

## Analysis of the 2007-08 Budget Bill: Resources

# Department of Forestry and Fire Protection (3540)

The California Department of Forestry and Fire Protection (CDFFP), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and watershed lands owned privately or by state or local agencies. These areas of department responsibility are referred to as "state responsibility areas" (SRA). In addition, the department regulates timber harvesting on forestland owned privately or by the state and provides a variety of resource management services for owners of forestlands, rangelands, and watershed lands.

The budget requests about \$1.3 billion for the department in 2007-08, including support and capital outlay expenditures. Of this amount, 94 percent is for fire protection, 5 percent is for resource management, and 1 percent is for State Fire Marshal activities and administration.

The total proposal represents an increase of \$336 million over estimated current-year expenditures. This largely reflects an increase of \$317 million (mostly lease-revenue bonds) for capital outlay projects and \$31 million (mostly General Fund) for various employee compensation increases, including changes to the Unit 8 memorandum of understanding (MOU), partially offset by reductions in prior-year one-time expenditures.

The General Fund will provide the largest portion of the department's funding for state operations and capital outlay—\$655 million (about 50 percent). The remaining funds will come from lease-revenue bonds (\$340 million), reimbursements (\$248 million), federal funds (\$26 million), and various other state funds, including bond funds.

In addition to the department's base fire protection budget, the budget proposal includes \$82 million from the General Fund for emergency fire suppression. As in the current year, the budget bill contains language that authorizes the Director of Finance to augment the budget for emergency fire suppression by an amount necessary to fund these costs. (The costs of wildland firefighting can vary substantially from year to year, making it difficult to accurately budget for emergency fire suppression. The budgeted General Fund amount for emergency fire protection is roughly \$13 million less than the ten-year average for such costs.)

## State's Wildland Firefighting Costs Continue to Escalate

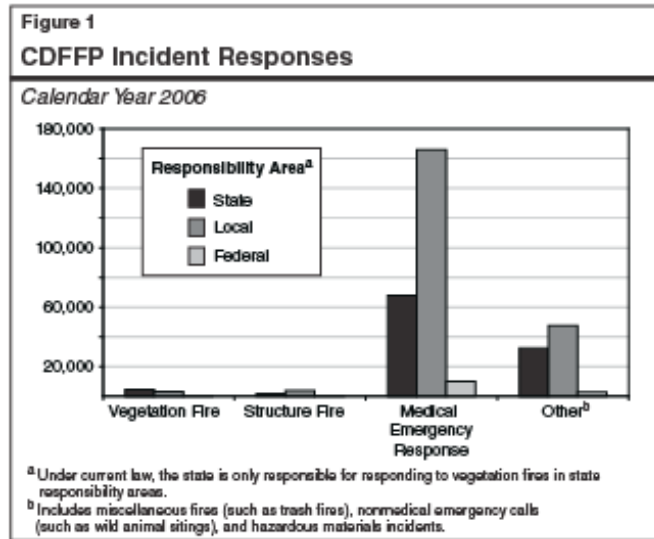
***The state's costs to provide wildland fire protection have increased substantially in recent years. Growing costs are due, in part, to changes in fire conditions in wildland areas, increasing development in wildland areas, and rising labor costs. In order to control rising costs, we recommend the Legislature clarify the roles of the state and local government for emergency services in state responsibility areas (SRA). We also recommend the Legislature enact a fire protection fee levied on private landowners in SRA, so that the beneficiaries of state fire protection pay a portion of its cost. Finally, we recommend the Legislature consider modifying the current criteria for designating SRA, such that local governments take more responsibility for fire protection on lands where locally-approved development is occurring.***

***State's Responsibility for Wildland Firefighting.*** The state is responsible for wildland firefighting in SRA. These SRA are primarily *privately-owned* timberlands, rangelands, and watersheds. Lands owned by the federal government or incorporated within existing city limits are excluded from SRA. Also, if the density of houses is greater than three units per acre, the Board of Forestry generally removes these lands from SRA and local governments become responsible for fire protection. Existing law *requires* the department to provide wildland fire protection on SRA. The law *allows* the department to provide other emergency services—such as structure fire protection or medical emergency response—in SRA when resources are available and it is within the department's budget. State law does not explicitly require local governments to provide nonwildland fire protection within SRA, although in practice local governments generally have assumed this responsibility, as structure fire protection and emergency services are generally considered local responsibilities. In addition to state and local responsibility areas, the federal government owns a large amount of land in the state—including national forests and other federal lands. On these lands, the federal government is responsible for fire protection.

