California State Auditor

November 2013

Salton Sea Restoration Fund

The State Has Not Fully Funded a Restoration Plan and the State's Future Mitigation Costs Are Uncertain

Report 2013-101

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California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

November 21, 2013 2013-101

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor (state auditor) presents this audit report concerning the administration of the Salton Sea Restoration Fund (Restoration Fund). The Salton Sea is the State's largest inland lake and serves as an important fishery and wildlife habitat. However, beginning in 2003, a series of agreements, known collectively as the Quantification Settlement Agreement (QSA), between the State, local water agencies, and other entities require, among other things, a water transfer that has reduced the amount of water that flows into the sea. Legislation enacted in 2003 to facilitate the implementation of the QSA, also establishes the State's broad goals for restoring the Salton Sea and established the Restoration Fund.

This report concludes that under the QSA, the State has agreed to assume sole responsibility for payment of the costs for environmental mitigation requirements in excess of the first $133 million (in 2003 dollars), an amount that the QSA requires three local water agencies to pay for this purpose. Although no formal analysis has been conducted, it is roughly estimated that the water agencies could exhaust most of their mitigation contributions as early as 2025, at which time any State financial obligations will commence. However, to date the State has not performed an estimate of these costs. To address restoration of the Salton Sea, the Legislature required the secretary of the California Natural Resources Agency (Resources Agency) to propose alternatives for restoring the Salton Sea. Although the Resources Agency identified various alternatives in 2007, none of them have been fully funded which may be due to the high costs of the alternatives presented—ranging from $2.3 billion to $8.9 billion to construct.

Absent restoration efforts, experts agree that the negative impacts on the Salton Sea will be significant. In fiscal year 2013–14, the Legislature provided funding to the Resources Agency to coordinate with a local entity to create a feasibility study to, among other things, develop feasible alternatives for inclusion in a restoration plan and to develop funding options to achieve restoration goals. However, the provisions governing the feasibility study do not impose a specific deadline for completing the study, do not fully prioritize the steps that must be taken in order to achieve the State's broad restoration goals, and do not require the identification of restoration activities that could lessen the State's future mitigation costs. By performing restoration activities now that are also designed to reduce the need to undertake mitigation activities in the future, the State could potentially decrease its future mitigation costs. Further, the Resources Agency has taken an incremental approach to restoring the Salton Sea and over the last several years has worked with the California Department of Fish and Wildlife and the California Department of Water Resources on planning a project that calls for the restoration of 3,770 acres of the sea—a small fraction of the hundreds of thousands of acres the sea comprises—at an estimated cost of $132 million.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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Contents

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Summary

Results in Brief

The Salton Sea, located in Riverside and Imperial counties in Southern California, is the State's largest inland lake. The Salton Sea was formed in 1905 when Colorado River floodwater breached an irrigation canal being constructed in the Imperial Valley; it has since been primarily fed by agricultural drain water. According to experts, the Salton Sea serves as an important fishery and wildlife habitat and is a major stopping point for migratory birds along the Pacific flyway. However, beginning in 2003, a series of agreements known collectively as the Quantification Settlement Agreement (QSA), between the State, local water agencies, and other entities have required, among other things, a water transfer that has reduced the amount of water that flows into the Salton Sea (water transfer). To mitigate the effects of the water transfer, the QSA requires one of the local water agencies that is a party to the agreement to provide additional water (mitigation water) to the Salton Sea for 15 years, from 2003 to 2017. Experts anticipate that when the Salton Sea stops receiving this mitigation water, the water transfer will cause profound negative environmental impacts, including the loss of fishery habitat, exposure of soils to wind erosion, and declines in bird species because of the loss of food.

Under the QSA, the State has agreed to assume sole responsibility for payment of the costs for environmental mitigation requirements in excess of $133 million (in 2003 dollars), the amount that the QSA requires three local water agencies to pay for this purpose.[1] Although it has not performed a formal analysis, the joint powers authority that includes the three local water agencies roughly estimates that the water agencies could exhaust most of their mitigation contributions as early as 2025, at which time any state financial obligations will commence. Although this financial responsibility could materialize in just over 10 years, it is currently unknown how significant the State's financial obligations might be.

The State has not yet performed a cost estimate to determine how much it may need to pay for mitigation costs under the QSA. Legislation enacted in 2003 to facilitate the implementation of the QSA requires the secretary of the California Natural Resources Agency (Resources Agency), in consultation with other entities, to undertake an ecosystem restoration study to determine a preferred alternative for restoring the Salton Sea ecosystem and permanently protecting the wildlife dependent on it. In May 2007

[1] The local water agencies are paying their mitigation contributions in installments over many years with interest accruing on the unpaid balances at an annual rate of 6 percent.

Audit Highlights . . .

Our review of the administration of the Salton Sea Restoration Fund, highlighted the following:

- *The Quantification Settlement Agreement (QSA), among other things, requires a water transfer that has reduced the amount of water that flows into the Salton Sea.*
- *The State has agreed to assume sole responsibility to pay the costs for environmental mitigation requirements in excess of $133 million (in 2003 dollars), an amount that three local water agencies must first pay.*
  - *The three water agencies could exhaust most of their mitigation contributions as early as 2025, at which time any state financial obligations will commence.*
  - *The State has not yet performed a cost estimate to determine how much it may need to pay for mitigation costs under the QSA.*
- *The California Natural Resources Agency (Resources Agency) estimated, in 2006 dollars, that construction costs for fulfilling a portion of the QSA's mitigation requirements could be $801 million, which does not reflect all of the mitigation costs the State may incur in satisfying its financial obligations.*
- *The QSA does not impose requirements related to restoration; however, by performing certain restoration activities now the State could potentially decrease its future mitigation costs.*
- *After more than six years, none of the restoration alternatives have been fully funded.*

continued on next page . . .

» *Provisions governing a feasibility study do not impose a deadline for its completion and do not require it to identify restoration activities that could lessen the State's future mitigation costs.*

» *In the absence of funding from the Legislature for a long-term restoration plan, the Resources Agency has taken an incremental approach to the restoration of the Salton Sea.*

the Resources Agency published its *Salton Sea Ecosystem Restoration Program Preferred Alternative Report and Funding Plan* (Preferred Alternative Report). In the Preferred Alternative Report, the Resources Agency estimated—based on a technically feasible, worst-case scenario—that construction costs for fulfilling a portion of the QSA's mitigation requirements could be $801 million, with annual operations and maintenance costs of roughly $50 million for many years thereafter. Because this estimate is in 2006 dollars, the actual costs under this scenario are likely to be significantly greater when adjusted for inflation. However, this cost estimate was based on conditions that were known at the time it was developed, and it does not reflect all of the mitigation costs the State may incur in satisfying its financial obligations under the QSA. The State will ultimately be financially responsible for any QSA-related mitigation costs once the three local water agencies finish making their payments.

The 2003 legislation also establishes the State's broad goals for restoring the Salton Sea. Unlike *mitigation*, which refers to activities that reduce the impact of an action, *restoration* refers to actions that bring back something that previously existed. An example of mitigation might be reducing dust emissions from exposed seabed, while an example of restoration might be constructing and maintaining bird habitat that has been lost. Although the QSA imposes a number of requirements on the State related to mitigation, it does not impose requirements related to restoration. However, by performing restoration activities now that are also designed to reduce the need to undertake mitigation activities in the future, the State could potentially decrease its future mitigation costs. For example, according to a California Department of Fish and Wildlife (Fish and Wildlife) official, restoring habitat could lessen the amount of exposed dry seabed in the future, thereby reducing the need to mitigate dust. To address restoration of the Salton Sea and the State's QSA-related mitigation responsibilities, the Legislature required the Resources Agency to evaluate several alternatives for restoring the Salton Sea, which the Resources Agency presented in its Preferred Alternative Report. Nonetheless, more than six years after the report was submitted, none of the alternatives have been fully funded, perhaps because of their high construction costs, which range from an estimated $2.3 billion to $8.9 billion.

Despite the Legislature's stated restoration goals, the Resources Agency has indicated that it cannot fully implement a long-term restoration plan without additional funding. To address this, the Legislature provided funding in the fiscal year 2013–14 Budget Act for the Resources Agency to coordinate with a local entity in creating a feasibility study. According to the fiscal year 2013–14 Enacted Budget Summary, the feasibility study will, among other things, update the analysis from previous restoration planning

efforts and develop funding options to achieve restoration goals. However, the provisions governing the feasibility study do not impose a specific deadline for completing the study, do not fully prioritize the steps required to achieve the State's broad restoration goals, and do not require the study to identify restoration activities that could lessen future state mitigation costs. Lacking such guidance, Resources Agency officials have stated the Resources Agency will use an advisory committee to determine the contents of the study. Although we agree that soliciting input from stakeholders is a sound idea, we believe it is critical for the Legislature to clearly set forth its specific expectations in law regarding the feasibility study.

It is imperative that the feasibility study also include viable funding options for the proposed restoration activities. In particular, the 2003 legislation created the Salton Sea Restoration Fund (Restoration Fund) to be a dedicated source of funding for the State's restoration efforts. However, the Restoration Fund currently receives limited funding. As of June 30, 2013, the projected amount of money the fund can anticipate receiving through 2047—the year in which certain required payments from local water agencies to the Restoration Fund will end—totals roughly $81.8 million, or $2.2 billion less than the cost to construct the least costly restoration alternative included in the Preferred Alternative Report. To address this significant disparity, recent legislation provides for the feasibility study to analyze funding sources and economic development opportunities that might serve as revenue sources for the Salton Sea's restoration efforts.

In the absence of additional funding for a long-term restoration plan, an official from the Resources Agency maintains that it must take an incremental approach to the restoration of the sea, meaning it can only undertake restoration activities as additional funding becomes available. Consequently, the Resources Agency has worked with Fish and Wildlife and the California Department of Water Resources (Water Resources) over the last several years on planning the Species Conservation Habitat Project (Habitat Project). Based on a project included in the Preferred Alternative Report, the Habitat Project calls for the restoration of 3,770 acres of the sea—a small fraction of the roughly 200,000 acres the recommended alternative within the Preferred Alternative Report proposes to restore—at a cost of $132 million. However, Fish and Wildlife and Water Resources' officials maintain that the funds currently in the Restoration Fund will only support restoration of 600 to 700 of those acres, at a cost of roughly $30 million. Nevertheless, the agencies are near completion of the planning phase of the project and intend to begin construction after June 2014. Not surprisingly, during our audit period—fiscal years 2010–11 through 2012–13—the vast majority of expenditures from the Restoration Fund relate to Fish and Wildlife

and Water Resources' personnel and contracts with consultants for planning of the Habitat Project. During our audit period, we also found that expenditures from the Restoration Fund were reasonable, appropriate, and furthered the purposes for which the fund was created.

