental Protection Agency, "A Structural and Fiscal Review of the California Environmental Protection Agency," February 2000, p. 19.
- ² Interview with environmental groups' representatives, Sacramento, California (April 5, 2004).
- ³ Interview with California Conference Directors of Environmental Health, Sacramento, California (March 23, 2004).
- ⁴ California Environmental Protection Agency, "A Structural and Fiscal Review of the California Environmental Protection Agency," February 2000, p. 19.
- ⁵ Interview with James Strock, former Cal-EPA secretary, San Francisco, California (March 12, 2004); interview with Winston Hickox, former Cal-EPA secretary, Sacramento, California (March 28, 2004); and interview with environmental groups' representatives, Sacramento, California (April 5, 2004).
- ⁶ Interview with Don Johnson, assistant secretary, California Environmental Protection Agency, Sacramento, California (April 21, 2004).
- ⁷ Interview with Don Johnson, assistant secretary, California Environmental Protection Agency, Sacramento, California (April 21, 2004).
- ⁸ California Environmental Protection Agency, "A Structural and Fiscal Review of the California Environmental Protection Agency," February 2000, p. 18.
- ⁹ Little Hoover Commission, "Review of Governor's Reorganization Plan No. 1," March 1995, p. 13.
- ¹⁰ Little Hoover Commission, "Cal-EPA: An Umbrella for the Environment," June 1991, p. 1.



RES 03

Consolidate Waste Management Programs

Summary

California's solid and hazardous waste management regulatory oversight is performed by four different entities within two different agencies. This organizational structure does not promote coordination and cooperation among state departments, and is confusing and costly to the regulated community. Consolidating solid waste management programs would result in less bureaucracy, greater efficiency and cost savings.

Background

The entities that have solid and hazardous waste management regulatory oversight are the California Integrated Waste Management which regulates solid wastes, the Department of Toxic Substances Control has responsibility over hazardous wastes, the State and Regional Water Quality Control Boards handles ground water protection at waste disposal sites and the Department of Health Services regulates medical wastes and radioactive materials.¹ This is a complex regulatory structure not found in other states where all these programs tend to be administered by a single organization.

Because of California's waste management structure, a regulated entity that is in the business of handling solid waste may have to deal with two or three state entities in order to receive a permit to do business. For example, a company that operates a landfill needs a permit from both the Integrated Waste Management Board and the Regional Water Quality Control Board. If a business owner also wants to handle household hazardous wastes or electronic wastes at the landfill, such as TVs and old computers, then it is subject to the Department of Toxic Substances Control's regulations as well.²

Another example of the problems posed by the above structure is old, abandoned solid waste landfills. A common practice in the 1950s and 1960s was to burn the rubbish which often concentrated metals in the ashes to toxic levels. Closure of these sites is usually done by a local government working through the closure permitting process of the Integrated Waste Management Board and at the same time dealing with the groundwater protection requirements of the Regional Water Quality Control Board. Since the ashes are often toxic, a separate permit is also required from the Department of Toxic Substances Control if the ashes are going to be left in place.³

Splitting regulatory oversight for these waste streams among the four state entities requires each entity's staff to devote considerable time and resources resolving conflicts over relative

authorities, roles and responsibilities. The inability to simply coordinate activities is exacerbated by workload, scheduling conflicts and unequal commitment of resources among the agencies on any given site or issue. There is no clear policy benefit from administering solid and hazardous waste management programs under the auspices of separate organizations.⁴

The fragmentation of waste management extends beyond Cal-EPA. The Department of Health Services administers programs for managing medical waste and radioactive materials. With the creation of Cal-EPA in 1991, the Little Hoover Commission observed that the radioactive materials program “appears to be a reasonable fit for the new agency.”⁵ Controversy surrounding the state’s attempts to create a low-level radioactive waste site in Ward Valley at that time appears to have prevented transfer of this program to Cal-EPA. Recent interviews with Department of Health Services’ program managers and representatives of the waste industry demonstrate a shared belief that both medical waste and radioactive materials should be regulated within a new, consolidated and integrated waste management program with Cal-EPA.⁶

Again in 1994, the Little Hoover Commission showed interest in consolidating the state’s waste management programs when it recommended that “the solid waste facility and technology permitting and overview functions of the Board . . . be transferred into the similar functions of the Department of Toxic Substances Control” as part of another initiative to create a Department of Pollution Prevention.⁷

Thus far, managers of solid and hazardous waste programs have used ad hoc measures to try to overcome the conflicts caused by overlapping responsibilities and functions. The last decade is filled with attempts to improve or solve the problems through memoranda of agreement, work groups, task forces, panels, coordinated federal grant submittals and executive committees.⁸

Combining all waste management programs into a single consolidated program would eliminate overlapping responsibilities and achieve cost savings through a reduction of bureaucracy and administration costs. A single chain of command would ensure cooperation and communication while enhancing accountability and efficiency. A consolidated program would simplify the permitting process and improve the prospects for achieving industry compliance. An integrated program would also enable the state to more efficiently deal with emerging issues such as electronic waste.



Recommendation

The Governor should work with the Legislature to consolidate the state's solid and hazardous waste management programs to form a single Waste Management Program located in Cal-EPA or its successor.

- The following programs should be consolidated: the California Integrated Waste Management Board's Permitting and Enforcement and Special Wastes divisions, the State and Regional Water Board functions devoted to solid and hazardous waste management issues, the Department of Toxic Substances Control's Hazardous Waste Management Program, and the Department of Health Services' Medical Waste Program and Radiological Health Branch.
- Program consolidation does not include the Registration, Certification, Mammography and Standards Section of the Radiological Health Branch, which is a licensing program for medical professionals and should remain within the Department of Health Services.

Fiscal Impact

Consolidating the state's solid and hazardous waste management programs into a single organization will reduce administrative overhead for the combined program. Cost savings would be achieved by reducing the number of executive and supervisory positions in the combined programs including up to five executive/supervisory positions that could be eliminated in the first year by aggregating subordinate units into larger sections, branches, and divisions. Additional unknown savings would also be realized by consolidated contracts and permit processes.

Special Fund (dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$0	\$0	\$0	0
2005–06	\$487	\$0	\$487	(5)
2006–07	\$487	\$0	\$487	(5)
2007–08	\$487	\$0	\$487	(5)
2008–09	\$487	\$0	\$487	(5)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

- ¹ *Public Resources Code Section 40400 et seq.; Health & Safety Code Section 25100 et seq.; Water Code Section 13370 et seq.; Health & Safety Code Section 117600 et seq.; and Health & Safety Code Section 114650 et seq.*
- ² *Public Resources Code Sections 42475.1 and 42475.2.*
- ³ *Health & Safety Code Section 25201.*
- ⁴ *Interview with Eric Ruston, solid waste specialist, San Diego County Department of Public Works, San Diego, California (June 2, 2004).*
- ⁵ *Little Hoover Commission, "CAL-EPA: An Umbrella for the Environment" (Sacramento, California, June 1991), p. 14.*
- ⁶ *Interview with Kevin Riley, deputy director, Prevention Services, David Spath, chief, Division of Drinking Water and Environmental Management, Larry Barrett, chief, Food, Drug and Radiation Division, Department of Health Services, Sacramento, California (April 2, 2004); and Interview with Marc Aprea, president, Aprea & Company, Denise Delmatier, vice president of Government Relations, Griffin & Associates, Kent Staddard, Government Relations, Waste Management, Inc., Sacramento, California (April 15, 2004).*
- ⁷ *Little Hoover Commission, "Beyond Bottles and Cans: Reorganizing California's Recycling Efforts," Report No. 125 (Sacramento, California, March 1994), p. 33.*
- ⁸ *Interview with Ed Lowry, director, Department of Toxic Substances Control, Sacramento, California (March 2, 2004); and interview with Linda Dorn, project manager, Office of Defense Facilities, State Water Resources Control Board, Sacramento, California (March 10, 2004).*



Consolidate Pollution Prevention Programs

Summary

California's pollution prevention efforts remain fragmented among three different programs in two different state agencies. The lack of a consolidated program limits the effectiveness and efficiency of the state's pollution prevention efforts.

Background

Unlike other states that consolidated recycling programs into one unit, several different state entities administer California's recycling and pollution prevention programs. Specifically, the California Integrated Waste Management Board (CIWMB) administers solid waste reduction, reuse and recycling programs that focus on 97 percent of the state's garbage, while the Department of Conservation's Division of Recycling runs a bottle and can recycling program focused on the remaining 3 percent of the state's solid waste. In addition, the Department of Toxic Substances Control's Office of Pollution Prevention (OPP) runs the state's hazardous waste reduction, reuse and recycling program.¹

Past recommendations to merge programs

California's lack of an integrated pollution prevention program has been the subject of numerous studies and reports. Most notably, the Little Hoover Commission recommended the merging of these three programs when it considered the creation of the California Environmental Protection Agency (Cal-EPA) in 1991. The Little Hoover Commission recommended that an OPP be created in the new Cal-EPA, stating that without priority status, pollution prevention would "be pushed into the background."²

Again in 1994, the Little Hoover Commission revisited the issue of reorganizing the state's recycling efforts. In its report, the Commission concluded that "[d]ivided responsibility has resulted in overlap of functions, creating public confusion, missed opportunities to maximize the use of staff expertise, lost economies of operation and some variance in the implementation of the state's recycling goals."³ The report found "gaps and overlaps. . . in the system the state has created" and a "lack of integrated organizational structures and functions [that] have limited the effectiveness of the state's recycling efforts."⁴ The Commission argued that "[S]tructural reforms, including some form of consolidation of the two agencies, would resolve issues of overlap, gaps, and competition, plus create an integrated system that can move toward comprehensive recycling in California."⁵

The Commission's 1994 report also recommended the consolidation of the Department of Toxic Substances Control's OPP efforts into a larger, integrated state pollution prevention program to

“... establish a consolidated and comprehensive waste reduction, resource reuse, and recycling program within Cal-EPA.” The report described this as “the best approach to reorganizing the state’s recycling programs to produce a higher level of effectiveness and efficiency [by] eliminat[ing] both the Division of Recycling and the CIWMB, creating in their place a single consolidated department within Cal-EPA.”⁶ These recommendations were never implemented.

In Fiscal Years 1994–1995 and 1995–1996, Governor Wilson’s Administration proposed to first merge the Division of Recycling into a new Department of Waste Management and then into a revamped CIWMB. However, both proposals failed in the face of intense stakeholder opposition.⁷

Overlaps and duplication acknowledged

The overlap and duplication of functions between the Division of Recycling and the CIWMB continued to cause concerns over the years. In response to enacted legislation, the CIWMB submitted to the Legislature a report in March 2001. The CIWMB prepared the report in consultation with the Department of Conservation and identified overlap and duplication at the two agencies in the following areas:

- Promotions at expositions, fairs, sporting events, conventions
- Interaction with educators
- Market development
- Plastic clearinghouse
- Business assistance
- Rigid plastic packaging containers
- Media campaign and events
- Local government grants
- Curbside recycling information.⁸

The CIWMB’s report noted many of the same areas of redundancy as the Little Hoover Commission reports.

The state’s fragmented recycling programs do not operate as efficiently as they should. Independent agencies spend time and resources attempting to coordinate duplicative and competing activities at the expense of working on key issues. A single organization administering a consolidated recycling and pollution prevention program can better manage existing programs as well as deal with emerging issues such as household and electronic wastes. A single organization can focus on developing effective solutions aimed at preventing the creation of waste at its source or before it is generated.



Recommendation

The Governor should work with the Legislature to consolidate the state’s recycling and pollution prevention programs into one Pollution Prevention and Recycling program located within the California Environmental Protection Agency, or its successor.

Recycling and pollution prevention programs that should be considered for merger are the Integrated Waste Management Board’s Diversion, Planning and Local Assistance Division and the Waste Prevention and Market Development Division, the Department of Conservation’s Division of Recycling, and the Department of Toxic Substances Control’s Office of Pollution Prevention.

Fiscal Impact

Consolidating the state’s recycling and pollution prevention programs into one organization will reduce administrative overhead for the combined program. Cost savings would be achieved by reducing the number of executive and supervisory positions in the combined program, including up to 10 executive/supervisory positions that could be eliminated in the first year.

Additional unknown savings could be achieved by merging functions such as public information campaigns, local grants, technical studies, market development efforts, and obtaining waste flow data.

Special Funds (dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PY’s
2004-05	\$0	\$0	\$0	0
2005-06	\$975	\$0	\$975	(10)
2006-07	\$975	\$0	\$975	(10)
2007-08	\$975	\$0	\$975	(10)
2008-09	\$975	\$0	\$975	(10)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

¹ Department of Toxic Substances Control, “DTSC: Pollution Prevention,” <http://www.dtsc.ca.gov/PollutionPrevention/index.html> (last visited June 12, 2004).

² Little Hoover Commission, “CAL-EPA: An Umbrella for the Environment” (Sacramento, California, June 1991), p. 19.

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- ³ Little Hoover Commission, *“Beyond Bottles and Cans: Reorganizing California’s Recycling Efforts,”* Report No. 125 (Sacramento, California, March 1994), p. 4.
- ⁴ Little Hoover Commission, *“Beyond Bottles and Cans: Reorganizing California’s Recycling Efforts,”* p. 3.
- ⁵ Little Hoover Commission, *“Beyond Bottles and Cans: Reorganizing California’s Recycling Efforts,”* p. 25.
- ⁶ Little Hoover Commission, *“Beyond Bottles and Cans: Reorganizing California’s Recycling Efforts,”* p. 34.
- ⁷ Department of Finance, *“Governor’s Budget Summary, 1994–95,”* Environmental Quality (Sacramento, California, January 1994), p. 163; and Governor’s Department of Finance, *“Governor’s Budget Summary, 1994–95,”* Environmental Quality (Sacramento, California, January 1995), p. 196.
- ⁸ California Integrated Waste Management Board, *“Duplication and Overlap in Recycling Programs of the Integrated Waste Management Board and the Department of Conservation, Report to the Legislature”* (Sacramento, California, March 2001), pp. iii and iv.



Consolidate Pest Control Licensing and Regulatory Programs

Summary

The Department of Pesticide Regulation and the Structural Pesticide Control Board (SPCB) administer similar pest control regulatory and licensing programs. Transferring SPCB's program responsibilities to DPR would result in a more efficient and cost-effective statewide pest control and licensing program.

