

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 3
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

ASSEMBLYMEMBER FRAN PAVLEY, CHAIR

WEDNESDAY, MARCH 13, 2002
STATE CAPITOL, ROOM 127
8:00 A.M.

ITEMS TO BE HEARD

LEGISLATIVE ANALYST'S OFFICE OVERVIEW REPORT:
California Environmental Protection Agency, its constituent
Boards, Departments and Offices

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CAL/EPA AND DEPARTMENTS:
LEGISLATIVE ANALYST'S OFFICE OVERVIEW REPORT

The Governor's Budget includes \$1.2 billion (\$203 million General Fund) and 4,966.8 personnel years in support of environmental programs.

Agency Expenditures: State Operations and Local Assistance (00-01 to 02-03)			
Dollars in millions			
Department	2000-01	2001-02	Proposed
Agency Secretary	\$8.6	\$9.5	\$7.5
Air Resources Board	299.5	217.2	133.6
Integrated Waste Management Board	105.0	124.4	117.2
Water Resources Control Board	550.7	1,058.2	663.6
Toxic Substances Control	143.3	302.2	156.3
Pesticide Regulation	60.0	63.0	59.7
Office of Environmental Health Hazard Assessment	14.6	18.3	16.8
Total	\$1,181.70	\$1,792.80	\$1,154.70

Proposed Major Changes to Environmental Protection Programs for 2002-03
Air Resources Board \$133.6 million
– \$5.5 million for various mobile source programs
– \$5 million for subventions to local air districts
– \$4.4 million for various stationary source programs
State Water Resources Control Board \$663.6 million
+ \$22.4 million to tank owners for tank clean-up
+ \$15 million from increased fees to replace General Fund support in core regulatory program
+ \$4.3 million for information management
Department Toxic Substances Control \$156.3 million
+ \$9.3 million for facility operations, equipment, and vehicles
+ \$2.2 million for various hazardous waste management programs

0555 CALEPA SECRETARY

The Secretary for Environmental Protection, working with the boards, departments, and office comprising the California Environmental Protection Agency (CalEPA), coordinates and supervises the State's environmental protection programs and administers state and federal clean air, clean water, hazardous waste, and solid waste programs to safeguard our environment and the public health.

The Governor's Budget includes \$7.5 million (\$2.9 million General Fund) for support of Office of the Agency Secretary.

ISSUE 1: GENERAL FUND REDUCTION - SCIENTIFIC PEER REVIEW

The Governor's proposed budget includes a \$352,000 General Fund reduction to the Agency's Scientific Peer Review Program.

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$1.2 million	-\$352,000	\$874,000

BACKGROUND:

CalEPA conducts external peer review of the scientific basis for any rule or regulation proposed by one of its boards, departments or offices. The Scientific Peer Review Program was established in 1998, and under the program Cal EPA contracts, through the University of California, for its external peer review services.

COMMENTS:

According to the Agency, this reduction would not adversely affect the program or result in the Agency foregoing review of any proposals. The Subcommittee may wish to inquire as to the actual impact of this reduction on the program. How can the reduction have no effect?

ISSUE 2: PROGRAM REDUCTION - PERMIT ASSISTANCE CENTERS

Since 1996, CalEPA has operated 13 full-time permit assistance centers throughout the state. The intent of these centers was to assist individuals and businesses in obtaining required permits and complying with requirements of those permits.

This proposal would reduce by 27, the positions associated with this program, as the Agency has not identified an appropriate substitute source of funding for this programs as was requested by the Governor in his signing message of the Current Year (CY) budget.

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$439,000	\$0 (-27 positions)	\$479,000

BACKGROUND:

In the 2001-02 budget, the Legislature reduced funding for these centers by \$2.0 million. With the fiscal projections at the time, the Legislature questioned the use of General Fund dollars to support activities of individuals and businesses seeking permits. As a result, the Agency has closed 11 of its 13 centers.

ISSUE 3: ENVIRONMENTAL JUSTICE

SB 115 (Solis), which was signed into law in 1999, requires CalEPA to develop a model environmental justice mission statement for its boards, departments and offices. The legislation defines environmental justice (EJ) as the fair treatment of people of all races, cultures, and incomes with respect to the development, adoption, implementation, and enforcement of environmental laws and policies.

BACKGROUND:

Since the passage of SB 115 (Solis), the Legislature has expressed an interest in receiving updates on the implementation, progress and future plans to incorporate the concept of EJ in the Agency's programs. During the CY Subcommittee process, each board, department and office within CalEPA was asked to report on the status of their EJ activities.