Recommendations

Legislature

To ensure that the feasibility study it recently funded will provide it with meaningful and timely information, the Legislature should enact legislation that does the following:

- Contains specific guidance to the Resources Agency regarding the Legislature's priorities for restoring the Salton Sea so that the Resources Agency can address those priorities when developing the feasibility study.
- Provides a deadline for the completion of the feasibility study and submission of a restoration plan.
- Requires the feasibility study to analyze and include the extent to which restoration activities could lessen the State's future financial obligations for mitigation under the QSA.
- Once the Legislature has approved a restoration plan, it should hold a budget hearing to consider the appropriate funding mechanism.

Resources Agency

To ensure that the Legislature has the information necessary to meet the State's restoration goals and to plan for the State's future financial obligations related to mitigation, the Resources Agency should work with Fish and Wildlife and Water Resources to do the following:

- Provide a written report to the Legislature on its recommendations for the content of the feasibility study no later than February 1, 2014. It should include in the report the State's progress to date on the Habitat Project.
- Meet with the Legislature regularly to provide updates on the status of its restoration efforts and the feasibility study to ensure that the Legislature has the information necessary to make informed funding and other decisions.

- Develop an estimate of the costs, adjusted for inflation, that the State may incur for fulfilling its financial obligations related to mitigation under the QSA. The Resources Agency should include this information in the feasibility study so the Legislature is fully aware of the estimated costs and timing of the State's future financial obligations.

Agency Comments

The Resources Agency does not have any concerns with our recommendations and stated that it looks forward to working with the Legislature on this very important issue.

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Introduction

Background

The Salton Sea is located in Imperial and Riverside counties, as shown in Figure 1 on the following page. The State's largest inland body of water, it serves as an important fishery and wildlife habitat. According to experts, it is a critical link on the Pacific flyway that supports more than 400 resident, migratory, and special-status bird species. The Salton Sea was formed in 1905 when Colorado River floodwater breached an irrigation canal being constructed in the Imperial Valley, and it has since been primarily fed by agricultural drain water. However, as we discuss below, a series of agreements between the State, the federal government, and other entities will significantly decrease the water flow to the Salton Sea beginning in 2018.

The Quantification Settlement Agreement

The decreased flow of water to the Salton Sea is the result of a series of agreements related to water that California receives from the Colorado River. Certain federal statutes, compacts, treaties, court decisions, and legal doctrines—known collectively as the Law of the River—apportion the water from the Colorado River among California, six other states, and Mexico. Under the Law of the River, California is entitled to 4.4 million acre-feet per year from the Colorado River.[2] California's allotment is then apportioned among various local entities, including the Imperial Irrigation District (Imperial), the Metropolitan Water District of Southern California (Metropolitan), the Coachella Valley Water District (Coachella), and the San Diego County Water Authority (San Diego).

Until the mid-1990s, Arizona and Nevada—other recipients of Colorado River water—did not use their full apportionment of the water. Consequently, the United States Secretary of the Interior (Secretary), who oversees the allotments of the river water, allowed California to draw approximately 5.2 million acre-feet per year, or 800,000 acre-feet per year more than its 4.4 million acre-feet allotment. However, as the populations of Arizona and Nevada grew in the mid- to late 1990s, so did their need to use their full entitlements of the water. In 1996, the Secretary ordered California to reduce its draw of Colorado River water to within its 4.4 million acre-feet per year allotment. Further, in the 1990s, San Diego became concerned about the reliability of water supplies that Metropolitan provided to it; to diversify its supplies, it negotiated a deal with Imperial for a transfer of some of Imperial's Colorado River water (water transfer).

[2] An *acre-foot* is the amount of water needed to cover one acre with one foot of water.

Figure 1
Location of the Salton Sea

Source: California State Auditor's adaptation of the location of the Salton Sea.

The order from the Secretary, combined with the water transfer agreement between San Diego and Imperial, resulted in protracted negotiations among the State of California, the federal government, and the four local water agencies. In 2003 these entities, among others, finalized a series of agreements, collectively known as the Quantification Settlement Agreement (QSA). The QSA, in conjunction with state law, memorializes California's commitment to reduce its use of Colorado River water to within its annual allotment. To achieve that reduction, the four local water agencies agreed to undertake a series of measures, including water conservation. The QSA also includes an agreement that Imperial would transfer up to 200,000 acre-feet of its Colorado River water to San Diego annually beginning in 2003 for at least 35 and as many as 75 years.

This water transfer will significantly reduce the amount of water flowing into the Salton Sea. To mitigate the effects on the sea, the QSA requires Imperial to provide additional water (mitigation water) for delivery into the Salton Sea for 15 years, from 2003 to 2017. After 2017, when mitigation water is no longer conveyed into the Salton Sea, experts predict that the size of the sea will begin to decrease dramatically, causing it to become increasingly saline. According to the experts, this will result in negative environmental impacts, including reduced habitat for fish and wildlife and increased air pollution from the dust arising from exposed portions of the dried-up seabed.

Salton Sea Mitigation Requirements

The parties to the QSA recognized that their agreements would have significant negative environmental impacts, and they therefore included certain requirements in the QSA and its implementing legislation for mitigating those harms. *Mitigation* refers to activities that include the following:

- Rectifying the impact of an action by repairing, rehabilitating, or restoring the impacted environment.

- Reducing the impact of an action by preservation and maintenance operations during the life of the action.

Under the QSA and its implementing legislation, the State and three local water agencies are responsible for the costs associated with the mitigation measures described in a June 2002 joint environmental document (2002 environmental document), as amended.[3] Specifically, the QSA states that Coachella, Imperial, and San Diego are responsible

[3] The June 2002 environmental document is titled *Imperial Irrigation District Water Conservation and Transfer Project, Habitat Conservation Plan, Final Environmental Impact Report/Environmental Impact Statement*.

for the first $133 million (in 2003 dollars) of mitigation costs and the State assumes financial responsibility for any mitigation costs above this amount. The QSA only requires mitigation in the area covered by the 2002 environmental document, as amended, or according to an environmental program manager from Imperial, essentially the Imperial Valley, the Salton Sea, and its surrounding shoreline. These required activities include reducing the effects of dust emissions from dry seabed, referred to as *exposed playa*.

To facilitate the implementation of the QSA, the Legislature passed and the governor signed a package of three bills in September 2003. This legislation details the financial responsibility the State assumes with respect to mitigation, and requires the formation of a joint powers authority (JPA) to implement and allocate mitigation responsibilities between local water agencies and the State. The JPA consists of the California Department of Fish and Wildlife (Fish and Wildlife), Coachella, Imperial, and San Diego.

The local water agencies opted to pay their share of the mitigation costs over an extended period of time. Based on the payment schedules within the QSA, they will owe a total of $388 million, including interest. According to Fish and Wildlife's alternate chair for the JPA, since 2003 the JPA has primarily used the three water agencies' mitigation funds to pay for delivery of mitigation water into the sea. The JPA is required to continue to use funds for this purpose until 2017. The alternate chair explained that the JPA has also paid for other mitigation projects, including air quality monitoring and air quality projects to reduce dust emissions, with these funds. JPA officials estimate that the local water agencies could exhaust most of their environmental mitigation contributions under the QSA as early as 2025. The officials explained that this is only an estimate as the JPA has yet to perform a formal analysis of when the three local water agencies might exhaust their mitigation contributions. Under the QSA, once the local water agencies fulfill their mitigation contributions, the State will become responsible for any additional mitigation costs.

The Salton Sea Restoration Fund

The QSA and related implementing legislation also require Imperial, Coachella, and San Diego to contribute a total of $30 million (in 2003 dollars) to the State for the restoration of the Salton Sea.[4] The QSA and related implementing legislation refer to these

[4] Under the QSA, the three local water agencies may pay their $30 million Salton Sea Restoration Limit contributions in lump-sum payments or in installments. Coachella and San Diego opted to pay their contributions in a lump sum in fiscal year 2004–05. In contrast, Imperial opted to pay its contribution in installments, adjusted for interest, beginning in 2003 and ending in 2047. Thus, the total combined contributions of all three local water agencies under the Salton Sea Restoration Limit will be approximately $68.6 million.

contributions as the Salton Sea Restoration Limit. Restoration differs from mitigation in that it refers to actions intended to bring back something that previously existed, such as bird habitat, rather than actions intended to reduce or rectify a negative effect. The QSA and its implementing legislation specifically limit required mitigation to the area covered by the 2002 environmental document, while restoration applies broadly to the whole Salton Sea ecosystem, which includes the agricultural lands surrounding the Salton Sea and the tributaries and drains within Imperial and Coachella valleys that deliver water to it.

Although the QSA and its implementing legislation establish the Salton Sea Restoration Limit, neither imposes any specific requirements on the State to restore the Salton Sea. However, the Legislature's 2003 legislative package established the State's broad goals for restoration. Specifically, the legislation states that its objectives include restoring aquatic and shoreline habitats to historic levels to protect the diversity of fish and wildlife that depend on the Salton Sea, eliminating air quality impacts from the restoration projects, and protecting water quality. To achieve these objectives, the legislation enacted the Salton Sea Restoration Act, created the Salton Sea Restoration Fund (Restoration Fund), and established several funding sources. As of June 30, 2013, however, only two of the sources—the Salton Sea Restoration Limit and Proposition 84—have provided the Restoration Fund with money, about $32.1 million to date. We describe the funding sources and expenditures of the Restoration Fund in more detail in the Appendix.

Fish and Wildlife administers the Restoration Fund. Currently, money within—and promised to—the Restoration Fund is available for restoration-related activities. Additional related provisions of state law indicate that the money in the Restoration Fund may not be used for mitigation except for mitigation undertaken by the State. The California Natural Resources Agency (Resources Agency) interprets this statute to mean that money in the fund may be used to mitigate the effects of restoration performed under the Salton Sea Restoration Act, but it does not believe it can lawfully use the money in the fund to pay for any QSA-related mitigation costs it may incur after the local water agencies have satisfied their $133 million mitigation obligation. As shown in the text box, Fish and Wildlife can use the fund to pay for environmental studies and to implement conservation measures. The 2003 legislation also requires the secretary of the Resources Agency, in consultation with other entities, to undertake a restoration study and to determine a preferred alternative for restoring the sea,

Allowable Uses of the Salton Sea Restoration Fund

- Environmental and engineering studies related to the restoration of the Salton Sea and the protection of fish and wildlife dependent on it.
- Implementation of conservation measures necessary to protect the fish and wildlife species dependent on the Salton Sea. These conservation measures must be limited to the Salton Sea and Lower Colorado River ecosystems, including the Colorado River Delta.
- Implementation of the preferred Salton Sea restoration alternative.
- Administrative, technical, and public outreach costs related to the development and selection of the preferred Salton Sea restoration alternative.

Source: California Fish and Game Code.

which we describe further in the Audit Results, and the legislation indicates that Fish and Wildlife can use the Restoration Fund for implementing the determined preferred alternative.

Key Entities Involved in Restoration Efforts Relating to the Salton Sea

State law specifies that the Resources Agency is responsible for carrying out any Salton Sea restoration project plan that the Legislature approves. Figure 2 depicts the State's governance structure for administering the restoration of the Salton Sea as of June 30, 2013, and describes the roles and responsibilities of the Resources Agency, Fish and Wildlife, and the California Department of Water Resources (Water Resources). As shown in the figure, Fish and Wildlife's primary responsibilities include administering the Restoration Fund and overseeing an interagency agreement it entered into with Water Resources, in which Water Resources—through contracts with consultants—has performed the majority of the State's current restoration activities related to the Salton Sea.