Background

The Department of Pesticide Regulation (DPR) in the California Environmental Protection Agency is recognized by the U.S. Environmental Protection Agency and state law as the lead agency responsible to regulate the possession, sale and use of all pesticides in California. DPR oversees pesticide product registration; statewide licensing of commercial pesticide applicators and dealers; environmental monitoring; private applicator certification by county agricultural commissioners; inspection and investigation of pesticide use, complaints, and enforcement actions on violations generally through the county agricultural commissioners; and pesticide residue testing of produce.¹

DPR licenses about 4,100 pest control businesses and 18,000 individuals including pest control companies, gardeners, pesticide brokers, commercial applicators and agricultural pest control advisors spraying pesticides outside of the home. DPR administers the private applicator certification program conducted by the county agricultural commissioners, who certify approximately 28,000 individuals. Licensees must take an exam and renew their license every one to three years, depending on the type of license, and pay a fee of between \$25 and \$160.²

Structural Pesticide Control Board (SPCB) is housed in the Department of Consumer Affairs.³ The SPCB is comprised of seven members, four of whom represent the public and three of whom represent the pest control industry. The SPCB licenses structural pest control businesses and individuals to perform pest control services inside of homes and other structures.⁴ It also fields consumer complaints about pesticide businesses.⁵

SPCB licenses about 2,200 companies and 18,000 individuals spraying pesticides on the inside of the home. Businesses and individuals will have a license from both the SPCB and the DPR if they provide pesticide services both inside and outside of the home.⁶ These licensees must take an exam every three years and pay a fee of between \$15 and \$150.⁷ About 2,200 individuals are certified under this program through an exam process to renew their certification.⁸ The Department of Health Services' Environmental Management Branch also certifies vector control technicians employed by public agencies to use pesticides.⁹

In addition to the state's role in pesticide management, county agricultural commissioners are responsible for assuring that all licensed and unlicensed applicators use pesticides according to state and federal law. DPR and SPCB both use the services and expertise of county agricultural commissioners to inspect and investigate consumer complaints about pest control services.¹⁰

DPR regulates pesticides under a comprehensive program that encompasses not only the enforcement of pesticides in agricultural and urban environments, but also prevention of environmental contamination, protection of workers, endangered species protection, promotion of least-hazardous pest management practices, and community relations. The department, through its county agricultural commissioners, inspects pesticide applications including structural pesticide and vector (rats, mosquitoes, etc.) control applications and provides oversight for county agricultural programs.¹¹

The only elements of pesticide regulation that DPR does not directly administer are structural pest control licensing and the vector control program. However, DPR has a memorandum of understanding with SPCB and the Department of Health Services, Environmental Management Branch that guides the interactions of the programs. Still, there are several areas where DPR and SPCB have overlapping authorities, including administrative actions, criminal and civil actions, a disciplinary review committee and a research advisory panel.¹²

The DPR and SPCB have parallel regulatory and enforcement authorities. California is one of only five states that do not have consolidated certification, training, and enforcement programs for agricultural, non-agricultural and structural pest control.¹³ Combining licensing and oversight functions over the state's pesticide management activities in DPR would increase efficiency and result in consistent, statewide administration of pesticide regulations and statutes.

Recommendation

The Governor should work with the Legislature to eliminate the Structural Pest Control Board and transfer license functions and oversight responsibilities for structural pest control businesses to the Department of Pesticide Regulation within the California Environmental Protection Agency, or its successor.

Fiscal Impact

Funding for DPR in Fiscal Year 2003–2004 was \$57 million with a staff of 350. Their work is augmented by more than 400 county agricultural inspectors/investigators working for the county agricultural commissioners on local pesticide enforcement. The department's revenue is drawn from fees on pesticide registrations, pesticide sales—including those used in structural settings—and professional licenses.

The budget for SPCB in FY 2003–2004 was \$3.3 million with a staff of 27. Board members receive per diem and are reimbursed for travel expenses. The board does not receive any General Fund support. It is funded from license fees paid by pesticide applicators and by a



\$1.50 wood destroying organism fee paid to the state from pest and termite inspections, including those inspections performed as part of most home sales.

There is no General Fund savings from this recommendation. Special fund savings are estimated at \$25,000 annually from transferring the functions performed by the part-time board to the DPR. Additional annual savings of \$487,500 would result from consolidating the examination and licensing programs and eliminating five positions that perform some of the Board's functions, and provide support for board member activities and meetings.

Special Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$0	\$0	\$0	0
2005–06	\$512	\$0	\$512	(5)
2006–07	\$512	\$0	\$512	(5)
2007–08	\$512	\$0	\$512	(5)
2008–09	\$512	\$0	\$512	(5)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

- ¹ *United States Environmental Protection Agency Federal Insecticide, Fungicide and Rodenticide (FIFRA) section 26 (7 U.S.C. section 136w-1); and interview with Dave Duncan, chief, Pest Management and Licensing Branch, Sacramento, California (March 16, 2004).*
- ² *Department of Pesticide Regulation website, "License and Certification Program," <http://www.cdpr.ca.gov/docs/license/lictypes.htm> (last visited March 16, 2004).*
- ³ *State Assembly Bill 2382, Chapter 823, Statutes of 1935. The bill created "An act to regulate the practice of structural pest control; to create the Structural Pest Control Board; to provide for the registration and licensing of persons engaged in such practice and for the protection of the public in the practice of structural pest control."*
- ⁴ *Interview with Kelly Okuma, registrar, Structural Pest Control Board, Sacramento, California (April 2, 2004).*
- ⁵ *Business and Professions Code Sections 8648, 17200 et seq., 17500 et seq.; and interview with Kelly Okuma, registrar, Structural Pest Control Board, Sacramento, California (April 2, 2004); and California Pest Control Board (<http://www.pestboard.ca.gov/overview.htm>) (last visited June 17, 2004); and E-mail from Paul Helliker to Susan Sims, California Performance Review, Sacramento, California (May 13, 2004).*
- ⁶ *Interview with Paul Helliker, director, Department of Pesticide Regulation, Sacramento, California (March 9, 2004).*
- ⁷ *Structural Pest Control Board, "Applications and Forms" (<http://www.pestboard.ca.gov/forms.htm>) (last visited June 17, 2004).*

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- ⁸ Interview with Kelly Okuma, registrar, Structural Pest Control Board, Sacramento, California (April 2, 2004).
- ⁹ Department of Health Services Division of Drinking Water and Environmental Management Institutions Program (<http://www.dhs.ca.gov/ps/ddwem/environmental/Institutions/default.htm>) (last visited April 6, 2004).
- ¹⁰ Interview with Paul Helliker, director, Department of Pesticide Regulation, Sacramento, California (March 9, 2004); and interview with Kelly Okuma, registrar, Structural Pest Control Board, Sacramento, California (April 2, 2004).
- ¹¹ Interview with Dave Duncan, chief, Pest Management and Licensing Branch, Sacramento, California (March 16, 2004).
- ¹² Interview with Paul Helliker, director, Department of Pesticide Regulation, Sacramento, California (March 9, 2004); and interview with Kelly Okuma, registrar, Structural Pest Control Board, Sacramento, California (April 2, 2004).
- ¹³ Association of American Pesticide Control Officials and U.S. Environmental Protection Agency (<http://www.epa.gov/oppfod01/safety/applicators/statepro.htm>) (last visited March 22, 2004).



Consolidate Funding Programs for Clean Water Infrastructure

Summary

California manages federal loan funds for drinking water and clean water infrastructure in two different departments. This structure produces benefits to the public below the national average measured against the total funding spent by states for drinking water and clean water projects. High performance states have a consolidated management structure. California needs to consolidate its federal revolving fund programs for water infrastructure.

Background

The Water Education Foundation noted, “California and water. The two always have been and always will be inextricably linked. No resource is more vital to the state’s prosperity or steeped in more controversy.”¹ Managing scarce financial resources to maximize the benefit to California’s people, environment and wildlife is a critical component of California’s water management program.

Federal water infrastructure funding

In 1987, Congress amended the Clean Water Act to create a new mechanism for financing clean water and wastewater infrastructure projects nationwide. The Clean Water State Revolving Fund provides an independent, permanent source of low-cost financing for sewer treatment plant projects and a wide range of other clean water projects, including “non-point source” pollution control and “watershed” protection.

Non-point source pollution is differentiated from “point source” pollution. Point source pollution comes from “the end of a pipe”—the discharge from a business or the effluent from a sewer treatment plant. Non-point source pollution comes from rainwater runoff or water that flows across land—the runoff from roads that empty into storm water drains or the water that drains from agricultural land. Watersheds are the “areas of land that catch rain and snow and drain or seep into a marsh, stream, river, lake or groundwater.”² The State Water Resources Control Board (SWRCB) manages the Revolving Fund for these purposes. The SWRCB has a budget of \$5 million and 37 personnel years (PYs) to administer the Revolving Fund program and service a \$2.8 billion loan portfolio.³

In 1996, Congress amended the Safe Drinking Water Act to authorize the creation of the Drinking Water State Revolving Fund to provide low-interest loans for public water system infrastructure needs and other drinking-water-related activities. The Department of Health Services (DHS) manages the Drinking Water Fund. The DHS has a budget of \$4 million and 35 staff to administer the Drinking Water Fund program and service a \$126 million portfolio.⁴

The U.S. Environmental Protection Agency (U.S. EPA) provides annual capitalization grants to each state for both funds. Each state administers its own funds under the oversight of U.S. EPA. The states provide matching funds of at least 20 percent to be eligible for federal funding.⁵ In the current year, California received a federal capitalization grant of \$90 million for the Revolving Fund plus the state match of \$18 million for a total of \$108 million. For the Drinking Water Fund, California received \$78 million plus the state match of \$16 million for a total of \$94 million.⁶

Leveraged programs

Some programs leverage their funds to make additional loans. Leveraging typically is done by issuing revenue bonds. Revenue bonds are issued by the program to increase the amount of funds available for funding projects. The revenue pledge comes from the repayment of Revolving Fund loans. The Revolving Fund will receive \$140 million in repayments in 2004. The Revolving Fund issued its first revenue bond in 2002. The Drinking Water Revolving Fund does not have significant repayments and has not leveraged their fund.⁷

These funds, in turn, provide assistance to both public and private entities for state determined water-quality priorities. The most common form of assistance is loans for water and wastewater treatment facilities with interest rates ranging from zero percent up to market rates, and repayment periods of up to 20 years. Money from the repaid loans is deposited back into the state Revolving Fund to help finance future water infrastructure needs. The national weighted average interest rates for loans in the program have ranged between two and four percent from 1990 to 2003. The 20-year Bond Buyer Index interest rate (a proxy for the market rate) for the same period ranged between five and seven percent. It is apparent that loan recipients in the program benefit from a considerable subsidy by comparing the market rate for borrowing and the actual interest rate charged by states.⁸ In California, the current interest rate is 2.5 percent.⁹

According to SWRCB and DHS, the financial profile of the Revolving Fund and the Drinking Water Fund is as follows:¹⁰

Financial Summary of California CWSRF and DWSRF	
Loan Portfolio:	Amount (millions)
Revolving Fund—SWRCB	\$2,800
Drinking Water Fund—DHS	\$126
Total Loan Portfolio	\$2,926



Financial Summary of California CWSRF and DWSRF (continued)	
Estimated Annual Loan/Grant Funds Available:	Amount (millions)
Revolving Fund—SWRCB—EPA grant & state match	\$108
Revolving Fund Repayments—SWRCB	\$140
Drinking Water Fund—DHS—EPA grant & state match	\$94
<i>Total Annual Loan/Grants</i>	<i>\$342</i>
Operating Budget:	(\$millions/# positions)
Revolving Fund Repayments—SWRCB	\$5 /37 PYs
Drinking Water Fund—DHS—Fed & State	\$4 /35 PYs
<i>Total Annual Operation</i>	<i>\$9 /72 PYs</i>

California underestimates its needs

Periodically the U.S. EPA conducts a Water Infrastructure Needs Survey to measure the unmet need for water infrastructure as reported by each state. The amount of the capitalization grant awarded to each state is based, in part, on its unmet need.¹¹

In the 2000 survey, California reported an unmet Revolving Fund need of \$14.4 billion, and an unmet Drinking Water Fund need of \$17.5 billion for a total unmet water infrastructure need of \$31.9 billion, ranking second behind New York.¹² New York reported a total unmet need of \$33.6 billion. Of that amount \$20.4 billion was an unmet Revolving Fund need; 70 percent of its unmet Revolving Fund need is for New York City (\$14.3 billion), which almost equals California's total reported unmet need.¹³

California's population is 83 percent larger, California's land area is 230 percent larger, and California's gross state product is 64 percent larger than New York's.¹⁴ The inference that can be drawn from this data is that California is under reporting its unmet water infrastructure needs.

New York has a single independent office dedicated to meeting the financial water infrastructure needs of that state. The U.S. EPA asked New York to do a workshop at the last national conference on need assessments because they do a superior job of documenting that state's unmet need.¹⁵ Since 1988, New York has received 52 percent more in Revolving Fund federal capitalization grants than California—a total of \$789 million in additional funding.¹⁶

California underperforms in productive use of funds

California ranks second nationally in total Revolving Fund federal grant awards for wastewater treatment (\$1.5 billion), but ranks 23rd for productivity. Productivity is measured by the percentage of total financial assistance provided (includes federal grant, state match, loan repayments, and leveraging) to the amount of federal capitalization grant awarded from 1988 to 2003.¹⁷ For the Drinking Water Fund, California ranks first in total federal grant awards (\$360 million) among the states, but ranked 50th for productivity from 1996 to 2003. California is one of only nine states that manage the Revolving Fund and Drinking Water Fund in separate agencies. Eighteen states have an independent finance authority or agency responsible for both.¹⁸ Nine of the top 10 states for productivity all have a single office responsible for administering both the Revolving Fund and the Drinking Water Fund.¹⁹

New York's Environmental Services Corporation has delivered 292 percent of the Revolving Fund and 380 percent of the Drinking Water Fund capitalization grants by leveraging its portfolio (increasing amount of funds available for loans by issuing revenue bonds) from 1988 to 1998. California by comparison delivered 156 percent of the Revolving Fund and 53 percent of the Drinking Water Fund capitalization grants to meet water infrastructure needs. Compared even with the national average of 219 percent for the Revolving Fund and 152 percent for the Drinking Water Fund, California is falling short of its potential in productivity.²⁰

Three states delivered more in total Revolving Fund dollars to their communities than California. All three have a single finance agency. Those states include Massachusetts (one percent more), Texas (45 percent more) and New York (134 percent more).²¹ California is clearly underperforming. California's performance is 71 percent of the national average for the Revolving Fund and 35 percent for the Drinking Water Fund.

California has received \$1.5 billion of Revolving Fund capitalization grants and \$360 million in Drinking Water Fund capitalization grant from the U.S. EPA. California has provided \$2.7 billion of Revolving Fund assistance and \$190 million of Drinking Water Fund assistance.²² If California's performance were at the national average of delivering 219 percent for the Revolving Fund and 152 percent for the Drinking Water Fund, California would have invested an additional \$585 million in its clean water infrastructure and \$357 million more for drinking water improvements.