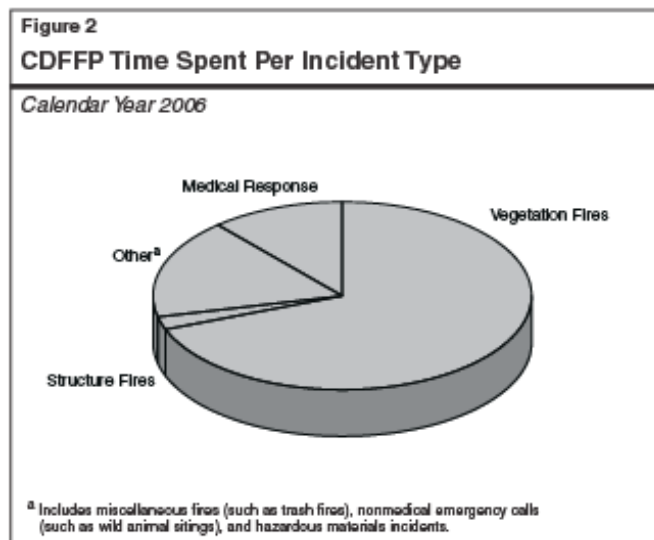
Cooperation among the department, federal fire agencies, and local fire agencies is governed by a series of agreements among the various parties. These agreements specify how and when various agencies will provide assistance to one another, whether or not such assistance will require reimbursement to the assisting agency, and the terms of such reimbursements. For a detailed discussion of the various fire protection agreements and recommendations to

improve this system, please see our report: *A Primer: California's Wildland Fire Protection System*, April 2005.

As shown in Figure 1, in calendar year 2006, the department responded to more than 340,000 separate incidents—including vegetation fires, structure fires, and emergency medical incidents. (The figure shows the number of responses by the department, the type of incident, and in which *area of responsibility* the incident occurred, even though the department responded. As mentioned above, the state is only *responsible* for vegetation fires in SRA, though the department *may* respond to other incidents if it has resources available.) Approximately 70 percent of the department's responses were for medical emergencies, while only 1 percent of total calls were for vegetation fires in SRA (about 4,500 incidents). Also, roughly 65 percent of department responses were to incidents outside of SRA in local responsibility areas. On the other hand, the federal government and local agencies also respond to incidents in SRA. In 2006, federal fire agencies responded to roughly 750 vegetation fires in SRA, while local governments responded to about 5,500 vegetation fires in SRA.



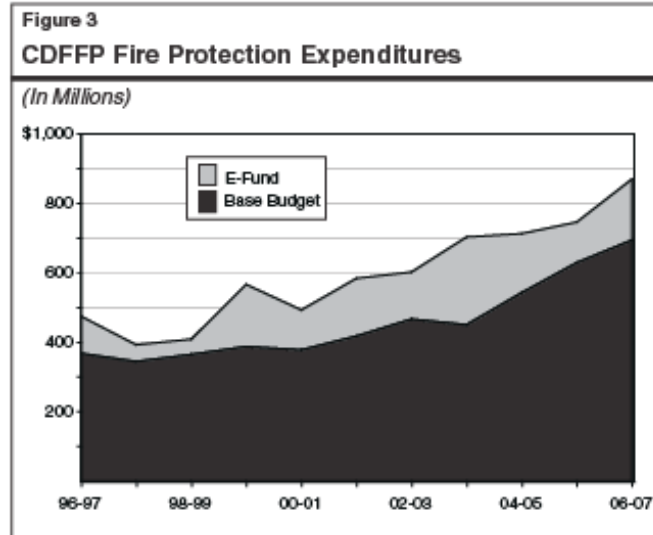
While the sheer number of the department's *responses* (almost 98 percent) are to incidents beyond its primary mission of wildland fire protection, the department spends the majority of its *time* responding to vegetation fires. As shown in Figure 2, the department spent approximately 70 percent of its emergency response time in 2006 on vegetation fires. The department does not distinguish between state and nonstate responsibility activities when recording time spent, so it is difficult to determine how much of this time was spent responding to fires that are either a local or federal responsibility. However, the majority of vegetation fire responses (55 percent) were in SRA. We also note that, in general, the state is reimbursed for responses to incidents that are either a federal or local responsibility after either the first 12 or 24 hours of response. This means that for *significant* fires outside of SRA, the state is generally reimbursed for its costs.