Numerous local and federal entities also play a role in the effort to protect the Salton Sea's ecosystem. For instance, another JPA that was formed in 1993 called the Salton Sea Authority (authority) currently comprises Coachella, Imperial, Riverside County, Imperial County, and the Torres Martinez Desert Cahuilla Indians. It also has ex officio members that include representatives from federal, state, and tribal agencies. According to officials from the authority, it works with local, state, and federal agencies to develop programs that continue the beneficial use of the Salton Sea. These programs have focused on issues such as the protection of endangered species, fisheries, and waterfowl; the sea's use as a depository for agricultural drainage, storm waste, and wastewater flows; and the sea's use for recreational purposes. Authority officials told us that, since fiscal year 2006–07, the authority has primarily focused its efforts on public outreach to garner support for the sea's restoration effort, and it has not worked on any local restoration, mitigation, or conservation projects during this period because it lacks funding.

As previously discussed, Imperial is a local water agency and a party to the QSA; as such, it is responsible for some of the sea's mitigation and conservation measures. According to one of its environmental program managers, Imperial is one of the largest landowners in and around the Salton Sea. He reported that Imperial is working closely with local, state, and federal entities and the authority to develop an incremental approach to restoring the sea; however, he indicated that it is unclear when the development of this incremental approach will occur. He explained that Fish and Wildlife initiated

this coordinated effort with local agencies and interested parties in 2012 to ensure that the entities involved did not duplicate one another's efforts.

Figure 2
Governance Structure for the State's Administration of the Restoration of the Salton Sea as of June 30, 2013

Sources: California Fish and Game Code, and information and documentation obtained from interviews with officials from the California Natural Resources Agency, Fish and Wildlife, and Water Resources.

The Unites States Bureau of Reclamation (Reclamation) also owns a considerable amount of land in and around the Salton Sea. According to a biologist from its lower Colorado region, Reclamation established four saline habitat ponds in the southeastern part of the sea between 2006 through 2010, among other activities. She explained that constructing these ponds was a way of identifying and evaluating ecological risks or benefits before implementing larger-scale wetland complexes. In September 2007, in a report regarding the restoration of the Salton Sea, Reclamation presented five restoration alternatives and stated that it does not have a basis for recommending the implementation of any of the alternatives due to their extreme costs and substantial uncertainties. Rather, the report explained that consideration could be given to a focused adaptive management study of shallow saline habitat complexes. According to its biologist, Reclamation continues to coordinate with both state and local stakeholders to provide technical assistance as funding allows.

Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to conduct an audit of Fish and Wildlife and Water Resources' management of the Restoration Fund. It specifically asked us to determine whether these agencies had developed any strategic or spending plans for the fund. Table 1 lists the audit committee's objectives and the methods we used to address those objectives.

Table 1
Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws and policies significant to the audit objectives.	With the assistance of legal counsel, we reviewed relevant laws, regulations, and other background materials applicable to the restoration of the Salton Sea and to the Salton Sea Restoration Fund (Restoration Fund). We also reviewed the roles and responsibilities of the California Natural Resources Agency (Resources Agency), the California Department of Fish and Wildlife (Fish and Wildlife), and the California Department of Water Resources (Water Resources). With the assistance of legal counsel, we also reviewed a series of agreements, collectively known as the Quantification Settlement Agreement (QSA), to gain an understanding of the water transfer agreement between the Imperial Irrigation District (Imperial) and the San Diego County Water Authority as well as any related mitigation requirements.

	AUDIT OBJECTIVE	METHOD
2	Review and evaluate the roles, responsibilities, and authority of Fish and Wildlife and Water Resources in administering the Restoration Fund and determine the organizational structure used by the departments to manage the fund and make decisions regarding how funds are spent, such as decisions about allocating resources and prioritizing work. Evaluate the departments' effectiveness and efficiency in coordinating and fulfilling their respective responsibilities.	• We reviewed relevant state laws, the interagency agreement Fish and Wildlife and Water Resources entered into from June 2008 through June 2014, and other documentary evidence, such as organization charts, to understand the roles and responsibilities of the agencies in administering the Restoration Fund and in undertaking restoration-related activities pertaining to the Salton Sea. • We interviewed relevant staff from Fish and Wildlife, Water Resources, and the Resources Agency to identify and understand their roles, responsibilities, and decisions related to resource allocation and work prioritization for the administration of the Restoration Fund and for the activities it funds. • To understand the three agencies' prioritization of work and spending of money within the Restoration Fund, we obtained and reviewed budget change proposals and reports, including the Resources Agency's *Salton Sea Ecosystem Restoration Program: Preferred Alternative Report and Funding Plan* (Preferred Alternative Report) and both the draft and final *Salton Sea Ecosystem Restoration Program: Programmatic Environmental Impact Reports* (Programmatic Environmental Impact Reports). • In evaluating the agencies' effectiveness and efficiency in coordinating and fulfilling their respective responsibilities, we did not identify any reportable issues.
3	Determine whether short-term and/or long-term strategic plans and spending plans have been developed for the Restoration Fund and whether those plans are reasonable in light of the purposes for which the fund was established.	• We interviewed staff from the Resources Agency, Fish and Wildlife, and Water Resources to determine if the agencies had developed short-term and/or long-term strategic plans and spending plans. We learned that the Resources Agency, having developed the restoration plan required by law, and in the absence of full funding for any of the alternatives, has taken an incremental approach to the restoration of the Salton Sea. We describe this approach in the Audit Results. • To understand the activities the three agencies had undertaken and accomplished, we reviewed the Preferred Alternative Report, Programmatic Environmental Impact Reports, the Resources Agency's July 2013 *Salton Sea Species Conservation Habitat Project: Final Environmental Impact Statement/Environmental Impact Report*, and other documents. • In September 2013 the Legislature passed and the governor approved legislation providing for the Salton Sea Authority (authority) to lead a restoration and feasibility study, in consultation with the Resources Agency. We interviewed officials from the Resources Agency and the authority to determine the steps they planned to undertake to develop and complete the feasibility study.
4	For the most recent three-year period, perform the following analysis related to the Restoration Fund:	We defined our audit period as fiscal years 2010–11 through 2012–13.
	a. Identify the amounts Fish and Wildlife and Water Resources spent on consultants and whether the work performed by the consultants furthered the purposes for which the Restoration Fund was established.	• We obtained Fish and Wildlife's accounting records and Water Resources' invoices related to their interagency agreement to determine the amounts paid to consultants each fiscal year. • We judgmentally selected five invoices, generally submitted on a monthly basis from Water Resources to Fish and Wildlife, related to the interagency agreement. These Water Resources' invoices included charges for personnel and consultants. From the five selected invoices, we judgmentally selected one consultant invoice to test from each of the contracted entities and an additional invoice from the consultant with the most significant contract amount. We reviewed all selected invoices to determine if the duties performed and deliverables received aligned with the scope of the interagency agreement or the pertinent consultant contract. We also evaluated whether the work performed furthered the purposes of the Restoration Fund. We found no exceptions.
	b. Determine how Fish and Wildlife and Water Resources allocate staff time to administer the Restoration Fund and identify expenditures for staff by major job classification.	• We interviewed relevant staff at Fish and Wildlife's Inland Deserts Region and Water Resources to obtain an understanding of the duties staff perform and the allocation of staff time. • We obtained duty statements, timesheets, and other documents to determine how the two agencies allocated and charged staff time to the Restoration Fund. Based on this information, we determined that the duties of the Fish and Wildlife and Water Resources staff we reviewed furthered the purposes of the Restoration Fund. • We obtained Fish and Wildlife and Water Resources' payroll information and interagency agreement invoices to identify payroll expenditures and consultant costs by fiscal year and major job classification. We present this information in Table 3 on page 33 in the Audit Results.

continued on next page . . .

	AUDIT OBJECTIVE	METHOD
	c. Identify funding sources and total expenditures and the major categories of these expenditures. For a selection of expenditures, determine whether they were allowable and reasonable.	• We reviewed relevant laws and the QSA to determine the funding sources available to the Restoration Fund. • We obtained Fish and Wildlife's accounting records to determine the sources and amounts of funding deposited into the Restoration Fund since the fund's inception in fiscal year 2003–04. We also used the information to identify the fund's expenditures by major category for our audit period. We present this information in Table A on page 40 in the Appendix. • We reconciled the fund balance in the California State Controller's Office's *Budgetary/Legal Basis Annual Reports* for the Restoration Fund to Fish and Wildlife's accounting records for the fiscal years ending June 30, 2004 through June 30, 2012. • We interviewed Fish and Wildlife staff to determine why the Restoration Fund had not received any money from potential funding sources described in the QSA and state law and to determine if it might receive funds from these sources in the future. We describe these funding sources further in the Appendix. • We obtained Water Resources' invoices related to the interagency agreement to further identify its expenditures, including those for consultants, by fiscal year and major expenditure category. Additionally, we obtained and reviewed each of the consultant contracts to ensure that the scope of work furthered the purposes of the Restoration Fund. • We interviewed appropriate staff and reviewed supporting documents to determine the adequacy of the departments' contract monitoring controls to ensure that expenditures furthered the purpose of the Restoration Fund and were reasonable. We found no exceptions. • Using the judgmental selection of invoices related to the interagency agreement and described in the *Method* column for Objective 4a, we compared the invoices and deliverables to the interagency agreement and consulting contracts and determined that these costs were allowable and reasonable. • We haphazardly selected timesheets for nine employees—six from Fish and Wildlife and three from Water Resources—who charged time to the Restoration Fund to determine whether the charges to the fund were for allowable and reasonable activities. We found no exceptions.
5	Review and assess any other issues that are significant to the administration of the Restoration Fund by Fish and Wildlife and Water Resources.	• We interviewed officials from other key entities involved in activities related to the restoration of the Salton Sea, including the authority, Imperial, and the United States Bureau of Reclamation. • To understand the environmental impacts that the water transfer described in the QSA may cause to the Salton Sea and its ecosystem, we reviewed numerous reports by various experts and policy advisors.

Sources: California State Auditor's analysis of the Joint Legislative Audit Committee's audit request number 2013-101, planning documents, and analysis of information and documentation identified in the column titled *Method*.

Assessment of Data Reliability

In performing this audit, we obtained Fish and Wildlife's electronic data files extracted from the California Department of Finance's California State Accounting and Reporting System (CALSTARS). The U.S. Government Accountability Office, whose standards we follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. When analyzing the CALSTARS data, we performed data-set verification procedures and did not identify any issues. We did not perform traditional accuracy and completeness testing of these data. However, to gain reasonable assurance of the data's accuracy and completeness, we compared Fish and Wildlife's CALSTARS data to invoices, employee timesheets, and financial records obtained from the California State Controller's Office. We did not identify any material errors. As a result, we determined there is minimal risk related to the accuracy and completeness of the data. Thus, the use of this data to compile the Restoration Fund's funding sources and expenditures, by major category for fiscal years 2010–11 through 2012–13, would not lead to an incorrect or unintentional message.