Recommendations

- A. The Governor should work with the Legislature to consolidate the Revolving Fund at the California State Water Resources Control Board and the Drinking Water Fund at the Department of Health Services into a single office within the California Environmental Protection Agency, or its successor.**



Having a single office likely would produce the following benefits:

- Enhanced focus on financial management by establishing a self-sustaining, permanent funding solution for California's water infrastructure that maximizes fund availability at the least expense. It can streamline the oversight relationship of both funds with U.S. EPA.
- Improved customer service by providing a single point of contact for local jurisdictions seeking financial assistance to improve water quality infrastructure from the initial planning and application interaction (marketing, priority setting, etc.) through final loan maturity for all water infrastructure projects.
- Improved technical assistance to under served communities by leveraging resources.
- Increased efficiencies that produce savings by eliminating redundancy and reducing operating costs in administrative services like accounting, information technology, loan processing, federal reporting and outreach.
- Increased productivity by leveraging the combined portfolio.
- Improved policy implementation for priority funding that delivers scarce financial resources strategically for growth management.

One office to meet the financial needs of California's water infrastructure will deliver better results. With a consolidated office serving as the central authority to finance construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities/projects, California's ability to finance its water infrastructure needs will be greatly enhanced. Based on the national average for productivity, it should increase the amount of low-cost funding available for California's water infrastructure needs by 32 percent. Realizing just the national average translates to an additional \$900 million for California's water infrastructure.

The single office should have a Loan Committee to approve loans comprised of the following members:

- The Secretary of the Environmental Protection Agency, or its successor.
- The Secretary of the Natural Resources Agency, or its successor.
- The Secretary of the Business, Transportation and Housing Agency, or its successor.
- The Secretary of the Department of Food and Agriculture, or its successor.
- The Director of the Department of Finance, or its successor.
- Other members deemed appropriate by the Governor.

- B. The California Environmental Protection Agency, or its successor, should direct the office to develop a technology plan by January 2006 to streamline loan processing and financial management to increase the productivity of staff, and fund the technology plan with net savings.**

Fiscal Impact

Consolidating the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund will result in efficiencies due to the combined workforce. Analysis of these programs indicates that combining the programs would reduce staffing needs by at least five percent, or four personnel years (PYs). Implementing the proposed technology plan to install a financial management system should result in additional unknown savings. In addition, it is assumed that the consolidation will incur one-time relocation costs of up to \$5,300 per person. Savings will accrue beginning April 1, 2005.

Should the consolidated programs also implement strategies to support increased use of state-issued revenue bonds, the new program could increase the overall funds available for investment in local clean and drinking water projects. Use of revenue bonds to leverage state and federal grant funding could result in unknown, but possibly major, increases in funds available for clean water projects. Based on national averages for large states using revenue bond financing strategies, staff estimates that over time additional funds of up to \$900 million dollars could be available to the revolving fund for California's water infrastructure.

Special Fund (dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$49	\$360	(\$311)	(1)
2005–06	\$395	\$0	\$395	(4)
2006–07	\$395	\$0	\$395	(4)
2007–08	\$395	\$0	\$395	(4)
2008–09	\$395	\$0	\$395	(4)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

- ¹ *Water Education Foundation: A Briefing on California Water Issues* <http://www.watereducation.org/cabriefing.asp>, p .1 (last visited May 13, 2004).
- ² *US EPA watershed definition* at <http://www.epa.gov/surf/watershed.html> (last visited June 16, 2004).
- ³ *Data provided by the State Water Resources Control Board CWSRF office and the Department of Health Services DWSRF office, Sacramento, California.*
- ⁴ *Data provided by the State Water Resources Control Board CWSRF office and the Department of Health Services DWSRF office, Sacramento, California.*



- ⁵ How the CWSRF Program Works: <http://www.epa.gov/owm/cwfinance/cwsrf/basics.htm> (last visited June 11, 2004).
- ⁶ Data provided by the State Water Resources Control Board CWSRF office and the Department of Health Services DWSRF office, Sacramento, California.
- ⁷ Data provided by the State Water Resources Control Board CWSRF office and the Department of Health Services DWSRF office, Sacramento, California.
- ⁸ Clean Water State Revolving Fund: National Information Management System Reports
URL: <http://www.epa.gov/region5/water/cwsrf/pdf/ratest.pdf> (last visited May 13, 2004).
- ⁹ Data provided by the State Water Resources Control Board CWSRF office and the Department of Health Services DWSRF office, Sacramento, California.
- ¹⁰ Data provided by the State Water Resources Control Board CWSRF office and the Department of Health Services DWSRF office, Sacramento, California.
- ¹¹ Drinking Water State Revolving Fund Program Guidelines: Allotment formula <http://www.epa.gov/safewater/dwsrf/docs/guide2.html> (last visited June 12, 2004).
- ¹² “Clean Watersheds Needs Survey 2000, Report to Congress,” dated August 2003; EPA-832-R-03-001; “Drinking Water Infrastructure Needs Survey, Second Report to Congress,” February 2001; EPA-816-R-01-004.
- ¹³ “Clean Watersheds Needs Survey 2000, Report to Congress,” dated August 2003; EPA-832-R-03-001; “Drinking Water Infrastructure Needs Survey, Second Report to Congress,” February 2001; EPA-816-R-01-004.
- ¹⁴ California Statistical Abstract—2003, Tables P37 to P39 and Tables P28 to P30.
- ¹⁵ Telephone interview with Dave Geisinger, Program Manager, NYS Environmental Facilities Corporation (April 6, 2004).
- ¹⁶ Clean Water SRF Investment, by State, July 1, 1987 through June 30, 2003:
<http://www.epa.gov/region5/water/cwsrf/pdf/invst.pdf> (last visited June 16, 2004).
- ¹⁷ 2003 US EPA Financial Indicators Report: <http://www.epa.gov/region5/water/cwsrf/pdf/indicatorst.pdf> (last visited May 13, 2004).
- ¹⁸ US EPA DWSRF Report to Congress (May 2003), pp. 18–19, “http://www.epa.gov/safewater/dwsrf/pdfs/dwsrf_congressreport-main.pdf (last visited May 13, 2004).
- ¹⁹ 2003 US EPA Financial Indicators Report: <http://www.epa.gov/region5/water/cwsrf/pdf/indicatorst.pdf> (last visited May 13, 2004).
- ²⁰ 2003 US EPA Financial Indicators Report: <http://www.epa.gov/region5/water/cwsrf/pdf/indicatorst.pdf> (last visited May 13, 2004) and DWSRF National Information Management System:
<http://www.epa.gov/safewater/dwsrf/nims/dwfaapps01.pdf> (last visited May 13, 2004).
- ²¹ 2003 US EPA Financial Indicators Report: <http://www.epa.gov/region5/water/cwsrf/pdf/indicatorst.pdf> (last visited May 13, 2004).
- ²² National Information Management System Report, Project Assistance Compared to Funds Available:
<http://www.epa.gov/region5/water/cwsrf/pdf/faapst.pdf> (last visited May 13, 2004) and DWSRF National Information Management System: <http://www.epa.gov/safewater/dwsrf/nims/dwfaapps01.pdf> (last visited May 13, 2004).



Reduce Overhead Costs of the California Environmental Protection Agency

Summary

There are six separate divisions of administrative services in the California Environmental Protection Agency located in the same building, providing the same services to the agency's six departments. The cost of providing these services can be significantly reduced by consolidating the six divisions into one administrative office.

Background

In 2001, the California Environmental Protection Agency (Cal-EPA) relocated its boards and departments into one building. One of the justifications for the relocation of the previously scattered offices was to realize "synergy" between the various entities within the agency.¹ Consolidation of administrative services to reduce overhead costs is a logical next step to enhance "synergy" or a cooperative relationship. That, however, did not occur.

The combined staff of these six administrative divisions comprises 423.5 personnel years (PYs), representing nine percent of the total Cal-EPA positions. The estimated budget for personnel, budget, accounting, and business services is \$35 million. According to the Salaries and Wages Supplement published by the Department of Finance, the breakdown of the number of administrative services positions and total salaries by department or board is shown below.²

Department/Board	Total Administrative PYs	Total PYs
Air Resources Board	81.7 (7.9 %)	1,035.50
CA Integrated Waste Management Board	65.5 (13.7%)	479.50
Department of Pesticide Regulation	35.3 (9.2%)	381.70
Water Resources Control Board	119.0 (7.1%)	1,666.60
Office of Environmental Health Hazard Assessment	28.0 (20.6%)	135.90
Department of Toxic Substances Control	94.0 (8.9%)	1,052.30
TOTAL	423.5 (8.9%)	4,751.50

The chart above illustrates that 8.9 percent of the total number of PYs in Cal-EPA is dedicated to delivering administrative services. By comparison, the chart below illustrates that five percent of the total number of personnel in other large departments typically is dedicated to delivering administrative services.³

Review of Administrative Services Positions in Large Departments		
Department	Total Administrative PYs	Total PYs
Dept of Industrial Relations	129.30 (4.8 %)	2,671.30
Dept of General Services	174.30 (4.2%)	4,130.80
Dept of Justice	297.50 (5.5%)	5,450.20
Dept of Transportation	1,088.30 (4.7%)	22,951.20
TOTAL	1,689.40 (4.8%)	35,203.50

Based on the standard for larger departments, a fully staffed, consolidated office of administrative services for Cal-EPA departments should require 238 positions (five percent of total personnel). Consolidation would reduce the need for personnel by 186 positions and reduce administrative services costs by more than 40 percent (from about nine percent to five percent) for an estimated savings of more than \$16 million annually.

Recommendation

The California Environmental Protection Agency, or its successor, should propose a consolidation plan for its six divisions of administrative services into one administrative services office located within the Office of the Secretary.

- The Secretary should appoint a Director of Administrative Services Consolidation to prepare a detailed implementation plan to consolidate administrative services by January 2005. The implementation plan should be effective April 1, 2005.
- Administrative staff reductions should be fully implemented by July 2006.

Fiscal Impact

Combining all current Cal-EPA board and department administrative functions into a single administrative center will reduce significantly the cost of those activities. Specifically, reducing the current administrative overhead from almost nine percent of staff to five percent of staff—about the average for other departments of similar size to its boards and departments, Cal-EPA would reduce its administrative function from about 423 PYs to about 238 PYs. When complete in Fiscal Year 2006–2007, the savings would be about \$16,347,000 annually. It is assumed that implementation begins April 1, 2005.

Because the consolidation is complex, it will take up to 15 months to complete. Consequently, discussions with Cal-EPA staff suggest that reductions in the FY 2004–2005 be no more than six PYs with the remainder of the reductions occurring in FY 2005–2006 and FY 2006–2007. In addition, consolidating administrative functions would incur one time relocation costs for 238 PYs of up to \$1,238,000. This relocation estimate primarily depends on the extent to which new modular furniture and rewiring of phones, computers and other utilities is needed by the consolidated entity.



The Cal-EPA budget consists of 62 special funds and the General Fund. The General Fund represents five percent of the total budget.

General Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$25	\$0	\$25	0
2005–06	\$436	\$62	\$374	5
2006–07	\$817	\$0	\$817	9
2007–08	\$817	\$0	\$817	9
2008–09	\$817	\$0	\$817	9

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Other Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$480	\$0	\$480	6
2005–06	\$7,737	\$1,176	\$6,561	88
2006–07	\$15,530	\$0	\$15,530	176
2007–08	\$15,530	\$0	\$15,530	176
2008–09	\$15,530	\$0	\$15,530	176

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

- ¹ Interview with Chris Reynolds, former Legislative Director, California Environmental Protection Agency, Sacramento, California (April 28, 2004).
- ² Department of Finance, "2004–2005 Salaries and Wages Supplement, "Environmental Protection," pp. EP 3, EP 6, EP 8, EP 12, EP 22, EP 24, http://www.documents.dgs.ca.gov/osp/SalaryWages04/pdf/3900_ep.pdf (last visited June 15, 2004).
- ³ Department of Finance, "2004–2005 Salaries and Wages Supplement," "Labor Workforce Development," p. LWD 18, http://www.documents.dgs.ca.gov/osp/SalaryWages04/pdf/7000_lwd.pdf (last visited June 15, 2004); Department of Finance, "2004–2005 Salaries and Wages Supplement," "State and Consumer Services," p. SCS 44, http://www.documents.dgs.ca.gov/osp/SalaryWages04/pdf/1000_scs.pdf (last visited June 15, 2004); Department of Finance, "2004–2005 Salaries and Wages Supplement," "Legislative, Judicial, Executive," p. LJE 26, http://www.documents.dgs.ca.gov/osp/SalaryWages04/pdf/0010_lje.pdf (last visited June 15, 2004); and Department of Finance, "2004–2005 Salaries and Wages Supplement," "Business, Transportation and Housing," p. BTH 24, http://www.documents.dgs.ca.gov/osp/SalaryWages04/pdf/2000_bth.pdf (last visited June 15, 2004).



Consolidate the State's Geologic Programs

Summary

There are two independent boards that have responsibility for licensing, regulation, enforcement, and policy development for geologic issues resulting in overlap and duplication of functions. The functions should be consolidated to reduce the burden on the public, local jurisdictions, and professionals, and to achieve administrative savings.

Background

The State Mining and Geology Board (SMGB) and the Board for Geologists and Geophysicists (BGG) are responsible for licensing, regulation, enforcement and policy development for geologic issues. The following table illustrates the overlapping responsibilities with respect to California's geological issues. The descriptions of the missions were taken from each entity's website.¹

Entity	SMGB	BGG
Authority/ Date Created	PRC 660/1976	BPC 101.6/1968
Mission	Represents the State's interest in development, utilization, and conservation of mineral resources; reclamation of mined lands; development of geologic and seismic hazard information; and forum for public redress.	Continually enhances the quality, significance and availability of geological and geophysical services to the people of the State of California.
Type of Organization	Regulatory, appeals, enforcement	Licensing, enforcement
Members	Nine members—appointed by the Governor, subject to confirmation by the Senate. (PRC 660)	Seven members—four public members and three experts appointed by Governor, one member appointed by Senate Rules, one member appointed by Speaker. (BPC 7810)

(BPC = Business and Professions Code; PRC = Public Resources Code)

Entity	SMGB	BGG
Terms of Office	4 years (PRC 664)	4 years (BPC 7810) (term expires June 1)
Per Diem	\$100/day plus per diem (PRC 667)	\$100/day plus per diem (BPC 103)
Support	Executive Officer— Exempt from civil service pursuant to subdivision (e) of Section 4 of Article XXIV of the California Constitution plus any necessary clerical assistance. (PRC 670)	Executive Officer— Exempt from civil service. (BPC 107)

(BPC = Business and Professions Code; PRC = Public Resources Code)

State Mining and Geology Board (SMGB)

The SMGB was established in conjunction with the Surface Mining and Reclamation Act (SMARA).² It serves as a regulatory, appeals, enforcement, and policy body representing the state's interest in geology, geologic and seismologic hazards, conservation of mineral resources, and reclamation of lands following surface mining activities. The SMGB is granted autonomous policy, regulatory, and appeals authority under the Seismic Hazards Mapping Act, the Alquist-Priolo Earthquake Fault Mapping Act and the Surface Mining and Reclamation Act.³ The SMGB provides a necessary public forum for individuals and professional associations to appeal decisions made by local governments or enforcement actions of the Department of Conservation (DOC) Office of Mine Reclamation.