**Continually Increasing Costs of State Fire Protection.** The department's fire protection budget is divided into baseline fire protection and emergency expenditures. The baseline budget includes normal day-to-day costs, such as salaries and benefits for employees, the costs of operating facilities, and other regular firefighting costs. The budget also includes funding for the Emergency Fund (E-Fund) which is used to pay for costs of fire protection beyond budgeted expenditures, such as overtime or special equipment rentals. The E-Fund expenditures are typically associated with large wildland fires that vary considerably in number and severity year to year. It is difficult to predict the costs

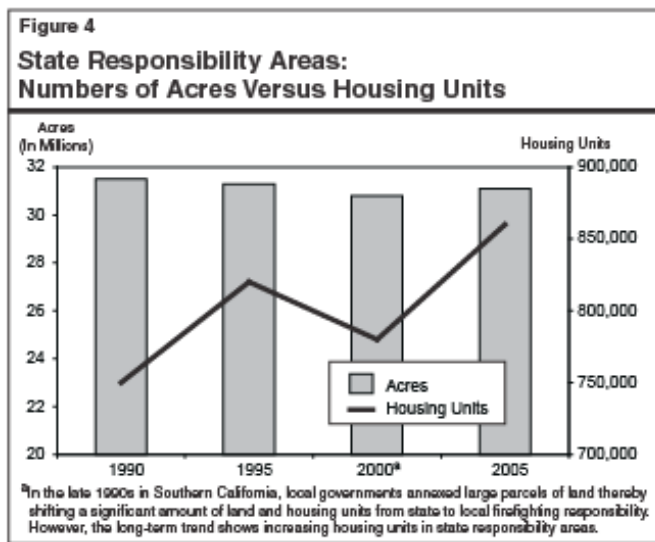
of responding to these fires, so the department is given a separate General Fund appropriation for this purpose—generally based on the ten-year average expenditure for emergency fire suppression—and the Director of Finance is given the authority to augment this appropriation as needed, provided certain reporting requirements are satisfied.

As shown in Figure 3, the department's budget for fire protection has increased significantly over the last decade. Actual fire protection expenditures (including E-Fund) in 1996-97 were \$475 million. In the current year, the department estimates total fire protection expenditures (including E-Fund expenditures beyond the budget appropriation) will be \$869 million—an 83 percent increase over the last decade, or an average increase of just over 8 percent per year. As discussed below, there are many reasons why the state's expenditures for fire protection have grown so substantially over the last decade.

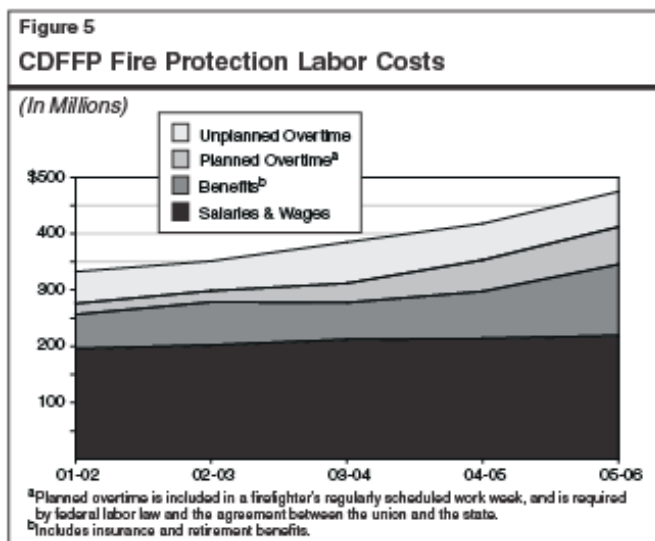


**Increasing Workload.** There are several factors that have either increased or complicated the department's fire protection workload, thereby increasing the department's expenditures:

- Changes in Wildland Fuel Conditions.** Fire suppression activities over the last century have left much of the state's wildlands filled with fallen trees, standing dead trees, and heavy undergrowth. As these fuels have built up, the risk of catastrophic fires has grown. In addition, several years of drought followed by insect infestations in Southern California and the Sierras have killed many trees, increasing the risk of large, dangerous fires in these regions of the state.
- Increasing Development in the Wildland Urban Interface.** Over the last several decades, the state has experienced significant housing development at the boundary between wildlands and urban areas, known as the wildland urban interface. In particular, significant development has occurred in the Sierra Nevada foothills and the interior ranges of Southern California. As can be seen in Figure 4, while the total acreage in SRA has remained stable over the last 15 years, the number of housing units in SRA has increased by 15 percent over this period—despite changes in SRA designations which have moved fire protection responsibility for significant numbers of houses from SRA to local responsibility areas. As development increases in previously undeveloped—and often fire prone—areas, fire protection costs increase for several reasons. First, the presence of more people increases the incidence of wildland fires, as fires from human caused activities spread to wildland areas. Second, protecting people and homes often requires greater fire suppression effort than would typically be used on forests or rangelands. Finally, the presence of people and structures can sometimes limit the techniques used for fire prevention or suppression. For example, the use of prescribed burning to reduce available fuel loads or the use of aircraft to suppress fires may be limited by the presence of homes in a formerly wildland area. The inability to use these kinds of fire suppression tactics increases the need for more labor-intensive firefighting methods to protect people and homes.



**Increasing Labor Costs.** Firefighting is a labor-intensive activity. Labor costs account for a significant portion—roughly 50 percent—of the department’s costs for wildland fire protection. Any increases in compensation per employee, as well as in the number of employees and hours of overtime worked, can substantially impact expenditures for wildland fire protection. In the current year, the department’s fire protection budget includes more than 4,000 full-time, year-round positions and more than 950 full-time equivalent positions for seasonal firefighters. As can be seen in Figure 5, total labor costs for fire protection have increased substantially in recent years—a 30 percent increase from 2001-02 through 2005-06.



In addition to an increase in the number of positions, total labor costs have increased due to wage and benefit increases that are based on terms included in the MOU between the firefighters’ union and the state. (Wage increases for firefighters have been generally similar to the compensation increases received by most state employees.) The increasing total costs for benefits also reflects the generally increasing cost for firefighter-related insurance and health benefits, which are, in part, driven by the physical nature of firefighting.

Total labor costs have also increased in recent years due to changes in how overtime is calculated and compensated. Compensation for “planned overtime” (which is part of a firefighter’s regularly scheduled work week) is determined by both federal labor law and the MOU. Between 2001-02 and 2005-06, the cost of planned overtime increased by 71 percent. (Increased costs for planned overtime reflect both increases in the total number of firefighters earning overtime and incremental increases in the pay rate for overtime hours, which were part of the MOU.) Previously, in areas outside of Southern California, firefighters accrued paid overtime only during fire season. A provision of the 2001 MOU requires that all firefighters earn year-round planned overtime as of July 2006. In the current and budget year, this will increase compensation costs by approximately \$36 million annually, since firefighters will now earn increased wages for planned overtime hours.

**Legislative Options for Controlling State Costs for Wildland Firefighting.** The department’s labor costs on a per-employee basis are generally driven by the existing MOU with the firefighters’ bargaining unit. Unless the Legislature wishes to reopen this recently ratified agreement, the department’s per-employee labor costs are generally fixed. However, as discussed in the following sections, we think that there are several actions that the Legislature can take

to control state costs for fire protection by providing for a more appropriate sharing of (1) the costs of fire protection between the state and the beneficiaries of the state's services and (2) the responsibility for fire protection between the state and local governments.