COMMENTS:

The Agency should update the subcommittee on its agency-wide EJ efforts to date.

3900 AIR RESOURCES BOARD

The Air Resources Board helps protect the public health of Californians by ensuring that federal and State health-based air quality standards are achieved and exposure to air toxins are reduced through a variety of controls for mobile and stationary sources of pollution. The Board adopts and enforces emission standards for motor vehicles, fuels, consumer products, and toxic air contaminants. The Board's research, monitoring, and emission inventory programs are the scientific and technical foundations that support regulatory activities.

The Governor's proposed 2002-03 budget includes \$133.6 million (\$31.0 million General Fund) to the Board for state operations and local assistance.

ISSUE 1: PROGRAM REDUCTIONS - MOTOR VEHICLE ACCOUNT (MVA)

The Governor's proposed budget includes reductions to various MVA funded mobile air quality programs totaling \$10.5 million. These cuts would impact several programs including the Air Quality and Emissions Inventory Program (-\$1.2 million), the Community Health Program (-\$1.5 million), the Health Effects, Emissions Control, and Air Quality Research Programs (-\$2.1 million), as well as reducing the subventions to local air districts by \$5.0 million.

BACKGROUND:

Due to decreased MVA revenue, the ARB has identified program reductions totaling \$10.5 million.

COMMENTS:

The Current Year budget provided \$20 million (MVA) for zero-emission vehicle grants for both individuals and fleet vehicles. It is the understanding of the Subcommittee that, of these funds, approximately \$6.8 million remains unused, with no impending expenditure planned. The Board and/or the Department of Finance should provide the Subcommittee with the latest update on this amount.

ISSUE 2: PROGRAM REDUCTIONS - GENERAL FUND

The Governor's budget includes reductions to the General Fund (GF) components of various programs totaling \$4.4 million

BACKGROUND:

Similar to the reductions noted in the MVA discussion on the previous page, this proposal affects several programs within the Board's activities. These reductions implement an across-the-board GF cut requested by the Administration of departments.

ISSUE 3: ADDITIONAL BUDGET PROPOSALS

The Governor's budget includes three additional proposals as summarized below.

- \$194,000 (reimbursement) to make permanent, 2 positions created by SB 28X1 to continue efforts relating to the Expedited Air Quality Improvement Program for Electrical Generation. SB 28X1 made several requirements of the ARB regarding air quality improvements at electrical generation facilities and set specific deadlines for the activities. This proposal requests that specific components of SB 28X1 be continued on a permanent basis.
- \$375,000 (reimbursement) in contracts for the Portable Equipment Registration Program (PERP) to streamline the implementation of the programs components. PERP provides a uniform standard for portable equipment registration statewide, instead off on a district-by-district basis.
- \$77,000 (Vehicle Inspection and Repair Fund) for the replacement of outdated or otherwise ineffective scientific equipment.

COMMENTS:

These proposals are consistent with the activities of the Board and, in the case of the SB 28X1 proposal, the intent of the Legislature.

ISSUE 4: STATIONARY SOURCE PROGRAMS - FEE STRUCTURE

The Legislative Analyst's Office (LAO) has recommended legislation to expand the fee base of the Stationary Source Program, with the potential to generate \$18.7 million in revenue. This revenue could fund the Stationary Source Program and therefore, reduce the current General Fund support to the program.

BACKGROUND:

When first authorized by statute in 1947, the focus of local air districts and air quality regulation was initially on stationary sources of "visible" pollution, such as smoke and particulate matter. Today there are 35 local air districts that are the primary agencies responsible for regulating emissions from stationary sources of pollution. Stationary sources include "point" sources and "area" sources.

The budget proposes \$43 million for ARB's stationary source program in 2002-03. Funding is proposed from various sources, primarily the General Fund (58 percent). Fees, federal funds, and reimbursements make up the balance. According to the LAO, only \$3 million of the non-general fund support of this program is from fees levied on stationary source polluters. The California Clean Air Act (Chapter 1568, Statutes of 1988 [AB 2595, Sher]) caps the total amount of fees that may be levied on stationary sources for ARB's stationary source program at \$3 million. Further, these may only be levied on facilities emitting over 500 tons of pollution per year. Currently, less than 250 facilities (out of about 20,000 point stationary sources statewide) pay the stationary source fee. The fee is currently \$25.56 per ton of emissions. Additionally, to the extent that more high-emitting polluters are added in the state, the fee per ton of emissions would be adjusted downward due to the \$3 million statewide cap on fees.