The SMGB has strong support from most cities and counties because of its role as an accessible state regulatory, appeals, and policy organization that assists local jurisdictions to solve problems involving surface mining operations and reclamation, as well as establishing geological and geophysical criteria for earthquake and geologic hazards. The SMGB serves as the lead agency under SMARA when local jurisdictions fail to perform their responsibilities.⁴ Funding for the Board comes from the Surface Mining and Reclamation Account funds (federal royalties from mineral extraction) and totals \$300,000 for nine part-time SMGB members and two full-time staff.⁵

Board for Geologists and Geophysicists (BGG)

Established in 1968, the BGG examines and licenses registered geologists, geophysicists, certified engineering geologists and hydrogeologists. It also hears public complaints about persons practicing geology and geophysics not in accordance with professional standards. The BGG provides enforcement actions, information and outreach programs to consumers.⁶ The BGG is supported wholly by registration fees, application fees for its licensing examinations and fines and cost recoveries from enforcement actions. Current costs to support the BGG are \$736,000 for seven board members and three personnel years.⁷



Consolidation opportunities due to duplicative efforts

Duplication of the state's regulatory and registration functions have been under scrutiny for many years. A 1989 Little Hoover Commission report "... concluded that the State's boards and commissions are proliferating without adequate evaluation of need, effectiveness and efficiency. This lack of control may cost the state not only dollars but also wasted resources, duplicated efforts and the adoption of policies that may run counter to the general public's interest. Numerous organizations have been created that have similar functions. . . . The overlap becomes particularly troublesome when both bodies are regulatory in nature."⁸

The state can increase efficiency, save money and maintain a high level of service for geologic programs by merging the existing functions of the BGG into the SMGB. Consolidation of the functions of the BGG within the SMGB provides efficiencies, economies of scale, and "one-stop shopping" for the public, local jurisdictions and the practicing professionals who could go to one agency for information on geology, mining and reclamation issues, geologic and geophysical practitioners and licensing/registration requirements. The BGG enforcement process is straight forward; transferring enforcement authority to the SMGB would simplify the enforcement process and allow the use of administrative law judges within the new administrative structure.⁹

Supporters for these changes include Department of Conservation,¹⁰ the California Council of Geological Organizations and professional practitioners and the Association of Engineering Geologists.¹¹

Recommendations

- A. The Governor should work with the Legislature to eliminate the Board for Geologists and Geophysicists and move its functions into the State Mining and Geology Board. This reorganization should occur in Fiscal Year 2004–2005. The legislation should:**
 - Transfer the responsibility of the Board for Geologists and Geophysicists from the Department of Consumer Affairs to the State Mining and Geology Board (PRC 660 et seq.). This would require amendments to Business and Professions Code Section 7800 et seq.
 - Eliminate Board for Geologists and Geophysicists membership by amending Business and Professions Code Section 7810. The Governor should terminate appointments.
 - Eliminate the Executive Officer position by amending Business and Professions Code Section 107.

- B. The Department of Finance should redirect 2 personnel years from the Board for Geologists and Geophysicists to the State Mining and Geology Board for performance of the former responsibilities of the Board for Geologists and Geophysicists.**

Fiscal Impact

Consolidation of the BGG with the SMGB will result in savings of \$107,500 and 1 personnel year annually.¹² The savings includes reduced travel and per diem for the eliminated board members and one staff. In addition, the BGG would incur one-time relocation costs. This proposal assumes an April 1, 2005 implementation date.

Special Funds (dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004-05	\$39	\$22	\$17	-1.0
2005-06	\$108	\$0	\$108	-1.0
2006-07	\$108	\$0	\$108	-1.0
2007-08	\$108	\$0	\$108	-1.0
2008-09	\$108	\$0	\$108	-1.0

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

- ¹ Department of Conservation, "State Mining and Geology Board," <http://www.consrv.ca.gov/SMGB> (last visited March 24, 2004); Seismic Safety Commission, "About the Seismic Safety Commission," <http://www.seismic.ca.gov/sscabout.htm> (last visited March 8, 2004); and Board for Geologists and Geophysicists, "Mission and Vision Statements," <http://www.geology.ca.gov/about/mission.html> (last visited June 15, 2004).
- ² Pub. Res. C. Sections 2008 and 2755.
- ³ Department of Conservation, "State Mining and Geology Board."
- ⁴ Interview with Jason Marshall, assistant director, Legislation, Department of Conservation, Sacramento, California (March 5, March 26, and May 11, 2004).
- ⁵ Department of Finance, "Governor's Proposed Budget FY 2004–05," Sacramento, California, January 9, 2004; Interview with Tom Gibbs, assistant director, Administration, Department of Conservation, Sacramento, California (June 15, 2004).
- ⁶ Board for Geologists and Geophysicists, "Purpose of the Board," <http://www.geology.ca.gov/about/purpose.html> (last visited March 24, 2004).
- ⁷ Department of Finance, "Governor's Proposed Budget FY 2004–05;" and Interview with Paul Sweeney, executive officer, California Board for Geologists and Geophysicists, Sacramento, California (April 29, 2004).
- ⁸ Little Hoover Commission, "1988 through 1989: Two Years of Progress Toward Efficient and Effective Government" (Sacramento, California, April 1990).



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- ⁹ *Interview with Dr. John Parrish, executive officer, California State Mining and Geology Board, Sacramento, California (March 5 and March 25, 2004).*
- ¹⁰ *Interview with Darryl Young, director, Department of Conservation, Sacramento, California (March 5 and May 11, 2004).*
- ¹¹ *Interview with Dr. John Parrish.*
- ¹² *Interview with Dr. John Parrish and interview with Paul Sweeney.*



Centralize California Heritage Programs

Summary

California does not have a centralized state heritage agency. This results in a lack of coordination among the programs, confusion about which agencies do what, and duplication of work, all of which leads to inefficiencies and increased cost. Centralizing some or all of heritage programs will allow the state to better carry out its work, eliminate the duplication of program functions, increase efficiencies and reduce state costs.

Background

California government has had a role in preserving historical and cultural resources since statehood. The first state law enacted mentions history and the need to preserve historical documents.¹ The state's investment in historic sites, collections, museums and heritage/cultural programs has been continuous and substantial over many years. Public interest in and demand for access to heritage resources is significant and growing.²

In the last three years, several bills have been introduced in the Legislature to reshape various aspects of the state's current cultural heritage program.³ All of these bills were introduced in at least a partial response to critical structural problems with cultural programs and resource preservation. The legislation attempted to create a more comprehensive and coordinated structure and policy pertaining to the problem of identifying, financing, and operating historical or cultural resources, facilities and programs. During the same period of time however, General Fund and other resources have been shifted away from heritage agencies and programs, leading to overall deterioration of the state's cultural heritage assets and increased backlogs for their care and maintenance.

A fragmented structure

The following state entities administer separate historic preservations and museum cultural programs, resulting in a number of disconnect and duplications in the programs they provide:⁴

- Department of Parks and Recreation;
- Secretary of State;
- California State Library;
- State and Consumer Services Agency;
- Department of General Services; and
- Resources Agency.

The Department of Parks and Recreation (California State Parks) operates the majority of historic sites and historical collection held by state government, and the California Office of Historic Preservation. California State Parks operates 277 properties, of these approximately 120 park units contain significant cultural resource features.⁵ There are more than 60 State

Historic Parks, monuments, museums, and park units primarily devoted to the preservation or interpretation of cultural features. Overall, the department is responsible for the documentation, preservation and care of 10,000 known prehistoric and historic archaeological sites, 3,000 historic buildings, 1 million museum objects, more than 3 million archival documents, and 2 million archeological specimens.⁶

The Secretary of State operates the California State Archives and administers the California State History Museum. The State Archives holds approximately 100 million documents and preserves and provides research access to the public records of California state government agencies, the Governor's Office and the Legislature. The California State History Museum interprets selected aspects of the state's history.⁷

The Department of General Services administers the California Records and Information Management Program (CalRIM) which operates the State Records Center. While seemingly unrelated to cultural heritage programs, CalRIM and the State Records Center perform an important documentary preservation function that is closely connected to the work of the State Archives.⁸

The California State Library is associated with the Department of Education. In addition to general library collections, it has rich holdings associated with California history that are organized as a separate California History Room collection. The former Legislative Research Bureau was transferred to the State Library by the Budget Act of 1991 and operates as the California Research Bureau. The California Historical and Cultural Endowment was established at the State Library in 2003 to make grants for historic preservation purposes.⁹

Improvements from a consolidated structure

Consolidating heritage programs will allow a comprehensive evaluation of state-owned and leased facilities used by heritage agencies for the storage, care and housing of archives, records, and historical objects and staff. Activities now housed in private facilities could be transferred to similar state-owned facilities to further reduce cost.¹⁰

Consolidation would also present the opportunity to reorganize museums and historic sites into thematically related groupings. These groupings would promote the development of specific knowledge within "communities of interest," improve the opportunity for sharing resources and programming, and allow sites and museums to be grouped in a more coherent manner based on subject, geography and type.

Museums would become components of a "state museum system," which would bring a greater unity to the programs of all the museums and provide a higher level of professional expertise to the public. State museums and museum projects would benefit from unified policy guidance, consistent planning, shared exhibition development programs, and reduced executive-level and administrative overhead. Historic towns and sites would be operated at a



higher level of coordination, as would historic mansions and house museums, forts and lighthouses, Native American sites, ethnic and cultural history sites.

The Department of Parks and Recreation (DPR) leases privately owned warehouse facilities in West Sacramento to house historic and archeological collections. These lease costs could be reduced or eliminated by consolidating these collections into state-owned facilities presently under the control of the State Archives.

Reuniting the state records center with the state archives would restore an important connection between these two programs and result in more effective administration of the state's active, inactive and archival records programs. Review, approval, and implementation of records retention schedules would become the responsibility of a single staff rather than being divided between the Department of General Services and the State Archives.¹¹

The State Library and the State Archives have preservation laboratories that could be consolidated into the State Archives facility, releasing space for other purposes at the State Library.¹² The general non-governmental historical documents (manuscripts), rare books, prints and pictorial collections held by State Parks, the State Library, and the State Archives could be combined into one research facility. The result would be a reduction in reference staff costs and facilities' overhead expenses.

Fiscal crises

In 2001, DPR estimated it would require \$23 million per year to fully implement its cultural resources programs at an adequate level. In January 2004, it estimated that it would require \$218 million to address 1,375 cultural resource deferred maintenance projects.¹³

The California State Archives, which is one of the few 100 percent General Fund-supported functions of the Secretary of State, recently experienced a 10 percent reduction in staff and the loss of an additional \$.5 million in annual General Fund support. In 2000, it estimated that nearly one-third of its holdings (23,000 cubic feet of records) were unprocessed, and that it would take five people more than eight years to clear this backlog.¹⁴

Funding Alternatives

Creating a nonprofit public corporation would permit the prudent involvement of the private sector and allow the private sector to assume a potentially significant role in the operation of certain historic facilities and museums.

An excellent example is the Golden State Museum Public Benefit Corporation. The Secretary of State has statutory authority to use this nonprofit organization to conduct a full range of museum development and operation functions, and the museum has been operated in this manner since 1998.¹⁵ Such an organization could fully utilize the support of the approximately

90 “Cooperating Associations.” These are nonprofit organizations that have agreements permitting them to conduct specific commercial interpretive programs and activities on state property and obligating them to spend the revenue from these activities on state parks projects.¹⁶ These Cooperating Associations can provide funding to meet certain park needs, but generally lack the scale and capability to be more than auxiliary supporters. State law and policy discourage larger-scale use of external support to significantly augment or even operate state park units. As a result, State Parks has had little opportunity to implement the full potential of nonprofit support organizations.¹⁷

Recommendations

- A. The Governor should work with the Legislature to consolidate selected cultural heritage programs in the Department of Parks and Recreation (DPR), or its successor, or the Office of the Secretary of State. The legislation should designate DPR as California’s history, culture and arts agency.**

The following programs should be transferred to the authority of DPR:

- The California Room and Special Collections and the California Cultural and Historical Endowment;
- The following programs should be transferred to the authority of the Secretary of State: the California Records and Information Management Program and the California State Records Center; and
- Other programs, such as the California State History Museum, California Science Center, California African American Museum and the Native American Heritage Commission should remain under their present authorities, but their activities should be coordinated by the California State Parks.

- B. The Governor should work with the Legislature to create a nonprofit public corporation under state control to provide a more effective, lower cost/higher revenue mechanism for funding and operating museums, historic sites and programs.**

- The model that should be duplicated is the Golden State Museum Public Benefit Corporation (Government Code Section 12174).

Fiscal Impact

Consolidating selected cultural heritage programs could lead to unknown but possibly significant savings to the General Fund and various Special Funds. The distribution of savings among the sources of funding depends on the exact set of consolidations that occur. The savings would occur to the extent that consolidation reduces administrative overhead or duplication of services.

Creation of a non-profit public corporation to support museums, historic sites and other relevant programs under the authority of the California State Parks could improve the



department's ability to attract unknown, probably significant donations from private donors and federal grants. These donations and grants could either offset other funding sources used to support these activities or increase total funding available to support the activities.

Endnotes

- ¹ California Legislature, *Chapter 1, Statutes of 1850*.
- ² California State Parks, "Public Opinions and Attitudes on Outdoor Recreation in California: 2002" (Sacramento, California, 2003), p. 26.
- ³ California Legislature, Assembly, Assembly Bill 450 (Corbett), 2001–2002 Legislative Session; Assembly Bill 716 (Firebaugh), 2001–2002 Legislative Session; California Legislature, Senate, Senate Bill 1247 (Burton), 2001–2002 Legislative Session; Senate Bill 1088 (Alarcon), 2001–2002 Legislative Session; and Senate Bill 2063 (Brulte), 2001–2002 Legislative Session.
- ⁴ California State Parks, "Historical Records in the Golden State: A Strategic Plan for Preserving California's Documentary Heritage" (Sacramento, California, 2002).
- ⁵ California State Parks, "Planning Milestones" (Sacramento, California, July 1, 2003), p. 11, <http://www.parks.ca.gov/pages/795/files/Planning%20Milestones2003.pdf> (last visited June 21, 2004).
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- ⁷ California State Parks, "The Historic Preservation Movement in California: 1940–1976," by Nadine Hata (Sacramento, California, September 1992), pp. 10–13.
- ⁸ Victoria Irons Walch, "State Archives in 1997: Diverse Conditions, Common Directions," "American Archivist" (Spring 1997), p. 139.
- ⁹ Interview with Walter Gray (June 16, 2004).
- ¹⁰ Interview with Rebecca Brown, budget officer, California State Parks, Sacramento, California (June 25, 2004).
- ¹¹ Interview: State Archives' staff, Sacramento, California (June 25, 2004).
- ¹² Interview with Rebecca Brown.
- ¹³ Interview with Rebecca Brown.
- ¹⁴ Interview with Rebecca Brown.
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- ¹⁶ Interview with Walter Gray (June 26, 2004).
- ¹⁷ Interview with Rebecca Brown.