Audit Results

The State Has Not Fully Funded a Long-Term Restoration Plan and No Current Estimate Exists of the State's Future Financial Obligations for Mitigation

As discussed in the Introduction, the transfer of water from Imperial Valley to San Diego (water transfer) is likely to begin adversely affecting the Salton Sea in 2018. To limit the negative effects of the water transfer, legislation enacted in 2003 requires the secretary of the California Natural Resources Agency (Resources Agency), in consultation with other entities, to undertake an ecosystem restoration study to determine a preferred alternative for restoring the Salton Sea ecosystem and permanently protecting the wildlife dependent on it. In May 2007 the Resources Agency published its *Salton Sea Ecosystem Restoration Program: Preferred Alternative Report and Funding Plan* (Preferred Alternative Report), in which it identified a variety of alternatives for restoring the Salton Sea. However, the State has not fully funded any of the alternatives the report presents, perhaps because of the high estimated costs of the alternatives, coupled with the lack of available funding options to support the restoration efforts.

Absent a restoration effort, experts generally agree that the negative environmental impact on the Salton Sea will be significant and the State may be responsible for paying costs associated with mitigating this damage. Specifically, the Quantification Settlement Agreement (QSA) and its implementing legislation, as explained in the Introduction, require three local water agencies to pay the first $133 million (in 2003 dollars) in environmental mitigation costs, and the State is required to pay any costs above this amount. The Resources Agency included a no action alternative within its Preferred Alternative Report that reflects the costs of performing a portion of the mitigation activities that would otherwise occur if a restoration plan were not funded.

Specifically, the No Action Alternative contemplated activities that would cost roughly $800 million (in 2006 dollars) to construct; according to California Department of Fish and Wildlife (Fish and Wildlife) officials, these costs were based on a technically feasible, worst-case scenario. However, this cost estimate was based on conditions that were known at the time it was developed and does not reflect all of the mitigation costs the State may incur in satisfying its financial obligations under the QSA. To date, the State has not estimated these costs.

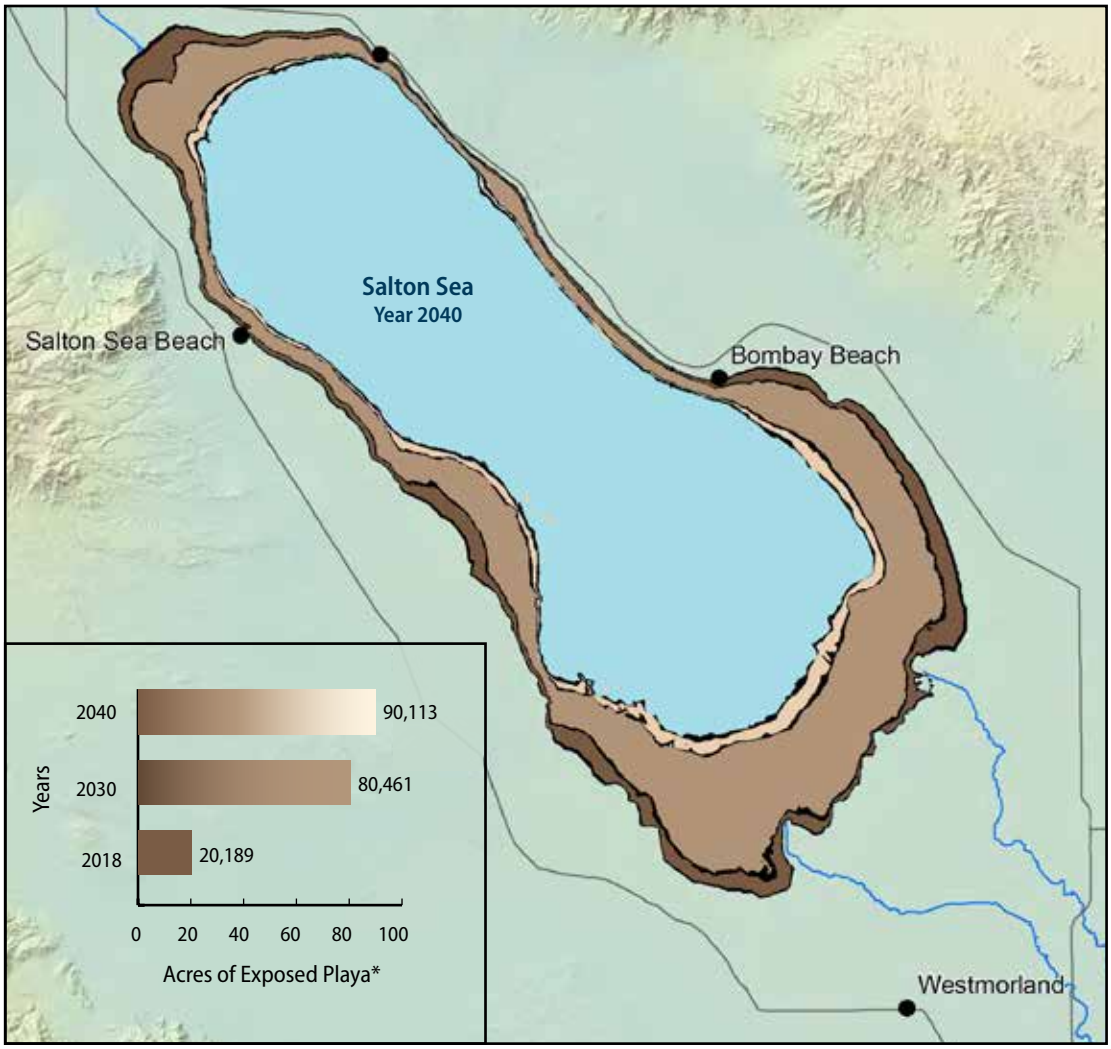
Figure 3 shows a time-elapsed image of the Salton Sea's water elevation assuming that the State does not fund a restoration plan and that only certain mitigation activities are implemented. As shown, the Resources Agency expects a significant impact on the Salton Sea's ecosystem from 2018 through 2030, the initial 12 years following the end of mitigation water delivery into the Salton Sea, which is currently helping offset the effects of the water transfer. For example, based on data from Fish and Wildlife, exposed playa—or dry seabed—will increase from an estimated 20,000 acres in 2018 to more than 80,000 acres in 2030, reaching a high of approximately 90,000 acres in 2040. State and federal experts agree that the high winds around the sea are likely to pick up significant amounts of fine dust from the dry seabed, increasing the amount of particulate matter in the air and further reducing the air quality in an already degraded air basin.

Because the activities described in the No Action Alternative do not address the State's broader goal of restoring the Salton Sea habitat to historic levels and because the future costs of mitigation are uncertain, we believe formalizing the State's next steps is prudent. Further, the Resources Agency cannot fully implement a long-term restoration plan without additional funding, thus potentially jeopardizing the Salton Sea's ecosystem and possibly causing the State to miss the opportunity to reduce its potential future financial obligations related to the QSA's mitigation requirements. For instance, Fish and Wildlife officials noted that undertaking certain activities now to restore the sea could reduce the need—and costs—for some mitigation activities in the future.

Fish and Wildlife officials noted that undertaking certain activities now to restore the sea could reduce the need—and costs—for some mitigation activities in the future.

Experts predict the ecosystem of the Salton Sea will significantly degrade over the next decade or two without restoration efforts. Recent legislation provides for a restoration funding and feasibility study to, among other things, review existing long-term restoration plans, recommend changes to these plans, and analyze funding options for Salton Sea restoration activities. However, because the statute governing the feasibility study does not impose a specific deadline for its completion, does not fully prioritize the steps that must be taken in order to achieve the State's broad restoration goals, and does not require identifying restoration activities that could lessen the State's future mitigation costs, the study risks not being as timely or meaningful as it could be.

Figure 3
Time-Elapsed Image of the Salton Sea Under the No Action Alternative



Sources: California State Auditor's adaptation of information provided by the California Department of Fish and Wildlife and the California Natural Resources Agency's *Salton Sea Ecosystem Restoration Program: Draft Programmatic Environmental Impact Report*, Figure 5-11: Salton Sea surface water elevation under the No Action Alternative–Variability Conditions.

* Exposed playa refers to dry seabed.

All of the Resources Agency's Proposed Restoration Alternatives to Date Are Costly, and the State Has Not Fully Funded Any of Them

In 2003 the Legislature required the secretary of the Resources Agency, in consultation with Fish and Wildlife, the California Department of Water Resources (Water Resources), and other specified entities, to undertake a restoration study to determine a preferred alternative for the restoration of the sea. The 2003 legislation requires the restoration study to evaluate alternatives,

including different strategies, such as salinity control, habitation creation, and restoration. The Resources Agency was responsible for determining a preferred alternative and a proposed funding plan for its implementation.

To satisfy this requirement, the Resources Agency released the Preferred Alternative Report in May 2007. In the report, the Resources Agency presented nine alternatives. The amount of land that each of the alternatives proposed to restore ranged from 110,400 acres to 224,600 acres, which equates to roughly 50 percent to nearly 100 percent of the Salton Sea's acreage. According to the Preferred Alternative Report, each of the alternatives addresses the restoration objectives established by the 2003 legislation, including restoring long term stable aquatic and shoreline habitat to historic levels, maintaining the diversity of fish and wildlife that depend on the Salton Sea, eliminating air quality impacts from the restoration project, and protecting water quality. Further, common to each of the alternatives is an Early Start Habitat that would provide a shallow saline habitat for use by birds after the sea's salinity becomes too high to sustain some species. According to the Resources Agency's deputy secretary of legislative affairs (deputy secretary), the Resources Agency developed the preferred alternative (Preferred Alternative) in consultation with local, state, and federal entities, as well as the public, to provide for the most complete restoration effort that would respond to the concerns of nearly all stakeholders.

The Resources Agency estimated that the costs of each alternative would be in the billions of dollars spread out over a 75-year period, ranging from a minimum of $2.3 billion to construct the least costly alternative up to $8.9 billion for the Preferred Alternative.

However, the State—after more than six years—has yet to identify an adequate funding mechanism for any of the alternatives presented, including the Preferred Alternative, perhaps because of their associated costs. Specifically, the Resources Agency estimated that the costs of each alternative would be in the billions of dollars spread out over a 75-year period, ranging from a minimum of $2.3 billion to construct the least costly alternative up to $8.9 billion for the Preferred Alternative.[5] Table 2 displays the estimated costs and acreage to be restored for each of the alternatives. According to the deputy secretary, the Resources Agency presented the report to the Legislature through meetings with legislative staff and members subsequent to its release. However, he was not aware of the Legislature holding any formal hearings to discuss the Preferred Alternative Report, nor did the Legislature fund any of the alternatives. Although the Resources Agency has the authority to implement many of the restoration projects detailed in the Preferred Alternative Report, the deputy secretary stated that it has not done so because of the lack of funding. Instead, it has worked with Fish and Wildlife and Water Resources on implementing those activities within the Preferred Alternative Report that it believes are the highest priority, as we discuss later.