COMMENTS:

LAO recommends the enactment of legislation that would shift certain stationary source expenditures from the General Fund to fees, for a General Fund savings of \$18.7 million. We therefore recommend the deletion of \$18.7 million from the General Fund and an increase of \$18.7 million in the Air Pollution Control Fund.

Several issues the LAO recommends be discussed include:

- Who should pay the fee?;
- What the fee rates should be, and whether there should be a cap on total revenues collected from the fee?

ISSUE 5: ZERO-EMISSION VEHICLES

In its document, *LAO's Options for Addressing the State's Fiscal Problem: 2002-03*, the LAO has identified \$6.0 million in the ARB's budget for zero-emission vehicle grants.

BACKGROUND:

Chapter 1072, Statutes of 2000 (AB 2061, Lowenthal) appropriated \$18 million from the General Fund for a grant program to encourage the purchase or lease of zero-emission vehicles (ZEVs) by subsidizing the purchase/lease price of these vehicles. About \$6 million of the appropriation will remain available in 2002-03 which could be captured as savings in the current year and funded in a future year if the Legislature desired to continue the program.

COMMENTS:

According to the LAO, at current lease/purchase levels of ZEVs, this delay would not have a significant adverse impact on air quality levels.

ISSUE 6: DIESEL EMISSIONS REDUCTION / ENVIRONMENTAL JUSTICE INITIATIVE

BACKGROUND:

Since 1998-99, ARB has implemented a grant program to encourage the replacement of older diesel engines with cleaner alternatives. The Legislature established a number of criteria for the award of grants under this program--referred to as the Carl Moyer program--with the enactment of Chapter 923, Statutes of 1999 (AB 1571, Villaraigosa).

The purpose of the Carl Moyer program is to create air emission reductions that count towards the state's commitments in the federally required State Implementation Plan (SIP). Under the Carl Moyer program, funds are allocated to the air districts (for grants to specific projects) based on population and the amount of air emission reductions in a district needed to attain air quality standards.

In addition to the Carl Moyer Program, the ARB implemented the Lower-Emission School Bus Program. This program provides funds to school districts for the replacement of diesel buses with alternative fueled or cleaner diesel buses, and the retrofit of diesel buses with traps to reduce toxic emissions.

The CY budget included \$48 million (GF) for a three-part diesel emissions reduction/environmental justice initiative: \$16 million each for the Carl Moyer program, the Lower-Emission School Bus program and funds to help local air districts comply with the new activities required by the energy crisis. Priority for these funds was designed to go to high impact traditionally under served communities that are disproportionately impacted by air pollution.

Last year ARB also received \$68 million from the Disaster Response-Emergency Operations Account of the Special Fund for economic uncertainties for the purposes of reducing emissions to provide emission offsets for electrical generation facilities. According to the ARB, funded projects included: clean-up of construction equipment, agricultural irrigation pumps, alternative fueled trucks, existing diesel trucks and marine vehicles, installation of particulate trap technology, and refueling infrastructure for alternative diesel fuel technology and refueling infrastructure for alternative diesel fuel. According to ARB, the funds were primarily allocated to regions most likely to site new power plants and/or peaker units, with some funds devoted to statewide efforts. According to the ARB, individual projects were selected for funding based on their cost-effectiveness and emission reduction potential. The proximity of each project to low-income/environmental justice communities was also considered. According to the ARB, the funds were distributed geographically as follows: Bay Area AQMD: \$5 million; South Coast AQMD: \$29 million; San Joaquin Valley Unified APCD: \$15 millions; San Diego APCD: \$2 million; Sacramento Metropolitan AQMD: \$3 million; Statewide projects (including multi-district projects: \$14 million.

The Governor's budget does not include any funding for this initiative. Proposition 40, passed by the voters in the March primary provides \$50 million for the Carl Moyer program. Assemblymember Chu (AB 2682) and Senator Soto (SB1994) have introduced legislation that will provide funding for the Carl Moyer and low emission school bus programs from a petroleum mitigation fee.

COMMENTS:

The Carl Moyer program has been demonstrated to be highly successful. While anecdotally successful, the Legislature has received far less information regarding the school bus and power plant offset programs. The Subcommittee may wish to ask the following questions:

- How have the funds been allocated for the programs?
- What types of programs have been funded at the local level?
- What is the need/demand for the Carl Moyer program?
- What is the status of the school bus diesel emissions reduction program?
- What is the need/demand for the program?
- What amount could be accommodated annually in the program?