Consolidate State Field and Regional Offices

Summary

Many state agencies have offices located throughout California to carry out regional work, deliver programmatic services and provide access to citizens at the local level. Due to incremental proliferation over several decades, there are now hundreds of these offices statewide. At the same time, back office support functions, or “shared services” have been decentralized to provide onsite support. Many of these offices and the support services associated with them should be consolidated to reduce costs, improve program efficiency and provide better service to the public.

Background

California state government leases office space for more than 1,000 field offices in more than 900 buildings in 263 cities, and owns 180 office buildings in 101 cities outside the Sacramento area. There are more than 30,000 employees working in field offices. The estimated cost of leasing this office space is \$170 million per year. The estimated cost of support services for these field offices is \$140 million per year.¹

The state does not have a centralized plan to identify and develop field offices, which allows departments to establish numerous offices within the same cities. For example, there are seven field offices in the San Diego area for departments within the Resources Agency.²

The proliferation of field offices is costly. Each field office commonly maintains its own administrative support services. If three or more state agencies occupy the same state-leased office building, each will have redundant staff and equipment to provide support services including administration, information technology, mail and telecommunication services, business services and mobile equipment support.³ Often times, the workload at each field office may require only part-time employees for certain functions, but full-time employees are hired instead.

While field offices are often geographically located to provide for physical proximity to the various populations served, with the advent of modern technology, the same services can be provided from remote locations with greater efficiency. Some staff, particularly those providing support services, could effectively carry out their duties in a centralized headquarters office. Telecommuting has also become a viable, desirable, and more efficient option for many state employees, further reducing previous needs for office spaces, particularly in remote field areas. Reducing the number of field offices would reduce costs, improve services and increase productivity.

Inconsistent regional subdivision

Many state agencies have their own sets of regions or districts such as the following:

- Caltrans maintains 12 district offices each comprised of one to nine counties;⁴
- The Department of Water Resources has four district offices across the state, with each district covering 11 to 22 counties;⁵
- The State Water Resources Control Board has nine regions, generally based on watersheds;⁶ and
- The Department of Fish and Game has seven regions, with each district comprised of a certain number of counties. However, its Region 7 is a marine region running the entire length of California's coastline with offices located within the boundaries of three other regions.⁷

The inconsistent subdivision of state government programs is inefficient and confusing to the public. With different regions and offices, the public also has to make multiple stops if they need to deal with several agencies on a particular project.

Economic regions of California

The bipartisan California Economic Strategy Panel was established in 1993 to develop an overall economic vision and strategy to guide public policy. It is currently housed in the California Labor and Workforce Development Agency. The panel engages in an objective and collaborative biennial planning process that examines economic regions, industry clusters, and cross-regional economic issues. As part of its efforts, the panel identified nine economic regions in California. The regions were identified on the basis of economic, demographic and geographic characteristics of each county, and those in adjacent counties. The nine economic regions of California are illustrated by county in Figure 1 and highlighted below:

- *Northern California*—Del Norte, Humboldt, Lake, Lassen, Mendocino, Modoc, Nevada, Plumas, Sierra, Siskiyou and Trinity;
- *Northern Sacramento Valley*—Butte, Colusa, Glenn, Shasta and Tehama;
- *Greater Sacramento*—El Dorado, Placer, Sacramento, Sutter, Yolo and Yuba;
- *Bay Area*—Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, Sonoma and Santa Cruz;
- *San Joaquin Valley*—Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus and Tulare;
- *Central Sierra*—Alpine, Amador, Calaveras, Inyo, Mariposa, Mono and Tuolumne;
- *Central Coast*—Monterey, San Benito, San Luis Obispo and Santa Barbara;
- *Southern California*—Los Angeles, Ventura, Orange, San Bernardino and Riverside; and
- *Southern Border*—San Diego and Imperial.⁸

California is a geographically large state and the organizational effectiveness of its government and the level of public participation can be improved by organizing services by regions that are consistent for all programs. These economic regions provide an effective structure by which state government could organize to provide consistent regional services and better serve California's population/economic centers.

**Both regionalization and centralization is necessary**

Consolidating field offices and organizing the delivery of all field office services into consistent regions is an important first step and should encourage collaboration and partnerships between state agencies as well as with local governments, private industries, non-profits, and federal government agencies. However, economies of scale can be gained through centralization of services without diminishing the level of services provided. In many cases, programs housed in single-occupancy buildings can be combined into multi-tenant facilities with other state government entities and thereby reduce the overall space requirements by sharing of lobbies, conference rooms, auditoriums, training rooms, restrooms and other public spaces.⁹

Other advantages of collocation and/or centralized locations include:

- Development of an overall centralized and coordinated plan for providing both regional and statewide services;
- Ability to leverage centrally located staff in single locations to handle emergencies and priority projects;
- Ability to realize significant savings associated with consolidated activities including leasing, clerical, IT, ebusiness services, budgeting and personnel;
- Achieve economies of scale in utilities, equipment, and tenant improvements;
- Improved coordination of programs and staff work by having regional employees housed together; and
- One-stops, or at least reduced stops, for the public to interact with state agencies on particular regional projects/programs.

State's consolidation of office space has yielded benefits

The state has already started consolidating office space, resulting in favorable outcomes for several agencies and departments. For instance, the Department of General Services recently consolidated its office space and immediately achieved savings.¹⁰ The Department of Health Services also recently consolidated their offices based on an economic analysis.¹¹

The state's strategic facilities plan completed in 1992 identified 18 departments and agencies that could be consolidated to achieve financial and operational efficiencies.¹² The California Environmental Protection Agency, ranked as the highest consolidation priority in that study, successfully consolidated in 1998 into a new facility in downtown Sacramento. The Youth and Adult Correctional Agency (YACA) requested the Department of General Services complete a programming analysis of the opportunities for consolidating the agency in lieu of simply consolidating the Department of Corrections.¹³

While these consolidations, and those pending, are an important step toward achieving operational efficiencies, they fall short of realizing the full benefits to be gained by being proximally located and by investing time in analyzing additional efficiencies to be gained by sharing not only space but administrative services as well. For instance, the planning report

for YACA identified nearly 20% of the total square footage required would house “shared support space,” but failed to recognize “shared services” within the agency structure. As a result, this plan proposed a physical collocation but did not address more fundamental opportunities for efficiency such as consolidating some of the operational units to provide services agency-wide. There is clearly more that can be done in this area if the state is to ever achieve the full benefits of physical consolidation.

Recommendations

- A. The Governor should direct Agency Secretaries to evaluate current programmatic needs as they relate to the number and location of field offices throughout the state and seek to align more closely to the economic regions of the state.**

Agency Secretaries should determine the number and location of each field office and develop a reorganization plan to align the field offices, to the extent possible, consistent with the regional structure identified by the Economic Strategy Panel. Field offices should be co-located either in the same buildings or in very close proximity.

Agencies should consider the results of their efforts as a result of the Governor’s Executive Order S-10-04 issued May 11, 2004, directing each agency, department, board and commission to review the current and anticipated programmatic need for state-owned and leased property and to justify those needs.¹⁴

- B. The Governor should direct Agency Secretaries to consolidate Sacramento-based operations whenever financially feasible. Each Secretary should deliver to the Governor by July 1, 2005 a plan to achieve such consolidation. Such plans should highlight at a minimum: program efficiencies, service-level improvements and cost savings.**
- C. The Department of General Services or its successor entity should provide assistance in determining how best to consolidate support functions such as clerical, administrative, information technology, business services (i.e. budgets, personnel, procurement) to ensure program objectives are satisfied in the most efficient manner possible.**

Fiscal Impact

The state has realized savings in the past by consolidating of office space, though not specifically the regional consolidation of field administrative functions. With more than 1,000 field offices scattered across over 260 cities, towns and other locations, it is reasonable to assume that opportunities for consolidation exist. A recent report by the U.S. Governmental Accounting Agency indicates that two federal agencies reduced their field office costs by 20 percent by pursuing aggressive consolidation efforts.¹⁵ Economic studies suggest the same



kind of financial savings can occur in California. Nevertheless, to the extent opportunities exist for consolidating state department administrative field offices into regional centers, unknown but potentially significant savings could result over time.

Figure 1: California’s Economic Regions Determined by Economic Strategy Panel



Endnotes

- ¹ Department of General Services, *Leased Property Report and State Owned Property Report*.
- ² State of California, Department of General Services, *State Telephone Book*, 2000.
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- ⁹ Interview with Deborah Hysen, former Chief Deputy Director, Department of General Services (June 2, 2004).
- ¹⁰ Robert G. Fletcher and Brenda J. Moscové, *Cal State Bakersfield*, and Frank Mittelbach, UCLA, "Consolidation of Government Office Space"—*Issues and Effects: The California Case*".
- ¹¹ California Department of General Services, "Capitol Area East End Complex—Economic Analysis Report, Report to the Legislature, December 1, 1998.
- ¹² Department of General Services, *Strategic Facilities Plan for Sacramento*, December 1992.
- ¹³ Letter from Secretary Robert Presley to Secretary Aileen Adams, dated August 27, 2000; and Department of General Services Preliminary Programming for Youth and Adult Correctional Agency Consolidation, November 1, 2002.
- ¹⁴ State of California, Governor Arnold Schwarzenegger, "Executive Order S-10-04," May 11, 2004.
- ¹⁵ United States General Accounting Office, "U.S. Departments of Education and Labor: Information on the Departments' Field Offices," GAO/HEHS-96-178, p. 20 (September 16, 1996).



Consolidate Real Estate Services into One Organization

Summary

The State Lands Commission and several departments in the Resources Agency maintain staff to carry out real estate services for the ownership, management and acquisition of land for open space, recreation and wildlife habitat. Consolidating the staff from these entities into a single organization would result in many benefits including better efficiencies, reduced administration costs, sharing of technical expertise, improving technical competence and customer service.

Background

The following state organizations have responsibilities associated with the acquisition, management, and disposition of public lands, and each maintains separate staff to provide real estate services:

- Land Management Division, State Lands Commission
- Office of Acquisition & Real Property Services, Department of Parks and Recreation
- Wildlife Conservation Board, Department of Fish and Game

State Lands Commission Land Management Division

The Land Management Division is responsible for surface management of sovereign and school lands in the state. Sovereign lands encompass approximately four million acres and include the beds of naturally navigable rivers, lakes and streams, as well as the tide and submerged lands along 1,100 miles of coastline. School lands encompass approximately 500,000 acres of land originally granted to California by Congress in 1853 to provide revenue for public education.¹

The Land Management Division has 45 staff, including public land managers, title specialists, boundary specialists, appraisers and land surveyors. Most of its work involves obtaining fair market value for surface leases of state land, purchasing replacement land when school lands are sold, dealing with encroachments, and maintaining ownership records of state land—a duty that title companies cannot perform because they do not have records for sovereign and school lands.²

Department of Parks and Recreation Office of Acquisition & Real Property Services

The Office of Acquisition and Real Property Services is responsible for the acquisition and management of park land for the state and has 20 staff, including land agents/park land officers, surveyors, support staff and a manager. Their responsibilities include maintaining

property maps, leasing state property, developing new property descriptions, land surveying, contracting for appraisals and property negotiations associated with managing and acquiring land for the state parks system.³

Wildlife Conservation Board and Department of Fish and Game

The Wildlife Conservation Board is responsible to select, authorize and allocate funds to purchase land and waters suitable for recreation and the preservation and restoration of wildlife habitat. The board has 26 staff, including land agents, public land management specialists, analysts, secretaries/executive assistants, managers and an executive director.⁴

Challenges

The Land Management Division maintains old and deteriorating documents related to sovereign and school lands. This organization desperately needs a modern document management/automated database system to perform its functions more efficiently.⁵

The Wildlife Conservation Board and Department of Parks and Recreation use different approval processes and review agencies to acquire property. Both are burdened with excessive review/approval processes of land appraisals that are performed by the Department of General Services. The appraisal reviews are intended to prevent inappropriate expenditures of state funds, but are commonly performed by employees who are not knowledgeable about the value of properties that will be used for wildlife habitat, open space or recreation. The current acquisition process often adds months to the completion of land acquisitions, leading to increased costs, frustrations by the public and actual lost opportunities.⁶

All of these organizations have been hit hard by budget cuts and face increasing workloads with less staff. In addition, much of the work load fluctuates due to the unpredictable nature of permit applications and encroachments where developers or utilities wish to acquire temporary or permanent easements/use of the land for various needs (e.g., natural gas pipeline crossing).⁷ Due to recent staff reductions and retirements, there has been a great loss of expertise and experience with much of the work now carried out by relatively new employees with less knowledge and experience.⁸

Maintaining these small, separate groups is an inefficient approach towards providing land acquisition and other real estate services. The groups have overlapping core competencies but, by themselves, do not have a large depth of overall technical competence across the spectrum of services. These organizations can no longer afford to have separate staff performing real estate services. Consolidating these groups into one real estate services section would have the following advantages:

- All real estate services for open space, recreation, and habitat lands (ownership, title, boundary determinations, appraisals, acquisitions, dispositions, leasing, encroachments, mapping, and surveying) would be in one organization and location. This would reduce management and support requirements and costs.



- Allow sharing of technical expertise, provide consistent technical approaches in real estate services, and improve the depth of technical competence.
- Provide other organizations in the Resources Agency, or its successor entity, a wide range of technical assistance with respect to real estate issues and be able to serve as an important resource for groups such as the Division of Land Resource Protection that perform general reviews of appraisals and land use contracts.
- Improve career opportunities for staff providing real estate services and help recruit and retain skilled employees.
- Allow staff to use the same software and document management systems necessary for carrying out real estate services.
- Improve coordination between the current Division of Land Management staff in the State Lands Commission and the California Coastal Commission.
- Provide one-stop customer service for businesses and other members of the public who want to obtain leases and approvals to use public lands associated with natural resources.

Recommendation

The Governor should work with the Legislature to consolidate the real estate services staff of the Land Management Division, the Office of Acquisition & Real Property Services, and the Wildlife Conservation Board into one section within the Resources Agency or its successor.

Fiscal Impact

Combining into one unit the real estate functions currently housed in three Resources Agency commissions and departments will improve the coordination of these activities and simplify the organizational structure of the activities within Resources Agency or its successor.

The consolidation will realize a savings in Fiscal Year 2004–2005 of about 1.3 personnel years (PYs). These savings are offset by about \$436,000 in costs associated with combining the real estate functions in new space. In addition, evaluation of the units proposed for consolidation suggests that further reductions of at least 7.7 PYs are possible beginning in FY 2005–2006. Savings will be distributed across general, bond and special funds. Approximately 50 percent of the savings/costs accrue to the General Fund.

General Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$61	\$218	(\$157)	.65
2005–06	\$445	\$0	\$445	(4.5)
2006–07	\$445	\$0	\$445	(4.5)
2007–08	\$445	\$0	\$445	(4.5)
2008–09	\$445	\$0	\$445	(4.5)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Special Fund
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$61	\$218	(\$157)	(.65)
2005–06	\$444	\$0	\$444	(4.5)
2006–07	\$444	\$0	\$444	(4.5)
2007–08	\$444	\$0	\$444	(4.5)
2008–09	\$444	\$0	\$444	(4.5)

Note: The dollars and PYs for each year in the above chart reflect the total change for that year from 2003–04 expenditures, revenues and PYs.