**Clarifying State Versus Local Responsibilities.** Under current law, the department is not responsible for life or structure protection in SRA. However, statute is *not explicit* that local governments *are* responsible for these services. In general, local governments have assumed responsibility for life and structure protection in SRA. However, the presence of department fire stations and personnel in SRA may provide a disincentive for local governments to budget for and provide adequate emergency response capability. We recommend that the Legislature clarify in statute that the state is not *fiscally* responsible for life or structure protection in SRA. We think that this clarification regarding fiscal responsibility would both encourage local governments to account for the firefighting-related costs of their land use decisions that impact SRA and to more realistically assess and budget for their own needs for emergency services. While we recommend clarifying that the state is not *fiscally* responsible for life and structure protection in SRA, we do not recommend limiting the department's authority to cooperate with local governments through mutual aid agreements, which dispatch the closest available resources to an incident. Our recommended clarification addresses the issue of fiscal responsibility, regardless of who actually provides the service in question.

**Reenacting a Fire Protection Fee in SRA.** In 2003-04, the Legislature enacted legislation establishing a fire protection fee to be levied on private landowners in SRA. This fee was to be assessed on these landowners as a flat fee of \$35 per parcel. However, subsequent legislation the following year rescinded the fee, before any fee revenues were collected. Concerns were raised that a flat fee did not fairly reflect the benefits of fire protection enjoyed by property owners paying the fee. (For instance, owners of small parcels would pay the same fee as owners of large parcels, even though protecting large parcels may cost much more than protecting small parcels.) We think that these concerns can be addressed by restructuring the fee, as discussed later.

We believe that it is appropriate for the beneficiaries of state fire protection to contribute to the cost of such protection. Because the department's fire protection provides both public benefits (the protection of watersheds, for example) and private benefits (the protection of timber lands and houses in SRA) it is appropriate that private beneficiaries contribute to the state's cost of doing so. Therefore, we recommend the enactment of legislation to reinstate fire protection fees on private property owners in SRA, so that the private beneficiaries of the state's fire protection pay a portion of the state's costs. Specifically, we recommend that the fee be set so that the total cost of fire protection in SRA be split evenly between the state's General Fund and fee payers. For example, evenly splitting the cost of fire protection between user fees and the General Fund in the budget year would reduce the costs to the General Fund by \$426 million. (However, because it will likely take a year or more to adopt the necessary regulations and collect these fee revenues, we do not recommend the Legislature budget for such revenues until 2008-09.)

There are several options for structuring fire protection fees—including per parcel fees, per acre fees, or fees based on risk. Also, fees could be assessed on selected parcels—such as parcels with housing units—either independently or in combination with fees on all parcels in SRA. In order to address the fairness concerns raised about the previously enacted fee, we recommend the Legislature adopt a per-acre fee, as the benefits of fire protection are generally proportionate to land area. Assessing a per-acre fee would be administratively simple, since county assessors have such information available and have processes in place for collecting such fees. In addition, we recommend that the legislation enacting the fee also provide for an assessment on parcels with structures and/or a development fee on new house construction in SRA. Enacting such an additional assessment/fee would capture some of the increased costs of fire protection associated with increasing development in SRA. It may also encourage more “fire smart” development decisions at the local level, given the clear fiscal consequences to future homeowners of development that creates a fire risk.

**Legislature Should Review the Standards for SRA Designation.** The Board of Forestry has been delegated the authority, under the Public Resources Code, to designate the boundaries of SRA lands. Under statute, SRA includes (1) lands which are forested and are producing or capable of producing forest products; (2) watersheds that provide water for irrigation, domestic, or industrial use; and (3) lands that are principally used for grazing. One of the criteria used by the board to determine whether lands should remain in SRA or revert to local responsibility is the density of development. Generally, lands are reverted to local responsibility if housing density exceeds three buildings per acre. In many areas of the state, particularly the Sierra foothills and inland Southern California, development is occurring at much lower densities than three units per acre. While development of housing at densities lower than three units per acre may not look particularly urban, the presence of significant numbers of houses—even at relatively low densities—can significantly increase both the risk of wildland fires and their consequences.