[5] The Preferred Alternative Report presents a 75-year vision to restore the Salton Sea because the QSA provides a resolution of issues for a period of 35 years to 75 years regarding the reasonable and beneficial use of Colorado River water.

Table 2

Alternatives Considered in the *Salton Sea Ecosystem Restoration Program: Preferred Alternative Report and Funding Plan*, Dated May 2007

ALTERNATIVE*	CONSTRUCTION COSTS† (IN BILLIONS)	ANNUAL OPERATIONS AND MAINTENANCE COSTS†‡ (IN MILLIONS)	ACREAGE INCLUDED AND THE PERCENTAGE OF THE SALTON SEA RESTORED	DESCRIPTION
Preferred Alternative	$8.9	$142	200,600 acres (87%)	The Preferred Alternative would restore 45,000 acres of marine sea to support a marine fishery and fish-eating birds; it would add 62,000 acres of a saline habitat complex composed of a series of approximately 1,000-acre cells to provide a diversity of habitats to support fish and wildlife; it would provide air quality management to evaluate, monitor, and control dust emissions; and it would construct a brine sink to provide the repository necessary for storing excess salts, water discharged from certain areas, and excess inflows. It would also include an Early Start Habitat to provide habitat for use by birds after the Salton Sea salinity becomes too high to sustain some species. This habitat would be established before the rest of the restoration and is included in each of the eight alternatives below.
1 Saline Habitat Complex I	2.3	91	219,600 acres (95%)	38,000 acres of saline habitat complex with minimum recirculation facilities and air quality management.
2 Saline Habitat Complex II	3.3	107	224,600 acres (98%)	75,000 acres of saline habitat complex with brine recirculation and air quality management.
3 Concentric Rings	4.9	138	218,400 acres (95%)	61,000 acres of marine sea in two concentric rings and air quality management.
4 Concentric Lakes	2.3	20	110,400 acres (48%)	88,000 acres of habitat similar to the saline habitat complex in four concentric water bodies, with dedicated inflows for air quality management but no long-term facilities.
5 North Sea	4.5	134	203,900 acres (89%)	62,000 acres of marine sea in the northern seabed, 45,500 acres of saline habitat complex in the southern seabed, and air quality management.
6 North Sea Combined	5.9	148	206,200 acres (90%)	74,000 acres of marine sea in the northern, western, and southern seabeds; 29,000 acres of saline habitat complex cells in the southern seabed; and air quality management.
7 Combined North and South Lakes	5.2	82	197,700 acres (86%)	104,000 acres of marine sea in the northern, western, and southern seabeds; 12,000 acres of saline habitat complex cells in the eastern seabed; water treatment of inflows and water withdrawn from the eastern portion of the northern marine sea; and use of brine stabilization for air quality management at lower elevations.
8 Combined South Sea	5.8	145	200,400 acres (87%)	83,000 acres of marine sea primarily in the southern seabed with a smaller marine sea in the western and northern seabeds, 18,000 acres of saline habitat complex in the southern seabed, and air quality management.

Sources: California State Auditor's analysis of the California Natural Resources Agency's *Salton Sea Ecosystem Restoration Program: Draft Programmatic Environmental Impact Report* (Draft EIR), dated October 2006, and the *Salton Sea Ecosystem Restoration Program: Preferred Alternative Report and Funding Plan* (Preferred Alternative Report), dated May 2007.

* According to the Preferred Alternative Report, all of the alternatives presented in this table address the Salton Sea Restoration Act's objectives.

† According to the Draft EIR, costs for alternatives one through eight are in 2006 dollars. They include contingencies, engineering, administration, and legal costs but do not include the cost of permits or land or easement acquisition. According to the Preferred Alternative Report, the costs for the Preferred Alternative are also in 2006 dollars and do not include costs for a demonstration project, permits, land or easement acquisition, or interest on borrowed funds.

‡ The annual operations and maintenance costs estimates represent annual costs for the last phase of implementation of the alternative, occurring from 2040 through 2078.

In the Preferred Alternative Report, the Resources Agency also presented a no action alternative, which the California Environmental Quality Act (CEQA) and its regulations require. Under CEQA, environmental documents must present a no project or no action analysis to allow decision makers to compare the impacts of approving the proposed project with the impact of not approving it. The No Action Alternative for the Salton Sea therefore describes the impact and cost of certain activities that would otherwise occur if the State does not approve a restoration plan.

As described in the Introduction, the State assumed responsibility for the cost of certain environmental mitigation requirements under the QSA and related documents. Those specific requirements are set out in a June 2002 joint environmental document (2002 environmental document), as amended, adopted by the Imperial Irrigation District (Imperial).[6] Under the cost-sharing agreement that pertains to this 2002 environmental document, three local water agencies—Imperial, the Coachella Valley Water District (Coachella), and the San Diego County Water Authority—must pay the first $133 million (in 2003 dollars) in environmental mitigation costs, and the State must pay any costs above that amount. The No Action Alternative took into account the impact and cost of specific activities the 2002 environmental document identified regarding air quality management and protection of the desert pupfish because it was reasonably foreseeable that those activities would impact the Salton Sea. However, according to Fish and Wildlife officials, the No Action Alternative did not take into account the impact and costs of all environmental mitigation required under the 2002 environmental document because some mitigation activities required under the QSA will not directly impact the Salton Sea. Specifically, the area referenced in the 2002 environmental document, as amended, extends beyond the sea itself and, according to an environmental program manager at Imperial, essentially covers the Imperial Valley, the Salton Sea, and its surrounding shoreline.

To date, the State has not performed a full-cost estimate of its responsibilities under the QSA.

To date, the State has not performed a full-cost estimate of its responsibilities under the QSA. The estimated cost to construct the activities considered in the No Action Alternative was $801 million, with annual operations and maintenance costs of roughly $50 million for many years thereafter. Because this estimate is in 2006 dollars, the actual costs under this scenario are likely to be significantly greater when adjusted for inflation. However, this cost estimate was based on conditions known at the time it was developed and we do not know the extent to which

[6] The June 2002 environmental document is titled *Imperial Irrigation District Water Conservation and Transfer Project, Habitat Conservation Plan, Final Environmental Impact Report/Environmental Impact Statement*.

those conditions may have changed. Moreover, it does not reflect the cost of performing all of the mitigation activities required under the QSA. The three local water agencies are paying their $133 million portion of mitigation costs over an extended period of time; based on the payment schedules contained within the QSA, they will ultimately pay about $388 million, including interest.[7] Joint powers authority (JPA) officials roughly estimate that the local water agencies could exhaust most of their environmental mitigation contributions under the QSA as early as 2025. The officials explained that this is only an estimate as the JPA has yet to perform a formal analysis of when the three local water agencies might exhaust their mitigation contributions. Under the QSA, once the local water agencies fulfill their mitigation contributions, the State will become responsible for any additional mitigation costs. Although this financial responsibility could materialize in just over 10 years, it is currently unknown how significant the State's financial obligations might be.

The three local water agencies are paying their $133 million portion of mitigation costs over an extended period of time; based on the payment schedules contained within the QSA, they will ultimately pay about $388 million, including interest.

Recent Legislation Governing a Feasibility Study May Not Provide the Legislature With Enough Information to Make Informed Decisions

Experts state that increasing salinity, evaporation, and declining water quality have significantly affected fishery resources and recognize that without restoration efforts, the ecosystem of the Salton Sea will significantly degrade over the next decade or two. Therefore, in fiscal year 2013–14, the Legislature appropriated $2 million from the Salton Sea Restoration Fund (Restoration Fund) for the Resources Agency to use in completing a feasibility study with the assistance of the Salton Sea Authority (authority).[8] The fiscal year 2013–14 Enacted Budget Summary states that under the direction of the Resources Agency, the authority will collaborate with state, federal, and local stakeholders to, among other things, develop feasible alternatives for inclusion in a comprehensive plan and options to achieve restoration goals.

According to its deputy secretary, the Resources Agency sees the goal for the feasibility study as providing a realistic restoration plan for the Salton Sea. Part of this process includes re-examining the Preferred Alternative Report to determine which components within the alternatives align with a more realistic approach and to update the costs associated with

[7] The local water agencies are paying their mitigation contributions in installments over many years with interest accruing on the unpaid balances at an annual rate of 6 percent.

[8] As discussed in the Introduction, the authority consists of Coachella, Imperial, Riverside County, Imperial County, and the Torres Martinez Desert Cahuilla Indians; it was formed in 1993 as a JPA.

those components. The deputy secretary explained that the plan presented in the feasibility study is expected to be more economical and provide a more realistic option for the restoration of the sea.

In addition to the budget appropriation mentioned previously, the Legislature recently passed and the governor signed legislation that specifies certain aspects of the feasibility study. However, we are concerned that this legislation does not provide adequate, specific direction to the Resources Agency and the authority to ensure that they complete the study in a timely manner and that the study's content meets the needs of the Legislature. Without such direction, the feasibility study may not prove helpful to the Legislature, potentially leaving it unwilling to approve or fund a restoration plan. In particular, the provisions governing the feasibility study do not impose a specific deadline for completing the study, nor do they fully prioritize the steps needed to achieve the State's broad goals for restoring the sea.

Further, the recent legislation does not require that the feasibility study consider restoration projects that could reduce the State's future financial obligations related to mitigation. For instance, according to Fish and Wildlife officials, undertaking activities to restore habitat now could lessen the amount of exposed dry seabed in the future, thereby reducing the need—and costs—to mitigate the impact dust could have on air quality. In addition, the Resources Agency could better identify and anticipate the State's future financial obligations by preparing a thorough cost estimate of the State's full potential financial liability under the QSA as part of the feasibility study.

The Resources Agency could better identify and anticipate the State's future financial obligations by preparing a thorough cost estimate of the State's full potential financial liability under the QSA as part of the feasibility study.

It is imperative that the feasibility study also include viable funding options for the proposed restoration activities. As described in the Introduction, the Restoration Fund contains funding for the State's restoration efforts; however, current funding is limited to the funds provided by Proposition 84—a voter-approved initiative—and the Salton Sea Restoration Limit provided under the QSA. As of June 30, 2013, the amount of funds remaining from Proposition 84 for the Restoration Fund is $36.3 million; of this amount, as of the fiscal year 2013–14 Budget Act, the Legislature has appropriated $33.6 million. As of June 30, 2013, the Restoration Fund had received a total of approximately $23 million from Salton Sea Restoration Limit contributions and the estimated amount of future funding from these contributions, when adjusted for interest, is approximately $45.5 million.[9] These funding sources are not sufficient to complete any of the restoration alternatives

[9] The full amount of Salton Sea Restoration Limit funding under the QSA will not become available until 2047 because Imperial is paying its obligation on an installment basis at a 6 percent interest rate.

presented to date. In fact, the estimated available funding of roughly $81.8 million is $2.2 billion less than the cost to construct the least costly alternative included in the Preferred Alternative Report. To address this significant disparity, recent legislation provides for the feasibility study to analyze feasible funding sources and economic development opportunities that might serve as revenue sources for the Salton Sea's restoration efforts including, but not limited to, renewable energy, biofuels, mineral development, and algae production.