Endnotes

- ¹ California State Lands Commission, http://www.slc.ca.gov/Division_Pages/LMD/LMD_Home.htm (last visited June 1, 2004).
- ² Interview with Paul Thayer, executive officer, Robert Lynch, chief, Land Management Division, California State Lands Commission, Sacramento, California (April 28, 2004).
- ³ Interview with Mark Schraeder, deputy director, Department of Parks and Recreation, Sacramento, California (May 12, 2004).
- ⁴ Interview with Al Wright, executive officer, Wildlife Conservation Board, Sacramento, California (April 29, 2004).
- ⁵ Interview with Paul Thayer and Robert Lynch.
- ⁶ Interview with Mark Schraeder.
- ⁷ Interview with Paul Thayer and Robert Lynch; Interview with Mark Schraeder; and Interview with Dennis O'Bryant, acting assistant director, Division of Land Resource Protection, Department of Conservation, Sacramento, California (May 17, 2004).
- ⁸ Interview with Paul Thayer and Robert Lynch; Interview with Mark Schraeder; and Interview with Dennis O'Bryant.



Restructure Funding and Governance for Certain Land Conservancies

Summary

Five of the eight separate conservancies for which the Resources Agency is responsible do not represent land assets of statewide interest that benefit all Californians. State funding and governance for these conservancies should be restructured to provide more direct control and accountability to local agencies.

Background

Within the Resources Agency, there are eight separate conservancies that acquire lands for habitat protection and provide public access to open spaces. The conservancies, and other departments and programs, lack a comprehensive and cohesive statewide land conservation plan. Without such a statewide plan, individual organizations have developed their own land conservation strategies that frequently do not work coherently to achieve statewide objectives.¹ Although some acquisitions are pursued with a statewide perspective, others are simply purchases made as opportunities arise.²

The Department of Fish and Game (DFG) and the Department of Parks and Recreation (DPR) have statewide responsibility for managing lands for habitat protection and recreation, respectively.³

The chart below compares information obtained from the Department of Finance on the conservancies.⁴

Conservancies at a Glance

Year Begun	Jurisdiction	2002–03 Budget	Acquisitions Objectives	Land Holdings (Acres)	Board
State Coastal Conservancy					
1976	Coastal zone (1,100 miles of coast)	\$6.3 million support \$179.4 million property acquisition and improvement	Promote coastal management plan—generally public access, scenic views, natural habitat and agricultural land	700 physical property 3,700 easements; 20,000 acres	7 members All state appointments

California Tahoe Conservancy					
1984	Lake Tahoe Basin (about 148,000 acres)	\$4.0 million support \$20.7 million property acquisition and improvement	Provide access to shore; environmental sensitive lands, especially those draining to the lake and/or subject to erosion	64,000 acres	7 members 4 state 3 local
San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy					
1999	San Gabriel River and Lower Los Angeles River watersheds (about 569,000 acres)	\$790,000 support \$18 million property acquisition and improvement	Provide open space, recreational, educational uses, watershed improvement, wildlife and habitat restoration and protection	None	13 members 7 state 6 local and regional
Santa Monica Mountains Conservancy					
1979	Santa Monica and Santa Susanna Mountains, and Placerita Canyon (551,000 acres)	\$655,000 support \$13.2 million property acquisition and improvement	Provide for parks, trails, open space, and wildlife habitat that are easily accessible to the general public	About 55,000 acres are held by joint powers authority associated with the conservancy	9 members 5 state 3 local 1 federal
Coachella Valley Mountains Conservancy					
1996	Coachella Valley (about 1.25 million acres)	\$274,000 support \$8 million property acquisition and improvements	Promote habitat priorities listed in Natural Communities Conservation Plans, currently being developed for Coachella Valley region	3,835 acres; 1,138 easements	21 members 9 state 9 local 3 federal



San Diego River Conservancy					
2003	San Diego River from Julian to the Pacific Ocean (about 52 miles)	\$265,000 support (proposed)	Acquire and manage public lands	None	9 members 2 state 7 local
Baldwin Hills Conservancy					
2001	Baldwin Hills area in Los Angeles County (about 1,200 acres)	\$262,000 support \$15 million property acquisition and improvement	Provide recreational open space and wildlife uses	384 acres	9 members 8 state 1 local
San Joaquin River Conservancy					
1995	San Joaquin River parkway in Fresno and Madera Counties (about 5,900 acres)	\$253,000 support \$2.5 million property acquisition and improvement	Affords public recreational opportunities and supports wildlife habitat	1,762 acres	15 members 9 state 6 local

The State Coastal Conservancy covers the largest jurisdiction of these conservancies including the entire coast and some significant inland areas, especially around the San Francisco Bay. The other conservancies are each responsible for considerably smaller regions. The Baldwin Hills Conservancy, the smallest, covers 1,200 acres, yet it too has a predominantly state-level governance structure.

The Tahoe Conservancy, the State Coastal Conservancy and the Santa Monica Mountains Conservancy concentrate on the protection of land and habitat resources that are of statewide interest. The San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy, San Joaquin River Conservancy, Baldwin Hills Conservancy, San Diego River Conservancy, and Coachella Valley Mountains Conservancy focus on land acquisitions that are of regional or local interest.

One conservancy, the State Coastal Conservancy, primarily provides grant funding to local governments and private non-profits that acquire and manage lands. Other conservancies primarily acquire and manage lands themselves, and some do both. Conservancies also provide grants to each other, to DFG or to DPR.

Collectively, the governing boards of these conservancies total 90 members. The size of the respective boards ranges from 7 to 21 members each.

The creation of multiple conservancies has increased state funding for land acquisition and management in the areas in which conservancies are located. However, the programs have the following limitations and inefficiencies:

- No master plan exists at the Resources Agency level to give conservancies comprehensive, strategic guidelines for land acquisition and resource protection. Consequently, the state approach to habitat and recreational land acquisition is a patchwork;
- Creating state conservancies having broad authority within their respective jurisdictions has impaired strategic planning at the state level, diffused accountability and limited state-level oversight. The perspective of each conservancy is limited, and the membership of the conservancy boards is not generally reflective of the state-level policy-makers who are held accountable for the expenditure of state funds; and
- Conservancy funding has tended to be used primarily on purchases as opportunities have arisen, instead of supporting broader statewide resource management priorities set by the Resources Agency, DPR and DFG.⁵

Recommendations

- A. The Governor should work with the Legislature to devolve five conservancies of regional or local interest (San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy, San Joaquin River Conservancy, Baldwin Hills Conservancy, San Diego River Conservancy, and Coachella Valley Mountains Conservancy) into local joint powers authorities.**
- The proposed legislation should remove state-level majority participation on the governing boards of those five conservancies, and eliminate state Environmental License Plate Fund and bond funds for staff support.
 - The five conservancies of regional or local interest should be encouraged to apply and compete for state bond funds for land acquisition and other projects in the same manner that all other local and nonprofit entities are eligible for state resource bond funds.

Removing state majority representation on the governing boards and reducing state funding for the five conservancies that represent local and regional interests would empower these local jurisdictions to address local land conservation issues.

State-level funding and majority participation on the three conservancies of statewide interest (Tahoe Conservancy, State Coastal Conservancy, and Santa Monica Mountains Conservancy) should be retained.



The remaining conservancies would continue as joint powers authorities that compete for state bond funding. State law provides for the joint exercise of powers by public agencies and this is an appropriate governing model for some of the state's conservancies.⁶

- B. The Resources Agency, or its successor, in conjunction with the conservancies and the Departments of Parks and Recreation and Fish and Game, or their successors, should develop a statewide master plan, including strategic guidelines, for land acquisition and resource protection for habitat and recreational purposes.**

Fiscal Impact

Estimated savings assume that legislation becomes effective January 1, 2005. These savings would accrue primarily to the Environmental License Plate Fund, with minor savings from bond funds, which might be freed up for other environmental projects. It is anticipated that the five state conservancies that would be devolved to local joint powers entities would receive state support for only the first half of Fiscal Year 2004–2005, and the state would realize savings of about \$1.0 million for the last half of the fiscal year. Beginning in FY 2005–2006 the state would incur savings of about \$2.1 million annually.

It is anticipated that the costs of developing a statewide master plan would be minor and be absorbed by the Resources Agency.

Environmental License Plate Fund and Bond Funds
(dollars in thousands)

Fiscal Year	Savings	Costs	Net Savings (Costs)	Change in PYs
2004–05	\$1,041	\$0	\$1,041	(7.8)
2005–06	\$2,082	\$0	\$2,082	(15.6)
2006–07	\$2,082	\$0	\$2,082	(15.6)
2007–08	\$2,082	\$0	\$2,082	(15.6)
2008–09	\$2,082	\$0	\$2,082	(15.6)

Note: the dollars and PYs for each year in the above chart reflect the total change for that year from FY 2003–04 expenditures, revenues and PYs.

Endnotes

- ¹ California Legislative Analyst's Office, "California's Land Conservation Efforts: The Role of State Conservancies" (Sacramento, California, January 5, 2001), p. 8.
- ² Memorandum from Department of Finance to California Performance Review, Sacramento, California (March 10, 2004).
- ³ California Governor's Budget for Fiscal Year 2004-05; Public Resources Code Sections 825 et seq., and Sections 500 et seq.
- ⁴ Memorandum from Department of Finance to California Performance Review, Sacramento, California (March 10, 2004).
- ⁵ Memorandum from Department of Finance to California Performance Review, Sacramento, California (March 10, 2004).
- ⁶ Government Code Section 6500 et seq.



Consolidate Resource Land Acquisition Processes

Summary

Duplicative and disparate processes exist for acquiring land that has cultural, natural and recreational resource significance, resulting in the state paying too much for some properties and not being able to purchase others. Consolidating the resource land acquisition under one approving body and process will result in improved coordination of acquisition expenditures, lower administrative costs and enable the state to compete more effectively for desirable lands.

Background

Several departments and conservancies within the Resources Agency purchase real property, including the Department of Fish and Game (DFG) and Department of Parks and Recreation (DPR). Recent passage of Propositions 40 and 50 in 2002 have provided close to \$3 billion to these departments for resource land acquisitions over the next few years.¹ Although the departments buy similar resource-type properties, they are required to follow property acquisition procedures administered by different entities, either the Wildlife Conservation Board (WCB) or the Public Works Board (PWB).²

Perhaps the greatest deficiency attributable to the existing and disparate resource acquisition processes is the lack of oversight by a single entity as concluded by the State Auditor in a recently issued report: "Although various entities acquire land for ecosystem restoration and wildlife habitat preservation, the State does not have a comprehensive land use policy that provides a common vision of goals and objectives that these entities can follow."³

Land acquisition process

Land acquired by DFG for wildlife habitat is approved by the Wildlife Conservation Board (WCB), which consists of the Director of Fish and Game, the President of the Fish and Game Commission, and the Director of the Department of Finance. Acquisitions are made by WCB pursuant to the Wildlife Conservation Law of 1947, which provides for the acquisition of land for the preservation, protection and restoration of wildlife within the state through a single and coordinated land acquisition program.⁴ With the possible exception of the Director of Finance, the board members have some experience and knowledge with regard to resource acquisition and land management. WCB meets quarterly, with typical acquisition approval processes averaging just over three months requiring a single submission. WCB staff perform their own due diligence and research on potential acquisitions in advance of formal board approval.⁵

On the other hand, recreational, cultural and open space lands acquired by DPR or State Conservancies are approved by the State Public Works Board (PWB), which consists of the Directors of Finance, the California Department of Transportation (Caltrans), the State Controller, the State Treasurer and the Department of General Services.⁶ PWB was established in 1946 to review, approve and fund capital outlay projects, particularly state infrastructure investments for acquisition of property on which to locate or expand state facilities and programs, including approving plans for major capital outlay construction projects.⁷ With a focus on infrastructure, and lacking a representative from any state environmental entity or the Resource Agency, PWB may struggle with resource acquisitions compared to WCB.⁸ Some non-profit groups, which frequently partner with the state in securing resource acquisitions, contend that the WCB process is more efficient, saving the state time and money.⁹

PWB's land acquisition process is cumbersome and time consuming, with acquisitions requiring an average of 12 months to complete.¹⁰ Land acquisitions must be brought before the board twice; once for "site selection" approval and then again for "acquisition" approval. In each instance, DPR staff prepares and submits a comprehensive acquisition package to PWB staff from DGS and DOF, each reviewing the packages at great length. These exhaustive PWB reviews are rarely limited to substantive issues and cause one out of three acquisitions to be delayed.¹¹

PWB's requirement to approve site selection puts the state at a disadvantage because it requires DPR to publicly identify specific properties targeted for purchase in advance of any negotiations. This alerts property owners of the state's intention to buy property and the proposed price, which undermines the state's negotiating position.¹² An alternative approach would be to establish acquisition priorities within defined funding "pots," each containing a number of properties in excess of available funding. This would allow sellers and properties to compete for funding, thereby lowering prices. In this fashion, the state could establish "value" pricing priorities for acquisitions and potentially acquire a greater number of properties at a reduced cost.

Flawed appraisal process

All land acquisitions, whether they go through WCB or PWB, must go through a fundamentally flawed appraisal process that usually favors property sellers. DGS is required to approve seller's appraisals or generate state appraisals prepared under "Uniform Standards of Professional Appraisal Practice" guidelines, which defines fair market value.¹³ However, due to the state's contracting, personnel and funding constraints, sellers have been submitting appraisals to the state for approval. Sellers can exert substantial influence over the property value by contracting with appraisers of their own choosing and in such cases, the seller's valuations are used as a baseline for DGS approval and the ultimate sales price paid by the state.¹⁴ Most acquisition experts recognize the need for an independent review and approval of negotiated purchase prices using formal and independent property appraisals. However, these



reviews and approvals could be performed at the end of the negotiations to substantiate the negotiated sale price, rather than at the beginning of the process.

Costly and untimely review processes

PWB approval requirement establishes a DGS monopoly of review services. DGS charges DPR more than \$200,000 annually for these acquisition reviews.¹⁵ In addition, the cost to DPR to conform and respond to DGS reviews adds an estimated \$250,000 annually to administrative acquisition costs.¹⁶ Elimination of this two-step approach would greatly reduce administrative costs and allow DPR to better compete for significant resource properties, execute timely acquisitions and increase overall program efficiency.