While local agencies have the authority to make land use decisions, including the decision of whether to allow development in fire-prone areas, the state largely faces the consequences of such decisions—such as increased risk of wildfire and increased costs to fight wildfires in proximity to development. Changing the criteria for reverting SRA to local responsibility may reduce the number of structures in SRA and also encourage local planning agencies to give more consideration to the dangers of wildland fire when making decisions regarding new development.

There are a number of changes to the criteria for SRA designation that the Legislature could evaluate for potential adoption in a policy bill:

- **Alter the Existing Density Criteria.** As was mentioned above, there is significant development occurring in SRA, much of it at densities lower than three units per acre. Under current board policy, such development does not trigger a shift in fire protection responsibility for these areas to local governments. However, in many cases development at relatively low density is nevertheless changing the nature of SRA lands—from timber, rangeland, or watersheds lands—to more residential land uses. It may be appropriate to change the existing density criteria, such that new and existing development at lower densities in SRA will trigger a shift in fire protection responsibility for these lands from the state to local governments.
- **Pay More Consideration to Actual and Potential Land Uses in Developing Areas.** Under existing statute, SRA is defined as forest lands, lands that protect watersheds, and rangelands. While the board has tended to focus on the density of development as a primary criteria for shifting lands from SRA to local responsibility, the Legislature should consider requiring that more focus be put on whether the lands are being *actively* used for timber production or grazing, or if they still provide real watershed protection benefits. There may be areas of the state where changing rural economics, recent development, or likely future development has taken formerly productive timber and rangelands out of active production. (For instance, developers may purchase formerly active timber or rangelands for future development and take these lands out of production.) In these cases, it may be appropriate for local government to take responsibility for these areas as they are likely to be developed in the future.

## Legislature Should Limit Expansion of Department’s Capital Outlay Project Management

**The department has not established a sufficient track record managing existing capital outlay projects and has not provided required information on its capital outlay project management process to the Legislature. Therefore, we recommend revision of the proposed budget language delegating project management authority to the department so that the Department of General Services would manage one of the five projects currently proposed for management by the department.**

**Department Facilities.** As the state’s wildland firefighting agency, the department is responsible for fire protection on more than 31 million acres of predominantly privately owned lands. In order to provide fire protection over such a large area, the department operates an extensive system of fire stations (228), conservation camps (39), helitack and air attack bases (22), and other facilities. The bulk of the department’s infrastructure was constructed in the 1940s, 1950s, and 1960s. The department estimates that 87 percent of its fire stations are more than 50 years old and 72 percent of its conservation camps are more than 40 years old. The age of so many of these existing facilities means that often they are outmoded for modern firefighting needs and subject to increasing maintenance costs. In the latest *California Five-Year Infrastructure Plan* (2006), the department identified a five-year capital need of \$1.4 billion, primarily to replace or relocate existing facilities. Because of budget constraints and delays in ongoing capital outlay projects, the department has identified a backlog of about 300 capital outlay projects.

**Department Management of Capital Outlay Projects.** Under current law, capital outlay projects of most state departments are managed by the Department of General Services (DGS). Unifying project management within DGS allows for economies of scale by consolidating specialized services, such as architectural, engineering, and project management services in one department. Currently, DGS is managing 46 capital outlay projects for the department. However, in recent years, the Legislature has granted the department the authority to manage some of its own capital outlay projects. This authority was granted to the department because of concerns with the pace of DGS’s project delivery and a large backlog of projects. From 2002-03 through 2005-06, the department was granted authority to manage six major capital outlay projects and eight minor capital outlay projects.