The estimated available funding of roughly $81.8 million is $2.2 billion less than the cost to construct the least costly alternative included in the Preferred Alternative Report.

The deputy secretary confirmed that as of September 2013 the Resources Agency was planning to confer with an advisory group to identify the information they believe the feasibility study should contain. While we agree that this is a logical approach, we believe it is also critical for the Legislature to clearly set forth its specific expectations in law regarding the feasibility study.

In addition to ensuring that the feasibility study adequately meets the State's needs, the Legislature should designate a single entity responsible for coordinating the Salton Sea's restoration and mitigation efforts and responsible for fostering the collaboration of all interested parties. As stated in the Preferred Alternative Report, a coordinating entity has not been identified even though many local, state, and federal interests are involved in the efforts to restore and mitigate the ecosystem of the Salton Sea. The Preferred Alternative Report further states that a consortium of these interests will be needed for effective implementation of any restoration program. Currently, the Resources Agency is responsible for implementing the State's restoration activities in collaboration with Fish and Wildlife and Water Resources. Given the potential financial obligations of the State and the fact that the Resources Agency already plays an important role in the Salton Sea restoration effort, we believe it is best suited for fostering collaboration among the parties with vested interests in the sea's restoration. In performing this role, the Resources Agency could likely provide a focused vision and coordinated effort for restoration and mitigation activities and could minimize any duplication of effort.

Lacking a Funded Restoration Plan, the Resources Agency Has Taken an Incremental Approach to Restoring the Salton Sea

In the absence of full funding for any of the proposed restoration alternatives, officials from the Resources Agency reported that the State's approach has been incremental, meaning that the agencies involved have undertaken restoration activities only as funding becomes available. According to the Resources Agency's deputy secretary, this approach is reasonable given that funding

has historically been, and will likely continue to be, provided in small amounts over time. Under this incremental approach, the Resources Agency has worked with Fish and Wildlife, Water Resources, and federal and local agencies to focus efforts on planning and designing a project with features common to each of the plans in the Preferred Alternative Report. This project, referred to as the Species Conservation Habitat Project (Habitat Project), calls for the restoration of 3,770 acres of the sea—a fraction (less than 2 percent) of the hundreds of thousands of acres the State could restore under the Preferred Alternative.

Despite the relatively small scale of the Habitat Project, Fish and Wildlife does not yet have the funding to complete it as planned. Officials estimate the Habitat Project will cost $132 million to finish. However, the Restoration Fund's anticipated future funding as of June 30, 2013, totals only about $81.8 million, $50.2 million short of the project's estimated cost. A Fish and Wildlife official noted that the current amount in the Restoration Fund will only support construction of 600 to 700 acres of the Habitat Project, at a cost of approximately $30 million.

The Implementation Schedule for the Preferred Alternative

Period 1: Five-year plan/pre-construction. Activities include data collection and analysis as well as completion of project-level environmental documentation, permitting, and design work. This period focuses on the planning for the implementation of the Early Start Habitat (now known as the Species Conservation Habitat Project), among other activities.

Period 2: Major construction. Activities include the construction of the following facilities: the marine sea barrier, sedimentation/distribution basins, air quality management canals, and initial construction of the saline habitat complex and air quality management facilities.

Period 3: Construction completion. Activities include any remaining construction.

Period 4: Operations and maintenance. Activities include periodically inspecting for facility conditions and safety, repairing or replenishing barriers as well as berms, providing continued vegetation and vector control, and repairing water conveyance facilities.

Source: California State Auditor's analysis of the California Natural Resources Agency's *Salton Sea Ecosystem Restoration Program: Preferred Alternative Report and Funding Plan*, issued May 2007.

To complete the planning and design of the Habitat Project, Fish and Wildlife, the administrator of the Restoration Fund, entered into an interagency agreement with Water Resources to perform and oversee some of the project's more complex tasks. Most of the Restoration Fund's expenditures over the last three fiscal years have been for department personnel and contracted consultants involved in planning and designing the Habitat Project, as described in the next section. According to Fish and Wildlife's regional manager of its Inland Deserts Region (regional manager), the actual construction is slated to begin after June 2014.

State Entities Have Focused Their Efforts on Plans to Restore a Fraction of the Salton Sea

Lacking a fully funded plan, the Resources Agency, in partnership with Fish and Wildlife and Water Resources, has focused efforts over the last several years on activities from the Preferred Alternative Report that it believes are the highest priority. Specifically, the Preferred Alternative lays out an implementation schedule composed of four periods, as described in the text box. State law

requires that Fish and Wildlife use certain funds within the Restoration Fund to pay for Period 1 activities, upon appropriation by the Legislature.

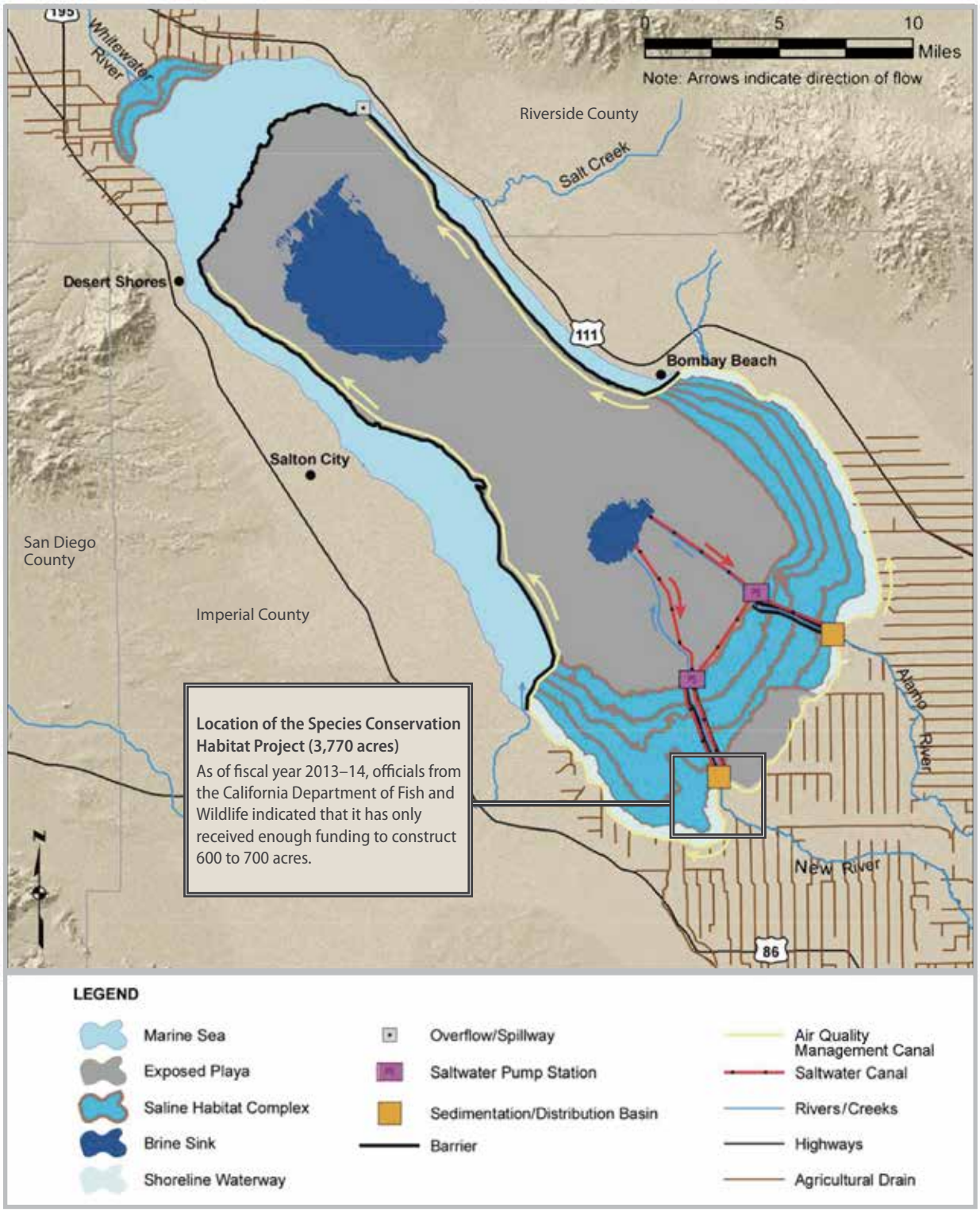
One of the key elements of Period 1 is the implementation of what is referred to as the Early Start Habitat. According to Fish and Wildlife's regional manager, the Early Start Habitat has evolved into the Habitat Project. She explained that whereas the Preferred Alternative Report proposed the Early Start Habitat as a temporary measure until the construction of the Preferred Alternative, the Habitat Project will be in place for a longer time because of the uncertainty of the funding required for a more comprehensive restoration plan. According to the program manager for Water Resources' Salton Sea Restoration Program, the Habitat Project will provide habitat for fish-eating birds and other important wildlife that depend on the Salton Sea and that will experience significant survival challenges as the salinity of the Salton Sea rises. He explained that the project will provide a template for future habitat ponds around the Salton Sea, which collectively will help provide adequate habitat for fish and wildlife dependent on the sea.

However, the Habitat Project only addresses a fraction of the sea's acreage. If the State eventually completes the Habitat Project as planned, it will restore only 3,770 acres of the roughly 200,000 acres that the Preferred Alternative would address, based on conditions known at the time it was developed, as shown in Figure 4 on the following page. According to the regional manager, the estimated cost of the Habitat Project is $132 million; however, as of fiscal year 2013–14, officials from Fish and Wildlife indicated that it has only received enough funding to construct 600 to 700 acres at an estimated cost of $30 million.

If the State eventually completes the Habitat Project as planned, it will restore only 3,770 acres of the roughly 200,000 acres that the Preferred Alternative would address, based on conditions known at the time it was developed.

The planning for and design of the Habitat Project has taken several years. Construction projects that may have a significant effect on the environment generally require the development of an environmental impact report/environmental impact statement (EIR/EIS) as well as the acquisition of necessary permits. An EIR/EIS is a public document that governmental agencies use to analyze the significant environmental effects of proposed projects, to identify alternatives, and to disclose possible ways to reduce or avoid environmental damage. As the administrator of the Restoration Fund, Fish and Wildlife entered into an interagency agreement with Water Resources to assist in the development of the EIR/EIS for the Habitat Project as well as to help with the project's implementation. The agreement initially began in 2008, and Fish and Wildlife subsequently amended it to include additional restoration-related activities.

Figure 4
The Preferred Alternative and the Approximate Location of the Species Conservation Habitat Project



Sources: California State Auditor's adaptation of information in the California Natural Resources Agency's *Salton Sea Ecosystem Restoration Program: Preferred Alternative Report and Funding Plan,* issued May 2007, and the *Salton Sea Species Conservation Habitat Project: Draft Environmental Impact Statement/Environmental Impact Report*, issued August 2011, as well as information provided by the California Department of Fish and Wildlife.