Additionally, PWB exercises a great deal of authority over some Resource Agency departments, but it is not accountable for delaying or restricting a department's program delivery. Furthermore, these control agencies lack incentives for effective and timely delivery of these acquisition approvals. The results from customer satisfaction surveys compiled by the Real Estate Services Division of DGS in 2001 and 2003 included: "[Customers] thought that their service requests were not addressed in a timely fashion, projects did not start in a reasonable time and were not delivered on schedule."¹⁷ In fact, in 2003 only 32 percent of respondents agreed that their projects were delivered on schedule and only 35 percent agreed that their projects were delivered on budget.¹⁸

The state and public would benefit from a consolidated and streamlined process to buy all types of natural resource lands, whether for wildlife habitat, recreation, open spaces, cultural or historical resource protection or for preserving open space for agriculture. Consolidating land acquisition functions would enable the state to better identify and implement the state's land acquisition goals; would establish procedures that place the state in a better position to conduct negotiations to achieve the lowest price possible; eliminate procedures that are disadvantageous, better leveraging the state's large purchasing power; and would reduce administrative costs by eliminating unnecessary processes and produce greater efficiencies.

Recommendations

- A. The Governor should work with the Legislature to reconstitute the Wildlife Conservation Board as the "Resource Conservation Board" and add the Resource Agency Secretary, the Director of Conservation and the Director of Parks and Recreation, or their successors, as board members granting the board broad powers to approve and fund all resource-related acquisitions. This will include transferring the authority from the Public Works Board over resource acquisitions to the Resource Conservation Board.**

- B. The Resource Conservation Board (and related departments) should adopt value pricing policies to introduce competition among potential resource acquisition**

opportunities and focus on purchasing appropriate properties with the greatest discount over market value or estimated market value.

- C. The Resource Conservation Board, in partnership with the Department of General Services, should amend the State Administrative Manual to allow commencement of negotiations for resource lands prior to final appraisal approval and to allow the appraisal review function of the Department of General Services to be performed by an independent appraisal expert on behalf of the Resources Conservation Board or Resources Agency.

Fiscal Impact

No savings are estimated for Fiscal Year 2004–2005 to provide for sufficient time for implementation of the recommendations. Beginning in FY 2005–2006 it is anticipated that funds will become available for further acquisitions as a result of consolidating resource acquisition functions under the proposed Resource Conservation Board, and instituting value pricing and administrative efficiencies. For FY 2005–2006 and FY 2006–2007 this amount is estimated to be between \$21 million and \$43 million in special funds and bond funds. Current acquisitions average \$430 million annually.¹⁹

Savings will likely start decreasing in FY 2007–2008. The extent of this decrease will depend on the rate at which special funds and bond fund sources are depleted. Additional savings from acquisitions made by state conservancies under the Resource Conservation Board using similar value pricing are anticipated but cannot be estimated.

Endnotes

- ¹ *Proposition 40, Coastal Protection Act of 2002*, <http://www.smartvoter.org/2002/03/05/ca/state/prop/40/> (last visited June 18, 2004); and *Proposition 50, Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002*, <http://www.smartvoter.org/2002/11/05/ca/state/prop/50/> (last visited June 18, 2004).
- ² California State Auditor, Bureau of State Audits, “California’s Wildlife Habitat and Ecosystem: The State Needs to Improve Its Land Acquisition Planning and Oversight” (Sacramento, California, June 2000), p. 8; and Gov. C. Sections 15850–15866.
- ³ California State Auditor, Bureau of State Audits, “California’s Wildlife Habitat and Ecosystem: The State Needs to Improve Its Land Acquisition Planning and Oversight” (Sacramento, California, June 2000), p. 1.
- ⁴ Wildlife Conservation Board, “Cooperative Projects with Local Agencies for Public Access,” http://www.dfg.ca.gov/wcb/public_access_program.htm (last visited June 18, 2004).
- ⁵ Interview with Al Wright, executive director, Wildlife Conservation Board, Sacramento, California (April 29, 2004).
- ⁶ State Public Works Board, “Members and Staff,” http://www.dof.ca.gov/spwb/PWB_members/PWB_Members.doc (last visited June 18, 2004).
- ⁷ State Administrative Manual, Chapter 6000, Section 6842, “State Public Works Board (PWB) Overview,” <http://sam.dgs.ca.gov/TOC/6000/6842.htm> (last visited June 18, 2004).



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- ⁸ Interview with Al Wright; and interview with Mark Schrader, deputy director, Department of Parks and Recreation, Sacramento, California (May 12, 2004).
- ⁹ Interview with Rachael M. Dinno, director, Governmental Relations, the Trust for Public Land, Sacramento, California (June 17, 2004).
- ¹⁰ California Department of Parks and Recreation, "Current Acquisition Process" (Sacramento, California, January 21, 2004).
- ¹¹ California Department of Parks and Recreation, "Current Acquisition Process" (Sacramento, California, January 21, 2004).
- ¹² State Administrative Manual, Chapter 6000, Section 6849, "Site Selection and Acquisition," <http://sam.dgs.ca.gov/TOC/6000/6849.htm> (last visited on June 18, 2004).
- ¹³ State Administrative Manual, Chapter 6000, Section 6849, "Site Selection and Acquisition," <http://sam.dgs.ca.gov/TOC/6000/6849.htm> (last visited on June 18, 2004).
- ¹⁴ Interview with Nikolas Rechiene, Supervising Land Agent, Department of Parks and Recreation, Sacramento, California (April 27, 2004).
- ¹⁵ California Department of Parks and Recreation, "Current Acquisition Process" (Sacramento, California, January 21, 2004).
- ¹⁶ Interview with Mark Schrader.
- ¹⁷ Memorandum from Department of General Services-Real Estate Service Division, to all RESD staff on 2001 Customer Satisfaction Survey (February 1, 2002).
- ¹⁸ California Department of General Services, Real Estate Services Division, "Customer Satisfaction Survey 2003: Results" (October 27, 2003), chart labeled "RESD Customer Survey Totals—2003, Agreement: Compare all Branches."
- ¹⁹ Interview with Dave Means, assistant executive director, Wildlife Conservation Board, Sacramento, California, June 16, 2004; and interview with Nikolas Rechiene (June 16, 2004).



Streamline Permitting to Reduce Petroleum Infrastructure Bottlenecks

Summary

California's ability to produce gasoline is shrinking at the same time demand for gasoline is rising, contributing to California's dubious position as a national leader in the fuel prices. Time-consuming, costly and complex permitting processes are among the obstacles to expanding California's petroleum infrastructure to meet the growing demand. The state needs to streamline its permitting processes to allow supply to more readily keep pace with demand, so that price volatility and price differentials are reduced.

Background

Constricting supply, rising demand and prices

California supplies gasoline to three western states—nearly all of Nevada's fuel; 60 percent of Arizona's fuel; and 35 percent of Oregon's supply.¹ But California-based refineries' ability to meet this demand is on the verge of being exhausted. Government agencies, oil industry representatives and independent sources cite unique obstacles to California's ability to increase fuel supplies and meet projected demand, including a "California-only fuel," shrinking production capacity, an undersized import infrastructure, and the environmental permitting processes.

California refineries retooled during the early 1990s in response to new California Air Resources Board (ARB) regulations to produce the world's cleanest gasoline. ARB assisted oil companies with permitting processes and expedited reviews to ensure that refineries could produce cleaner burning gasoline on schedule by March 1996. It worked. By June 1, 1996, this new recipe for gasoline was the only legal gasoline for sale in California. The program reduced emissions from cars and trucks using gasoline by 15 percent overnight—the equivalent of removing 3.5 million cars from California's roadways.² It was called the most significant clean air program in decades, and the best ever at producing immediate benefits.

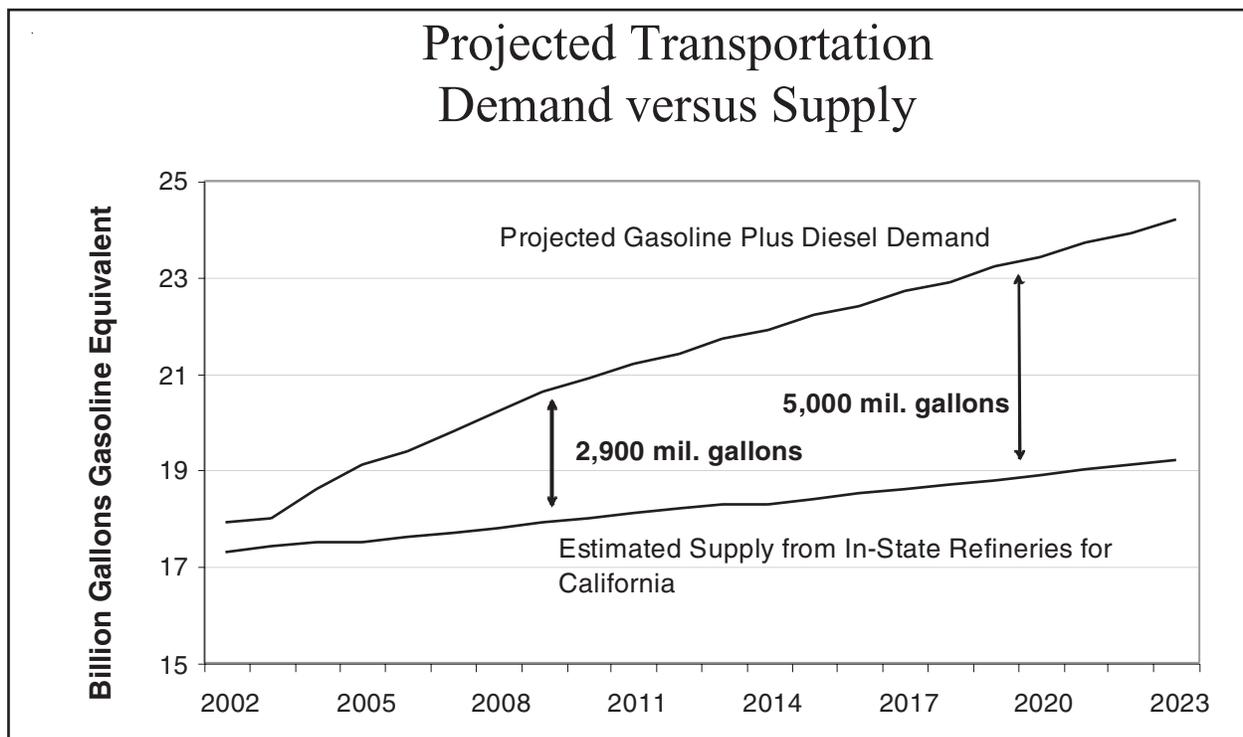
Supply and demand

Because of the restriction to sell gasoline that meets these unique California-only standards, the state depends more on in-state refineries to produce its California-only fuel. A select number of Gulf Coast and foreign refineries can produce "California fuel" to meet unexpected demands, but only when gasoline prices get high enough to make it profitable and cover the added cost of producing the gasoline and shipping it to California.

Since the clean-gasoline program's launch in 1996, California refineries have also faced unexpected supply challenges. Most notably, the phase-out of the gasoline additive MTBE

(methyl tertiary butyl ether), which played a significant role in the clean-gasoline program.³ California banned MTBE because of its potential to foul water supplies more readily than other toxic compounds found in gasoline. Banning MTBE reduced California's gasoline supply by as much as 6 to 10 percent.⁴

The demand for gasoline produced in California continues to grow, while the ability to produce it declines. The number of facilities in California refining gasoline shrunk by nearly 50 percent between 1990 and today—dropping from 22 to 13.⁵ At the same time, California's population continued growing by about 600,000 people a year.⁶ Nevada and Arizona rank as the fifth and sixth fastest growing state populations in the United States.⁷ The California Energy Commission estimates the demand on California's refineries at more than 17 billion gallons a year. Future demand is projected to grow to about 20 billion gallons a year by 2010 and nearly 30 billion gallons by 2030. Projections anticipate refining capacity remaining relatively flat during that time, with projected increases falling further behind demand. The gap between what is produced in California and what western states will use reaches 5 billion gallons a year by 2020 and 13 billion gallons a year by 2030.⁸



Source: California Energy Commission



Costs that drives gas prices

The price of gasoline is built on a number of component parts with the biggest cost drivers tending to be the cost of crude oil; taxes; the “refining margin” (fuel-refining production costs + profit); the “marketing margin” (transportation and advertising costs); the “retail margin” (gasoline station operating costs + profit); and the reformulation margin (the cost of refining gasoline to meet California’s clean air specifications).⁹

While price components are individually affected by external factors—OPEC (Organization of Petroleum Exporting Countries) decisions on crude oil production and world events that impact OPEC members—but the classic economic theories of supply and demand predominate.

The federal Energy Information Administration sums up the challenge this way: “California prices are more variable than others because there are relative few supply sources of its unique blend of gasoline outside the state. California refineries need to be running near their fullest capabilities in order to meet the state’s fuel demands. If more than one of its refineries experiences operating difficulties at the same time, California’s gasoline supply becomes very tight and prices soar. Supplies could be obtained from the Gulf Coast and foreign refineries; however, California’s substantial distance from those refineries is such that any unusual increase in demand or reduction in supply results in large price response in the market before relief supplies can be delivered. The farther away the necessary relief supplies are, the higher and longer the price spike will be.”¹⁰

The result of all these factors is that California has the highest gasoline prices in the nation. A comparison of American Automobile Association annual price data and weekly statistics kept by the California Energy Commission shows that California prices were, on average, 34 cents per gallon higher during 2003.¹¹

Policy options

To respond to this supply challenge, California Energy Commissioner Jim Boyd recommended a series of actions to the Assembly Transportation Committee in April 2004, including: increasing fleet fuel-efficiency standards; seeking a waiver from federal law on fuel additive (oxygenate) requirements; and fostering market penetration of new technologies and developing new refueling infrastructure. Boyd also suggested “undertaking a comprehensive petroleum infrastructure evaluation and exploring with stakeholders ways to streamline permitting for petroleum infrastructure.”¹² Nearly all of these recommendations are problematic.

Federal action on CAFE (corporate average fuel economy), fuel-efficiency standards and a waiver from requirements that gasoline contain oxygenates in the aftermath of the MTBE ban are beyond direct state control. New technologies and new refueling infrastructure

strategies that will reduce our dependence on petroleum are being pursued under Governor Schwarzenegger's "hydrogen highway" proposal. But it is uncertain when fuel cells will become a widely available, commercial technology.

The best short-term opportunity for reducing volatility in fuel prices seems to be expanding refining capacity and increasing the number or capacity of facilities to import fuel. But such increases are not easy to come by, according to industry representatives.

Refineries are major sources of air pollution and receive considerable scrutiny from local air districts and state regulators. The 15-year trend toward fewer refineries is evidence of the difficult operating conditions in California. In fact, another refinery—Shell's Bakersfield refinery—is scheduled to close on October 1, 2004.¹³ The refinery, despite recent profits, has been a losing proposition for years, according to Shell representatives. Land-locked and isolated from delivery of crude oil supplies, Shell decided the aging facility was uneconomical to upgrade or to continue operating.¹⁴

Industry representatives claim that refinery "creep"—the traditional method of keeping up with demand by incrementally expanding refining capacity—is stymied by local permitting processes. Spurred by price spikes, oil companies might increase California refining capacity, but this strategy is not cost-effective because of permitting timelines. By the time the refinery capacity improvements are approved, permitted and built out, the price spike subsides because fuel imports have arrived to meet supply needs.