In the *2006-07 Budget Act*, the department was given authority to manage 11 fire station replacement projects, complete two ongoing fire station replacement projects, and manage a small portion of the department’s fire academy renovation. The total capital outlay funding provided by the *2006-07 Budget Act* for management by the department is \$23.6 million. In order to increase the department’s capacity to manage these new projects, the current-year budget also provided the department the authority to add 15 positions to its capital outlay staff over two years, doubling the size of the department’s staff responsible for capital outlay projects.

**Capital Outlay Budget Proposal.** The budget requests new appropriations for capital outlay projects of \$15 million in General Fund and \$147 million in lease-revenue bond funding. Of the ten new capital outlay projects proposed in the budget, the department proposes to manage five projects, including four fire station replacement projects and one unit headquarters replacement. (The department is not requesting additional positions to manage these new projects; they will be managed by existing staff.) See Figure 6 for a list of new, major capital outlay projects proposed in the 2007-08 budget.

<p><b>Figure 6</b>  <b>California Department of Forestry and Fire Protection</b>  <b>New Major Capital Outlay Projects<sup>a</sup></b></p>
<p>2007-08  (In Thousands)</p>

Project	Phases <sup>b</sup>	Fund Source	Budget-Year Cost
<b>To Be Managed by California Department Of Forestry and Fire Protection</b>			
Red Bluff/Tehama Glenn Unit Headquarters Replacement	P,W,C	Lease-revenue bonds	\$23,577
Paso Robles Fire Station Replacement	P,W,C	Lease-revenue bonds	8,286
Fawn Lodge Fire Station Replacement	P,W,C	Lease-revenue bonds	6,664
Westwood Fire Station Replacement	P,W,C	Lease-revenue bonds	5,654
Las Posadas Fire Station Replacement	P,W,C	Lease-revenue bonds	4,784
<b>To Be Managed by Department of General Services</b>			
Growlersberg Conservation Camp Remodel	P,W,C	Lease-revenue bonds	\$47,565
Ishi Conservation Camp Replacement	P,W,C	Lease-revenue bonds	32,250
Bieber Fire Station/Helitack Base Relocation	A,P,W,C	Lease-revenue bonds	18,565
Pine Mountain Fire Station Relocation	A	General Fund	562
Bear Valley Fire Station/Helitack Base Water System Replacement	A	General Fund	533
<p><sup>a</sup> Excludes funding requests for ongoing projects and minor capital outlay projects.</p> <p><sup>b</sup> A = Acquisition; P = Preliminary Plans; W = Working Drawings; C = Construction.</p>			

**The Legislature Does Not Have Enough Information to Evaluate Department’s Project Management Ability.**

The Legislature has granted the department the authority to manage some of its own capital outlay projects on a pilot basis, to evaluate whether the department can deliver capital outlay projects more quickly and within the approved budget than has been the case in recent years with DGS-managed projects. In order to evaluate whether the department has improved on the delivery of capital outlay projects, the department must have completed enough projects for a comparison to be made with DGS. Essentially, the Legislature must have sufficient information about project outcomes for both DGS-managed and department-managed projects to make a comparison. To date, the department has only completed its management of one major capital outlay project (Lassen Lodge Fire Station relocation).

Unlike DGS and other state departments with project management authority, the department has not been filing quarterly capital outlay reports on its project management activity with the Department of Finance, as is required under state administrative procedure. Additionally, the *Supplemental Report of the 2006 Budget Act* requires the department to report to the Legislature by January 10, 2007, on actions that it and DGS are taking or will take to improve DGS’s management of the department’s projects. At the time this analysis was prepared, this report had not been submitted to the Legislature. All of this information will be necessary for the Legislature to determine whether the department should continue to manage its own capital outlay projects.

**Legislature Should Limit Department’s New Capital Outlay Project Management to Fire Station Replacement Projects.**

Because the department does not yet have a track record of completing capital outlay projects and because important information about the capital outlay process and the department’s ongoing projects have not yet been provided to the Legislature, it would be premature to expand the scope of the department’s capital outlay project management at this time. In particular, since the department has not yet developed a track record of managing fire station replacements (fairly prototypical projects) it would be premature to expand the department’s project management authority to larger, more complicated projects, such as the Red Bluff/Tehama Glenn Unit Headquarters replacement project. We therefore recommend revising the proposed budget language in order to exclude the Red Bluff/Tehama Glenn Unit Headquarters replacement project from the list of projects to be managed by the department. This particular project would instead be managed by DGS. Our revised budget bill language would retain the authority for the department to manage the four fire station replacement projects, as proposed by the budget.