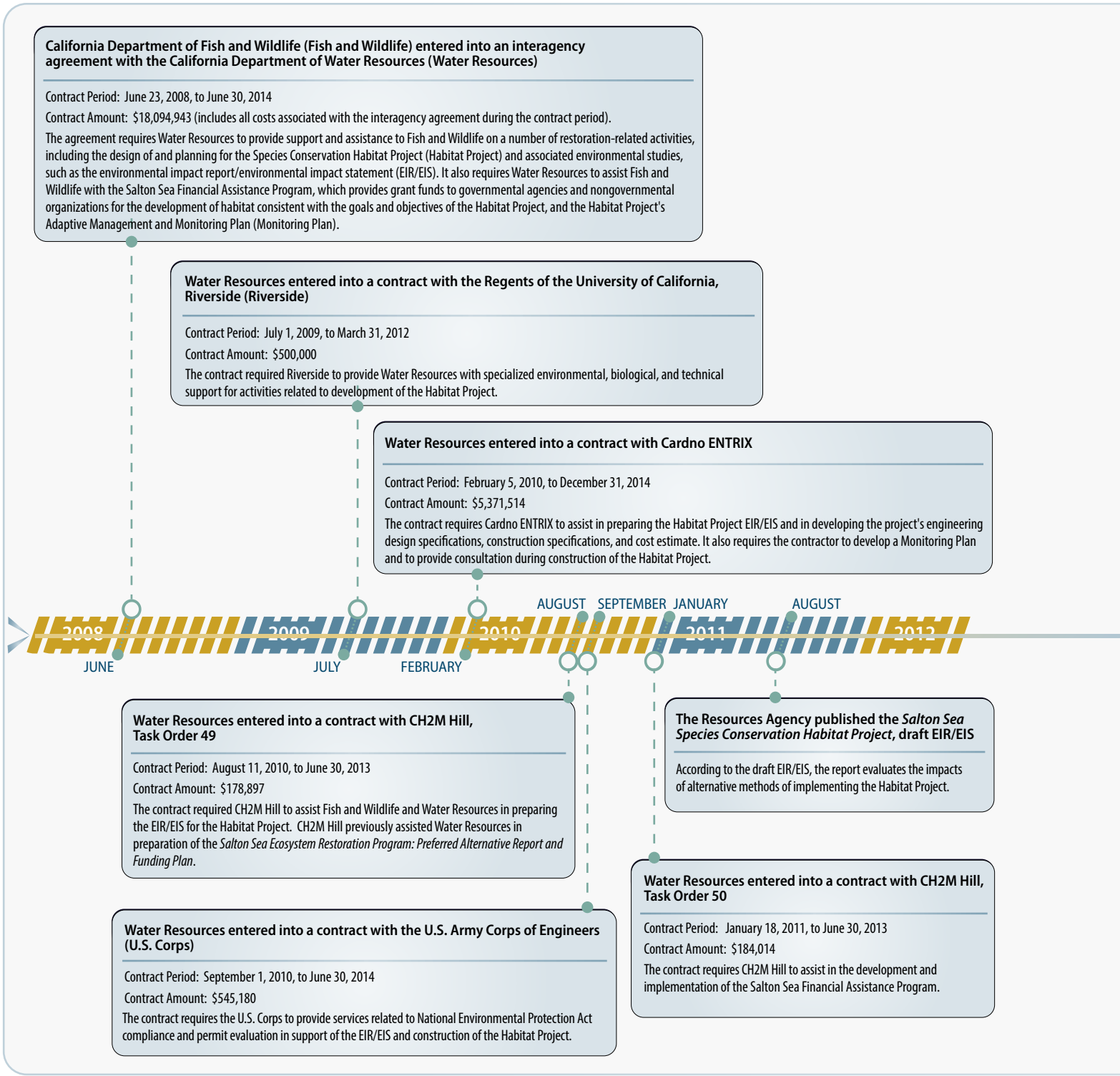
To carry out its responsibilities under the interagency agreement, Water Resources began contracting with consultants in 2009. Figure 5 on the following page presents a timeline of key events surrounding the planning, construction, and monitoring of the Habitat Project. It also describes the four contracts Water Resources entered into with consultants to undertake a variety of activities, including the development of the EIR/EIS for the Habitat Project.

Water Resources' program manager explained that contractors have provided the environmental expertise necessary to develop the Habitat Project's EIR/EIS as well as to design the project, identify construction specifications, and obtain regulatory permits. Planning, development, and finalization of an EIR/EIS can be a complex and lengthy process, contributing to the length of the planning phase for the Habitat Project. As shown in Figure 5, the Resources Agency finalized the EIR/EIS for the entire 3,770 acres in July 2013, nearly two years after the publication of its initial draft. He explained that the EIR/EIS had to be certified before Fish and Wildlife and Water Resources could submit completed permit applications for construction of the Habitat Project. He stated that these agencies now have all of the material needed to draft the various federal permits, which will likely be issued by the end of November 2013.

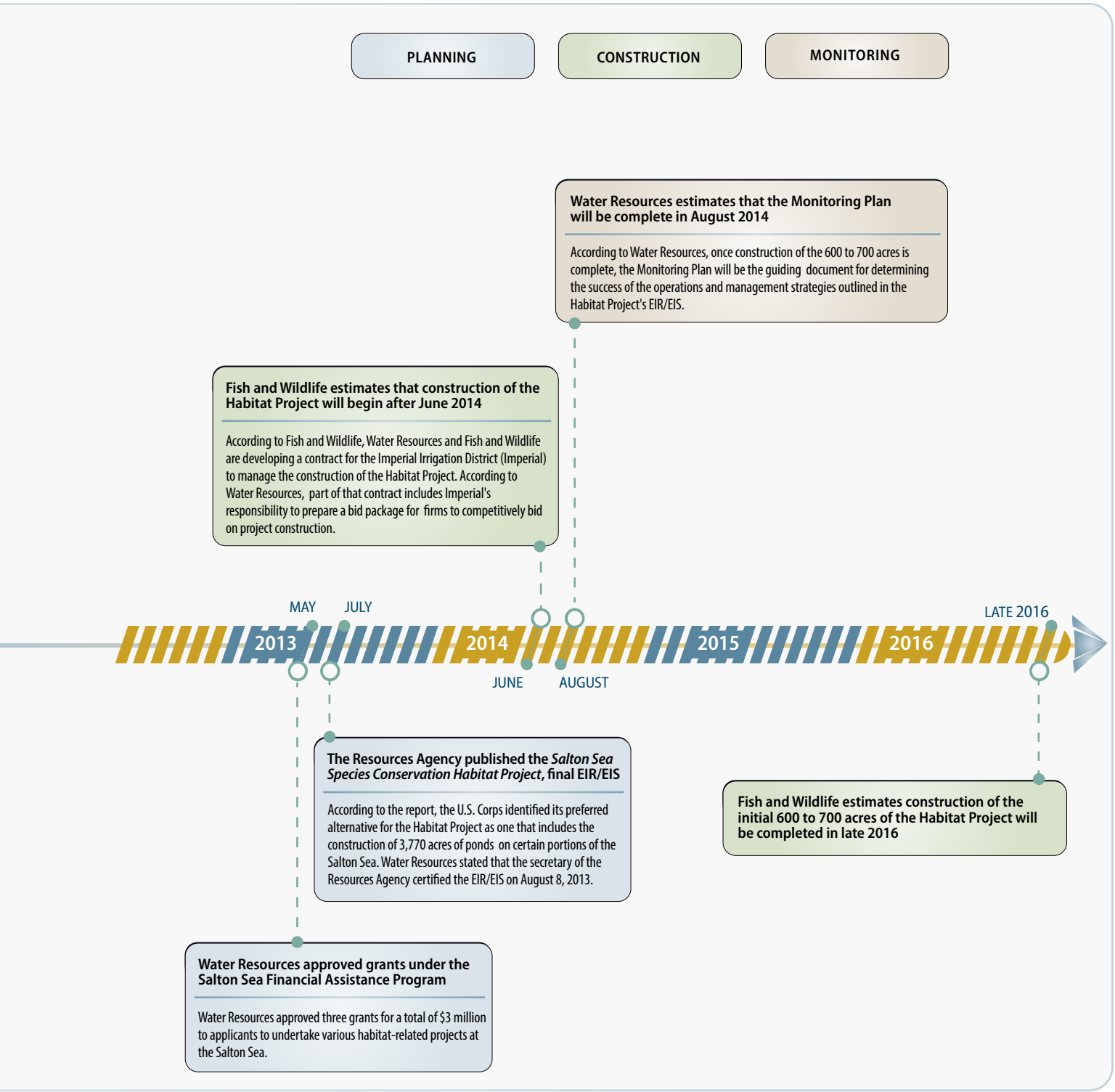
Construction of the first 600 to 700 acres of the Habitat Project should begin after June 2014 and should be completed by late 2016.

According to Fish and Wildlife's regional manager, construction of the first 600 to 700 acres of the Habitat Project should begin after June 2014 and should be completed by late 2016. She further stated that Fish and Wildlife and Water Resources are in the process of finalizing a contract with Imperial to manage the construction. Fish and Wildlife decided to contract with Imperial in part because Imperial owns most of the land the project affects and in part because the contract will result in cost-savings for the State from several efficiencies, including reduced overhead and travel costs because Fish and Wildlife's regional office is close to the sea. In addition, the agencies hope that working with Imperial will further develop the partnership between the State and local stakeholders. Officials indicate that after completion, the project will need to be monitored to determine, among other things, whether it is successfully supporting fish and wildlife. According to Water Resources' program manager, Water Resources recently met with Fish and Wildlife to develop the scope of work and objectives for the Adaptive Management and Monitoring Plan. He explained that this plan will be the guiding document for monitoring the performance of the Habitat Project and establishing a management feedback loop focused on monitoring results.

Figure 5
Key Events in the Planning, Construction, and Monitoring of the Species Conservation Habitat Project



Sources: California State Auditor's analysis of various documents provided by Fish and Wildlife and Water Resources, as well as interviews with officials from these agencies.
Note: The contract terms in this figure include any time extensions or increases in contract amounts made by amendments to the original contracts.