At present, California is dependent on continual imports of crude oil to supply its refineries and a relatively modest amount of blendstocks and finished petroleum products to meet local needs. But faced with growing demands and limited opportunity to expand refining capacity "[i]mports will become a growing and important source of supply for California."¹⁵ Reliance on imports means expanded storage and marine facilities. "Since California is not connected by pipeline to major refinery centers elsewhere in the country, imported gasoline must be brought in by marine tanker. In the event of an in-state supply disruption, locating and importing replacement gasoline can take from two to six weeks. Prices often remain at high levels until shortly before these additional supplies arrive."¹⁶

Decisions at the local level limit refinery operations and delay projects

Local air districts often establish fuel production and delivery limits on process units, furnaces and tanks, loading facilities and marine terminals as a strategy to address federal Clean Air Act requirements for new source review permitting. These limits are intended to create predictable impacts and cap air pollution emissions. But refinery managers contend that production limits also restrict the capacity of the entire refinery by creating bottlenecks that constrain flows and production. One manager estimated that regulatory restrictions cost 1 to 2 percent in daily output: in this instance, 5,000 to 10,000 barrels per day in gasoline production. He noted that similar limits are applied to import facilities, even though air quality standards are being met.¹⁷



Conditional-use permits are issued by a city or county when the construction of a project or land use carries certain obligations on the person or business receiving the permit. For instance, a permit issued for a fuel storage tank might require certain road improvements or restrictions on hours of operation because of the truck traffic to the facility. In one case, local conditional-use permitting for the same type of ethanol tank took 30 days in Eureka, 60 days in Sacramento and 14 months (420 days) in Richmond. California Environmental Quality Act appeals (that were denied) held up the permit in Richmond.¹⁸

Air districts typically have a large permit backlog, in part because extensive staff review of permit applications is time intensive. A refinery project to increase production of cleaner gasoline produced without MTBE by 7,000 barrels per day should have taken 5–7 months, according to district permitting timelines. In that case, however, the permit application review has taken 14 months to date, and no permit has yet been issued. This kind of uncertainty for permit review, coupled with the uncertainty about approval, creates the kind of risk that refineries find unacceptable when deciding whether to make capital project investments.¹⁹

Air districts are considering prohibiting the use of flares during shutdowns and startups for refinery maintenance projects, even though studies show that emissions from flaring are low. Flaring allows refineries to “burn off” emissions for safety and operational reasons. Industry representatives claim that prohibitions on flaring will add two days to the time required to bring a refinery back into production—that is, two days in lost production. Depending upon the refinery, two days of lost production represents 149,000 barrels per day to 485,000 barrels per day in lost production (as much as 20 million gallons of fuel).²⁰

Land use planning issues

Extensive study of siting and construction issues surrounding petroleum infrastructure and marine facilities by the California Energy Commission identifies 13 different federal, state and local agencies involved in evaluating an application and permitting a storage facility. According to the report, three permits present the greatest potential for delay: conditional-use permits; building permits; and air quality permits.²¹ The report provided a detailed explanation of the permitting process, illustrating how the multi-jurisdictional involvement dictates a process filled with uncertainty: “There is no standardized procedure or rule of thumb to let the permit applicants know which permit to apply for first. Permit applicants can apply for all permits at the same time or apply for the permits consecutively. Depending on the location of the project and the permitting jurisdictions involved, Authority to Construct [permits] from the Air District may be approved only if the land use permit for [the project] was previously approved, or vice versa. Therefore, the strategy for applying for permits is an important consideration in project development. One respondent commented that applicants should concentrate on fulfilling CEQA requirements first.”²²

In separate reports, the Energy Commission recommends a course of action to eliminate this government-imposed constraint on increasing import supply with: 1) A comprehensive

evaluation of California's future import needs, including identifying infrastructure needs to accommodate "unconstrained movement" of needed petroleum products for the next 20 years; 2) Creating a single authority or unified authority for permitting facilities; and 3) Streamlining the permitting process.²³

In its most detailed report on the issue, the Energy Commission made the following recommendations:

1. Allowing project proponents to directly fund consultants that assist agencies in reviewing permit applications;
2. Vesting a state agency with enforcement authority for the 1977 Permit Streamlining Act, which "requires" agencies to complete the permitting process (from submission of a complete application through any hearing process) within:
 - 90 days for a permit that is exempt from requirements to prepare an Environmental Impact Report (EIR);
 - Four months if the project requires a Negative Declaration that signifies no significant adverse impacts; or
 - One year when a full EIR is required.²⁴

The report found "little effort to comply with the requirements of the Permit Streamlining Act," citing the absence of a state agency charged with implementing the Act as the "fundamental problem."²⁵

3. Establishing a schedule for permit reviews and creating a system for information sharing among state and local agencies responsible for issuing permits;
4. Expanding the use of the California Environmental Protection Agency's Certified Unified Program Agencies (CUPAs) and the Unified (permitting) program to include air districts, water districts and local permitting agencies; or creating a "one-stop shop" for permitting infrastructure facilities;
5. Reviewing and updating General Plans and zoning ordinances to identify locations amenable to siting petroleum storage facilities;
6. Reducing discretionary decisions by permit writers so that decisions are based on specific written guidelines and standardized information; and
7. Creating a Permit Ombudsman to assist with local reviews and to serve as a primary contact during the permitting process.

"Severe price volatility is likely to continue in California, at least for the next few years," according to the Energy Commission. The price of doing nothing is continued and more pronounced price volatility. The benefit of reforming the permitting processes to accommodate refinery capacity expansion and simultaneously improving import infrastructure that reduces price volatility pays dividends to California consumers and the economy.²⁶

Permitting issues are complex and multi-jurisdictional oversight cannot be swept away. The process can be streamlined, however, to reduce confusion and improve service delivery. The negative statewide impacts of fuel price volatility on consumers and the economy warrant focused attention on the issue of petroleum infrastructure.



Recommendations

- A. The Governor should issue an Executive Order stating that it is in the best interest of the citizens of California to identify and remove unnecessary, burdensome regulations preventing the expansion or new construction of oil refineries, and direct the Ombudsman’s Office at the California Air Resources Board, or its successor, within the next 90 days to examine existing practices at air districts that represent best management practices for permitting and to recommend adopting those practices and any other independent suggestions statewide.**

Consideration should be given to the Bay Area Air Quality Management District’s accelerated permit program and the South Coast Air Quality Management District’s certified permitting professional program.

- B. The Governor should work with the Legislature to designate the California Energy Commission, or its successor, as the state entity responsible for administering the Permit Streamlining Act for petroleum infrastructure upgrades and providing it the authority to implement provisions of the act as necessary.**

Authority would include:

- Undertaking a petroleum infrastructure assessment to determine California’s needs;
- Reviewing General Plans and zoning ordinances to identify consistency with and obstacles to meeting the state’s infrastructure needs;
- Developing an immediate one-stop shop for information on permitting requirements from state and local jurisdictions;
- Developing best practices models for internal permit reviews that quantify review timelines and obstacles to permit application completion;
- Establishing standards and consistent practices to harmonize multi-jurisdictional needs and create consistency for permit applications and permit review;
- Developing an information-sharing system for federal, state and local jurisdictions and serving as a clearinghouse and a single point of contact for that system;
- Developing a statewide model for streamlined permitting for petroleum infrastructure based on California’s Certified Unified Program Agencies (CUPAs) and the unified (permitting) program—focusing on projects that expand refinery capacity, or improve efficiency and reduce emissions with operational improvements;
- Serving as lead agency for enforcing the Permit Streamlining Act for petroleum storage and marine facility permitting.

Fiscal Impact

The ombudsman’s office at the Air Resources Board is an existing, federally required position. The research on California’s energy needs is an ongoing requirement at the Energy Commission and numerous reports have identified infrastructure needs generally; in fact, the

Energy Commission on May 20, 2004, announced its intention to further investigate this issue. This proposal anticipates that the Energy Commission will use existing resources to link needs with opportunities and to identify the obstacles to expanding California's petroleum infrastructure. Finally, the Energy Commission's extensive research on permitting issues provides a framework for putting in place the streamlining procedures previously identified. Establishing a clearinghouse and automation of an information sharing system are the most identifiable potential costs, which include at least one staff at approximately \$85,000 and the potential cost of a server, software and networking.

Savings are difficult to estimate. While experts appear to be convinced that inadequate petroleum infrastructure already creates more severe price volatility for California compared with the rest of the nation and that it will only get worse, it is difficult to estimate the impact with great precision. Based on events over the past two years, the California Energy Commission estimated that mitigating price spikes to less than 10-cents per gallon would have saved \$400 million. The direct benefit to California would be fuel cost savings for the state fleet. The state operates a vehicle fleet of approximately 73,000 vehicles. Fuel purchases are made either using a gasoline card or through bulk fuel purchases for state-owned refueling stations. Both types of purchases are subject to price volatility because they are based either on retail, pump prices or the Oil Pricing Information Service daily price for bulk fuel purchases. In 2003, all state agencies recorded gas card fuel purchases worth \$57,382,095 (28,661,945 gallons of fuel).²⁷ Bulk fuel purchases worth \$72,830,052 (about 66.21 million gallons of fuel) were made in 2003.²⁸ At this rate, California government consumes 364,892 gallons of gasoline during the average workday. Eliminating a 10-cent gasoline price spike for 14 days (the shortest amount of time it takes for replacement supplies to arrive), would yield about \$500,000 in savings. These savings are speculative as they rely on a 10-cent per gallon price reduction, therefore losses or gains will not happen immediately, they will be phased in over time. And this may take a long time, since, even with a more efficient permitting process, the additional capacity may take years to complete.

Another cost the state may experience is the loss in sales tax revenue. Gasoline is subject to sales tax, which is based on the price of the product; the higher the price, the more sales tax revenue it generates. Based on a \$400 million savings to consumers through mitigated price spiking, the cost to the state is \$29 million in revenue annually, and the cost to local government is approximately \$11 million a year (based on a 5 percent state share of the sales tax and a 2.75 percent local share of the sales tax, respectively). It is not possible to estimate with any accuracy whether reduced sales tax revenue at the gas pump nonetheless manifests itself elsewhere because consumers use the disposal income to purchase other items subject to the sales tax.

Comparing price differentials in the California market and the nation, California experienced a 34-cent price differential during 2003. If the price differential could be reduced by five cents



per gallon, the state would experience savings of \$4.8 million per year in direct fuel costs; a 10-cent per gallon savings would yield almost \$9.6 million in savings.²⁹

Other indirect benefits cannot be quantified, including economic benefits to consumers from increased disposable income, improvements in the business climate through reduced operating costs, etc. Also in a report done by Global Insight, it was noted that when oil prices are above baseline by \$10, there is a resulting loss of Gross Domestic Product (GDP) relative to the baseline of 0.4 percent.³⁰ If there is an increase to the state's petroleum infrastructure capacity and the gasoline price differential is cut, there will be resulting gains in state and local revenues. These gains cannot be estimated at this time.

Endnotes

- ¹ California Energy Commission, "Report to the Summer Transportation Fuels Outlook Conference" (Washington, D.C., April 5, 2004), p. 6.
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- ³ California Air Resources Board, "Phase 3 Cleaner Burning Gasoline," <http://www.arb.ca.gov/newsrel/ph3cbg.htm> (last visited June 20, 2004).
- ⁴ Testimony from Philip Vergler Jr., visiting fellow, Institute for International Economics, before the Assembly Transportation Committee for Attorney General Bill Lockyer (Sacramento, California, March 11, 2004).
- ⁵ Interview with Claudia Chandler, public information officer, California Energy Commission, Sacramento, California (August 20, 2003).
- ⁶ U.S. Census Bureau, <http://www.census.gov/population/projections/state/9525rank/caprsrel.txt> (last visited June 20, 2004).
- ⁷ U.S. Census Bureau, <http://www.census.gov/population/projections/state/9525rank/azprsrel.txt> (last visited June 20, 2004); and <http://www.census.gov/population/projections/state/9525rank/nvprsrel.txt> (last visited June 20, 2004).
- ⁸ California Energy Commission, testimony by Commissioner Jim Boyd before the Assembly Transportation Committee (Sacramento, California, April 1, 2004), p. 15.
- ⁹ California Attorney General, "Report on Gasoline Pricing in California" (Sacramento, California, March 2004), Charts 7–9.
- ¹⁰ Energy Information Administration, "A Primer on Gasoline Prices," a presentation to the California Assembly Transportation Committee (Sacramento, California, April 1, 2004), Committee Agenda, p. 20.
- ¹¹ California Energy Commission, "California Average Weekly Retail Gasoline Prices February 1996 through Current," http://www.energy.ca.gov/gasoline/retail_gasoline_prices.html (last visited June 22, 2004); and American Automobile Association, "Daily Fuel Gauge Report," <http://198.6.95.31> (last visited June 22, 2004).
- ¹² Energy Information Administration, "A Primer on Gasoline Prices," a presentation to the California Assembly Transportation Committee (Sacramento, California, April 1, 2004), Committee Agenda, p. 20.
- ¹³ California Attorney General, "Report on Gasoline Pricing in California" (Sacramento, California, March 2004), Chart 10.
- ¹⁴ Interview with David Harrington, Shell Oil, Sacramento, California (May 12, 2004).

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- ¹⁵ California Energy Commission, "Report to the Summer Transportation Fuels Outlook Conference" (Washington, D.C., April 5, 2004), p. 6.
- ¹⁶ California Energy Commission, "Feasibility of a Strategic Fuel Reserve in California" (Sacramento, California, July 2003), p. 1.
- ¹⁷ Western States Petroleum Association, "Survey of Permitting Case Studies" (Sacramento, California, 2004), p. 1.
- ¹⁸ Western States Petroleum Association, "Survey of Permitting Case Studies," p. 1.
- ¹⁹ Western States Petroleum Association, "Survey of Permitting Case Studies," p. 2.
- ²⁰ Western States Petroleum Association, "Survey of Permitting Case Studies," p. 3.
- ²¹ California Energy Commission, "Permit Streamlining for Petroleum Product Storage" (Sacramento, California, October 2003), pp. 6 & 16.
- ²² California Energy Commission, "Permit Streamlining for Petroleum Product Storage," pp. 6–7.
- ²³ California Energy Commission, "Feasibility of a Strategic Fuel Reserve in California," pp. 12–15.
- ²⁴ California Energy Commission, "Permit Streamlining for Petroleum Product Storage," p. 24.
- ²⁵ California Energy Commission, "Permit Streamlining for Petroleum Product Storage," p. 44.
- ²⁶ California Energy Commission, "Feasibility of a Strategic Fuel Reserve in California," p. 4.
- ²⁷ Interview with Rick Shed, assistant chief, Inspection Services, California Department of General Services, Sacramento, California (May 11, 2004).
- ²⁸ California Department of General Services, "Bulk Fuel Purchase Data" (Sacramento, California, April 2004).
- ²⁹ California Energy Commission, "Transportation Fuels Gasoline, Diesel, Ethanol, June 14, 2004, <http://www.energy.ca.gov/gasoline/index.html> (last visited June 20, 2004).
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