## Energy Commission Should Direct Public Funding Support for Energy Development Projects

**The department, in cooperation with the California Tahoe Conservancy, proposes to spend \$5.1 million (mostly Proposition 84 funds) on activities to reduce the risk of wildfire in the Lake Tahoe Basin. Included in the proposal is \$4.1 million for grants to support the construction of new energy plants which would use trees, shrubs, and other forest waste for fuel. We recommend the Legislature delete this portion of the budget proposal, as the California Energy Commission is better suited to evaluate and support such projects and has existing resources to do so. The proposal also includes \$296,000 for support of department personnel to oversee fuel reduction projects. We recommend the Legislature delete this portion of the request, as this is not an appropriate use of bond funds. (Reduce Item 3540-101-6051 by \$4.1 million and reduce Item 3540-001-6029 by \$296,000.)**

**Budget Proposal.** The budget proposes \$5.1 million in Proposition 40 and Proposition 84 funds to be spent by the department and the California Tahoe Conservancy for projects to reduce the hazards of large wildfires in the Lake Tahoe area. The department and the conservancy propose to use about \$1 million for support staff to implement fuels reduction (removal of dead and fallen trees and excessive undergrowth) and biomass use programs (burning these removed fuels to generate energy). The bulk of the request (\$4.1 million, Proposition 84 funds) is proposed for grants to local governments to support projects using biomass waste to generate heat and/or electricity. Specifically, the department proposes to grant (1) \$3.5 million to a local public agency for the development of a biomass facility in the Lake Tahoe basin that would use recovered biomass from forest thinning projects to generate electricity, (2) \$400,000 to support a cogeneration facility that would use recovered biomass to heat local school buildings, and (3) \$200,000 to support a Placer County program to subsidize the use of biomass for electricity generation.

**Energy Support Programs Should Be Implemented by the Energy Commission.** The department has provided forest resource management services for decades. It is appropriate that the department be directly involved in fuel reduction efforts in the Tahoe basin. However, the department does not have expertise with respect to the other aspect of the budget request—providing support for significant energy generation projects. Given the complexity of the design and development of any power plant, it takes significant expertise to evaluate proposals to receive public funding for such projects. On the other hand, the California Energy Resources Conservation and Development Commission (Energy Commission) has considerable expertise providing financial support to renewable energy projects and has several ongoing programs that do so. For example, the Public Interest Energy Research (PIER) Program provides state funds for research, development, and demonstration projects that provide environmental and economic benefits through increased energy efficiency, increased reliability, and reduced costs for energy in the state. (The proposed grant projects may be eligible for PIER funds as demonstration projects.) In the budget year, the Energy Commission proposes to spend \$70 million from the PIER fund on various new and ongoing projects. The Energy Commission also has programs that subsidize renewable energy generation projects by providing production incentive payments.

We believe that the Energy Commission should be the lead agency for supporting renewable energy projects, including biomass utilization projects, based on its longstanding technical expertise and established programs in this subject area. Therefore we recommend the Legislature delete the proposed funding of \$4.1 million from Proposition 84 for these biomass utilization projects. Given the significant, existing resources at the Energy Commission potentially available to support such projects, we believe the commission should evaluate whether the proposed projects should be supported from existing funds, in the context of other funding priorities.

**Bond Funds Not an Appropriate Fund Source for Regulatory Activities.** The department proposes to use \$296,000 in Proposition 40 bond funds to support two limited-term foresters. These new positions would support the department's fuel reduction proposal by enforcing the Forest Practice Act (as it relates to fuel reduction activities) and implementing other forestry-related activities. We believe these activities are regulatory in nature and should be funded out of the department's base budget, rather than using bond funds. We therefore recommend denial of this component of the budget request.

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