ISSUE 7: CENTRAL VALLEY AIR QUALITY ATTAINMENT

BACKGROUND:

Air quality in the Central Valley is partially the result of geography and meteorological conditions that can be more severe in both winter and summer. The surrounding mountains do not allow much of the air pollution to escape so that it builds up.

The other reason is the unique mixture of emission sources in the Valley. Less of the Valley's air pollution is from cars which are now less polluting and more dominated by heavier on- and off-road diesel engines where progress has been slower. Also some stationary sources are less strenuously regulated than comparable facilities in Southern California or the Bay area. As much as 27% of the ozone on the northern San Joaquin Valley is due to transport from upwind areas.

COMMENTS:

The San Joaquin Valley is facing reclassification from severe to extreme for ozone and failure to adequately comply with the federal; requirements could result in sanctions and withholding of transportation dollars. The local air district is preparing new, comprehensive plans for ozone and particulate matter.

The ARB has started a \$40 million Central California Ozone Study that will result in more robust data on transport effects which will recommend additional mitigation requirements. That study will be completed in 2003.

What can ARB do to help the Valley solve this problem?

3940 STATE WATER RESOURCES CONTROL BOARD

The mission of the State Water Resources Control Board (Water Board) and the nine Regional Water Quality Control Boards is to preserve and enhance the quality of California's water resources and ensure proper allocation and efficient use of water resources for the benefit of present and future generations. Activities include regulatory oversight of the state's surface, ground, and coastal waters; control of unauthorized water diversions; and protection of water quality in watersheds and coastal waters from point source and non-point sources of pollution.

The Governor's proposed 2002-03 budget includes \$663.6 million (\$87.3 million General Fund) to the Board for State Operations and Local Assistance.

ISSUE 1: CORE REGULATORY PROGRAMS

The Governor's Budget proposes to raise fees to support the SWRCB's core regulatory program. This proposal expects to generate \$15 million to offset current support from the General Fund

BACKGROUND:

The LAO has provided an analysis of that proposal and additional program costs of the core regulatory program that could be funded by a higher and/or broader based fee.

The main activities of SWRCB's core regulatory program are permitting, inspections, review of self-monitoring conducted by dischargers, and enforcement for the five categories of waste dischargers. The program does not encompass a number of other major activities carried out by the board in other programs. Specifically, the program does not include the board's water quality planning and standard-setting activities, nor does it include the local assistance, nonpoint source pollution control, or the underground fuel tank cleanup programs.

From 1990-91 through 1998-99, annual General Fund support for the core regulatory program remained relatively stable--at around \$13 million. However, beginning with the 1999-00 budget, the Legislature has approved a number of General Fund augmentations to the core regulatory program to bring General Fund support to \$39 million in the current year. These augmentations came about largely as a result of findings from legislative oversight hearings on the board's core regulatory program conducted in 1999 and 2000.

Although General Fund support for the core regulatory program has increased substantially in recent years, the program's fee-based support has remained relatively stable. The ability of the board to increase fee revenues by raising fee rates has been restricted due to a statutory cap of \$10,000 on annual waste discharge permit fees that was set in 1989.

Un-funded Programmatic Requirements

In its January 2001 report to the Legislature with the baseline needs analysis, the board identified substantial unmet funding requirements, both in terms of existing workload and new workload that was anticipated in future years. The baseline needs analysis identified funding requirements for the board's existing workload of about \$107 million above the level of funding provided in the 2002-03 proposed budget for the core regulatory program. In other words, the board estimates that it would cost an additional \$107 million to inspect currently permitted waste dischargers, conduct enforcement, and update permits at a frequency it considers adequate in light of threats to water quality.

The needs analysis also identified an additional \$73.7 million of funding requirements in future years, related to an expansion of the universe of dischargers to be regulated under the stormwater program. This brings the unmet annual funding requirements in the longer term to a total of \$180.7 million increase of over 260 percent above the proposed 2002-03 budget for the core regulatory program. The Board believes it would take approximately seven years to fully ramp up the staffing level.

COMMENTS:

The LAO proposes a number of adjustments to the SWRCB fee structure that will cover the current core regulatory program as well as addressing the issues of the workload identified by the Board as work that is going undone.

ISSUE 2: SYSTEM FOR INFORMATION MANAGEMENT PHASE II (SWIM2)

This proposal requests \$4.3 million (General Fund) to fund year 2 of a five-year effort.

BACKGROUND:

The System for Water Information Management is an effort to standardize and automate several basic processes of the Board. Its intent is, in part, to automate data received from permittees as it pertains to their compliance with the permits. According to the Board, this system will assist in the Board's monitoring and enforcement efforts.

COMMENTS:

The Board should justify the complete General Fund support for this program. The subcommittee may wish to ask the Board about alternate funding for these efforts. Would it be possible to scale back the scope of the program as to reduce the General Fund expense?

ISSUE 3: ADDITIONAL BUDGET PROPOSALS

The Governor's budget includes five additional proposals as summarized below:

- \$1.2 million (Special funds and reimbursement) to restore 19 positions that were abolished by the Controller's office, having remained vacant for more than six months. 17 of these positions were first created and funded in 2000-01, and difficulty in recruiting and hiring explains the vacancy. These positions have subsequently been filled.
- \$20.0 million (Underground Storage Tank Cleanup Fund) as part of the Underground Storage Tank Cleanup Program for payment to claimants for costs associated with cleanup efforts.
- \$2.4 million transfer from the Circle K Settlement Fund to the Underground Storage Tank Cleanup Fund. These funds were originally deposited to pay claims associated with the cleanup of Circle K underground storage tank sites. The sunset of the Circle K Settlement Fund frees these funds to be transferred.
- \$2.7 million (General Fund) reduction to various contracts to comply with the Administrations directions to reduce General Fund expenditures.
- \$70.9 million (Special and Bond Funds) for implementation of Proposition 13, the Water Bond of 2000.

COMMENTS:

These proposals are consistent with the mission and duties of the Board.

ISSUE 4: STORMWATER POLLUTION CONTROL PROGRAM

The LAO has identified in its document, *LAO's Options for Addressing the State's Fiscal Problem: 2002-03*, a possible \$6.5 million General Fund savings within the Board's budget.

BACKGROUND:

The 2002-03 Governor's Budget proposes \$19 million for the board's stormwater regulatory program. This amount includes \$6.5 million from the General Fund for contracts to provide technical and financial assistance to local agencies to facilitate compliance with permits and to promote "best management practices" for the control of stormwater pollution. According to the LAO, while this assistance has merit, these contracts are a lower priority than the program's core regulatory functions of permitting and enforcement. In addition, the board administers grant/loan programs that provide bond-funded support to local agencies for projects that help them meet stormwater permit requirements.

COMMENTS:

The Subcommittee may wish to consider this action if the need to achieve greater General Fund savings becomes necessary.

ISSUE 5: CLEAN BEACHES INITIATIVE

Beach usage along California's 1,100 miles of coast is higher than in the other 49 state's combined. The coast offers year-around recreation, attracts more than 175 million visitors each year, and is a major economic force that generates 700,000 jobs and billions of dollars of economic activity.

Over the last few years the state has adopted increasingly stringent public health standards for beaches and invested in increased monitoring of coastal waters. The state's monitoring programs indicate that beach pollution is both widespread and exceeds acceptable levels.

Beach contamination is primarily caused by sewage spills and urban runoff. Urban runoff is the largest source of coastal water pollution and is frequently caused by communities upland from the coast. Reducing urban runoff requires a regionally integrated and coordinated program and investment. Many local jurisdictions have invested in water runoff collection systems to reduce the amount of pollution that finds its way to the beach.

BACKGROUND:

Last year's budget included specific funding for a Clean Beach's Initiative including \$32.6 million for local projects and \$1.5 million for scientific research.

COMMENTS:

In August 2000, the Los Angeles Times reported that 91 percent of registered voters polled consider beach closures as either a "serious" or "very serious" problem. In response, some southern California communities have installed temporary diversions of storm drains that convey the polluted water to sewage treatment plants in the hotter dry periods. Four years of implementation of these dry weather diversions has demonstrated that they are technically sound and have greatly reduced the level of pathogens at the beaches. However, these diversions are not appropriate for installation in all storm drains and when installed do not address wet water flows. The state and local agencies need more and better tools to track down sources of pollution and implement appropriate solutions.

The SWRCB has established a Beach Water Quality Workgroup comprised of the State and Regional Boards, local health, storm water and sewage treatment agencies, environmental groups, researchers, Department of Health Services and USEPA. They developed the list of projects that were funded in the budget last year as the most critical and ready to go for restoring water quality and protecting public health at the state's beaches.

The SWRCB should report on the status of the projects appropriated as part of last year's budget.