PLANNING
CONSTRUCTION
MONITORING
Water Resources estimates that the Monitoring Plan will be complete in August 2014
According to Water Resources, once construction of the 600 to 700 acres is complete, the Monitoring Plan will be the guiding document for determining the success of the operations and management strategies outlined in the Habitat Project's EIR/EIS.
Fish and Wildlife estimates that construction of the Habitat Project will begin after June 2014
According to Fish and Wildlife, Water Resources and Fish and Wildlife are developing a contract for the Imperial Irrigation District (Imperial) to manage the construction of the Habitat Project. According to Water Resources, part of that contract includes Imperial's responsibility to prepare a bid package for firms to competitively bid on project construction.
MAY
JULY
LATE 2016
2013
2014
2015
2016
JUNE
AUGUST
The Resources Agency published the Salton Sea Species Conservation Habitat Project, final EIR/EIS
According to the report, the U.S. Corps identified its preferred alternative for the Habitat Project as one that includes the construction of 3,770 acres of ponds on certain portions of the Salton Sea. Water Resources stated that the secretary of the Resources Agency certified the EIR/EIS on August 8, 2013.
Fish and Wildlife estimates construction of the initial 600 to 700 acres of the Habitat Project will be completed in late 2016
Water Resources approved grants under the Salton Sea Financial Assistance Program
Water Resources approved three grants for a total of $3 million to applicants to undertake various habitat-related projects at the Salton Sea.

In addition to these restoration efforts, Fish and Wildlife and Water Resources have recently collaborated to establish the Salton Sea Financial Assistance Program (Financial Assistance Program). According to the Financial Assistance Program's guidelines, it will provide grants from the Restoration Fund to eligible applicants, including local agencies and tribes, for projects that conserve fish and wildlife within the Salton Sea ecosystem. Applicants' proposed projects must be consistent with at least one of four specific objectives, such as creating and enhancing habitat to provide sustainable and functional habitat for the protection of fish and wildlife. The projects must also satisfy an array of environmental requirements.

In May 2013 Water Resources approved the first awards under the Financial Assistance Program, granting a total of $3 million to three projects.

In May 2013 Water Resources approved the first awards under the Financial Assistance Program, granting a total of $3 million to three projects: the United States Fish and Wildlife Service, Imperial/Sephton Water Technology, and the Salton Sea Authority/Torres Martinez Tribe. According to the Resources Agency's deputy secretary, these grants should allow the recipients a chance to try different restoration activities that it hopes will be successful. He also stated that the initial $3 million in grant funds will not fully fund the proposed projects, so the Resources Agency is reviewing options to supplement this funding to ensure that the recipients can complete the projects and measure their effectiveness. According to the deputy secretary, possible sources of additional funding include the Wildlife Conservation Board or a second round of Financial Assistance Program grants.

Restoration Fund Expenditures Over the Past Few Years Primarily Relate to Personnel and Consultant Costs for Planning of the Habitat Project

The Joint Legislative Audit Committee asked us to identify the amount that Fish and Wildlife and Water Resources spent from the Restoration Fund on staff, by major job classification, and on consultants for the most recent three-year period. It also asked us to determine how the departments allocate staff time to administer the Restoration Fund. As previously explained, Fish and Wildlife and Water Resources have focused their restoration efforts during the past several years on planning and designing the Habitat Project and, in doing so, have contracted with several consultants. The departments generally paid for these restoration-related efforts by using the Restoration Fund. Not surprisingly, during our audit period, the vast majority of the expenditures from the Restoration Fund relate to Fish and Wildlife and Water Resources' personnel and contracts with consultants, as shown in Table 3.

Table 3
Salton Sea Restoration Fund Personnel and Consultant Expenditures for Fiscal Years 2010–11 Through 2012–13

Personnel Expenditures

AGENCY	JOB CLASSIFICATION (NUMBER OF PERSONNEL YEARS PER YEAR, IF APPLICABLE)	FISCAL YEAR 2010–11	2011–12	2012–13	TOTAL
California Department of Fish and Wildlife (Fish and Wildlife)	Environmental Program Manager II (.3)	$30,900	$50,600	$45,800	$127,300
	Environmental Program Manager I (1)	83,500	130,600	126,600	340,700
	Senior Environmental Scientist (1.5)*	115,400	159,600	176,200	451,200
	Environmental Scientist (4)*	316,600	355,800	300,800	973,200
	Research Program Specialist I (.8)	47,100	102,100	102,000	251,200
	Fish and Wildlife Technician (1.6)	84,100	57,900	90,300	232,300
	Staff Services Analyst (.5)	0	42,600	59,200	101,800
	Associate Governmental Program Analyst (.9)	76,000	83,300	62,400	221,700
	Other (includes nominal amounts charged to the fund by various positions, totaling .2 personnel years)*	57,500	0	0	57,500
	Total Fish and Wildlife Personnel Expenditures (10.8)	**$811,100**	**$982,500**	**$963,300**	**$2,756,900**
California Department of Water Resources (Water Resources)	Environmental Program Manager I (.5)	$76,700	$39,900	$0	$116,600
	Program Manager II (.8)	56,200	67,900	73,700	197,800
	Supervising Engineer (.7)	67,300	82,000	82,400	231,700
	Staff Environmental Scientist (.6)	45,600	18,800	50,300	114,700
	Associate Governmental Program Analyst (.2)	6,500	9,600	24,500	40,600
	Other (includes Division of Engineering Staff) (.3)	16,200	14,600	17,700	48,500
	Line Management and Line Staff Costs†	246,300	226,000	272,500	744,800
	Total Water Resources Personnel Expenditures (3.1)	**$514,800**	**$458,800**	**$521,100**	**$1,494,700**
Total Personnel Expenditures		**$1,325,900**	**$1,441,300**	**$1,484,400**	**$4,251,600**

Consultant Expenditures

AGENCY	CONSULTANT	FISCAL YEAR 2010–11	2011–12	2012–13	TOTAL
Water Resources	U.S. Army Corps of Engineers	$246,100	$0	$0	$246,100
	Cardno ENTRIX	1,872,200	1,438,400	615,100	3,925,700
	CH2M Hill	62,300	24,600	10,300	97,200
	The Regents of the University of California, Riverside	327,700	122,300	0	450,000
	Total Consultant Expenditures	**$2,508,300‡**	**$1,585,300**	**$625,400**	**$4,719,000**
Total Personnel and Consultant Expenditures		**$3,834,200**	**$3,026,600**	**$2,109,800**	**$8,970,600**
Total Salton Sea Restoration Fund Expenditures		**$4,276,600**	**$3,369,300**	**$2,699,000**	**$10,344,900§**

Sources: California State Auditor's analysis of accounting records and other documents obtained from Fish and Wildlife and Water Resources.

* Between fiscal years 2010–11 through 2012–13, certain personnel in these job classifications were promoted to a different job classification. For purposes of presentation, we combined those personnel costs with their most current job classification.

† Line Management and Line Staff costs include management overhead and state-paid staff benefits, such as retirement, workers' compensation, and health insurance. These costs are not related to a specific job classification.

‡ Consultant expenditures shown in this table are on a cash basis, whereas the total amount presented in Table A on page 40 of the Appendix includes accruals.

§ The difference of roughly $1.4 million between total Salton Sea Restoration Fund expenditures and total personnel and consultant expenditures is comprised of operating expenses and equipment and indirect costs.

As shown in Table 3, during fiscal years 2010–11 through 2012–13, Fish and Wildlife and Water Resources expended nearly $2.8 million and $1.5 million, respectively, on personnel. Fish and Wildlife funded about 11 personnel years, on average over the three-year period, with the Restoration Fund. Many of these personnel were stationed in the Inland Deserts Region Office, located in Ontario, California, with staff who work on the Salton Sea restoration effort located in field offices in Bermuda Dunes and Blythe. These staff had a variety of duties, including performing studies of the fish and wildlife that rely on the sea for survival, reviewing environmental documents, and coordinating with state, local, and federal entities. On the other hand, Water Resources funded on average about three personnel years with the Restoration Fund. These staff were responsible for developing and monitoring its contracts with the consultants working on the Habitat Project, coordinating with stakeholders, developing consultant task orders and invoices, and administering and overseeing the Financial Assistance Program.

Table 3 also shows the amounts expended for each of the contracts Water Resources entered into with the U.S. Army Corps of Engineers, Cardno ENTRIX, CH2M Hill, and the Regents of the University of California, Riverside. We describe the purposes and amounts of each of these contracts in Figure 5 on pages 30 and 31, all of which generally relate to the Habitat Project. During the three fiscal years, expenditures for these contracts totaled roughly $4.7 million, close to half of the total expended from the Restoration Fund during this time. Given the significant role of Cardno ENTRIX in developing the EIR/EIS, it is not surprising that expenditures for this contract represented roughly $3.9 million, or 83 percent of the total amount expended on consulting contracts during the period of our review.

Recommendations

Legislature

To ensure that the feasibility study it recently funded will provide it with meaningful and timely information, the Legislature should enact legislation that does the following:

- Contains specific guidance to the Resources Agency regarding the Legislature's priorities for restoring the Salton Sea so that the Resources Agency can address those priorities when developing the feasibility study.

- Provides a deadline for the completion of the feasibility study and submission of a restoration plan.

- Requires the feasibility study to analyze and include the extent to which restoration activities could lessen the State's future financial obligations for mitigation under the QSA.

- Once the Legislature has approved a restoration plan, it should hold a budget hearing to consider the appropriate funding mechanism.

The Legislature should designate the Resources Agency as the implementing entity responsible for coordinating the efforts of all entities involved in the restoration and mitigation activities for the Salton Sea.

Resources Agency

To ensure that the Legislature has the information necessary to meet the State's restoration goals and to plan for the State's future financial obligations related to mitigation, the Resources Agency should work with Fish and Wildlife and Water Resources to do the following:

- Provide a written report to the Legislature on its recommendations for the content of the feasibility study no later than February 1, 2014. It should include in the report the State's progress to date on the Habitat Project.

- Meet with the Legislature regularly to provide updates on the status of its restoration efforts and the feasibility study to ensure that the Legislature has the information necessary to make funding and other informed decisions.

- Develop an estimate of the costs, adjusted for inflation, that the State may incur for fulfilling its financial obligations related to mitigation under the QSA. The Resources Agency should include this information in the feasibility study so the Legislature is fully aware of the estimated costs and timing of the State's future financial obligations.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

Date: November 21, 2013

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J. Christopher Dawson

For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at (916) 445-0255.

Appendix

The Salton Sea Restoration Fund's Funding Sources and Expenditures for Fiscal Years 2003–04 Through 2012–13

The Joint Legislative Audit Committee directed the California State Auditor to identify the Salton Sea Restoration Fund's (Restoration Fund) funding sources and total expenditures by major category for the most recent three-year period, which we defined as fiscal years 2010–11 through 2012–13. We present this information in Table A on page 40. To provide additional perspective related to the Restoration Fund's historical funding sources and expenditures, we also included unaudited amounts for fiscal years 2003–04 through 2009–10.[10]

State law and the Quantification Settlement Agreement (QSA) provide the Restoration Fund with five potential funding sources:

- The Salton Sea Restoration Limit: The QSA and its implementing legislation specify that three local water agencies—Imperial Irrigation District (Imperial), Coachella Valley Water District (Coachella), and the San Diego County Water Authority (San Diego)—must pay a combined total of $30 million in 2003 dollars to the Restoration Fund.

- Proposition 84: In 2006 the voters approved this initiative, which provides $47 million to the Restoration Fund.[11]

- Proceeds from certain water purchases: The QSA and its implementing legislation allow the Metropolitan Water District of Southern California (Metropolitan) to purchase up to a specific amount of water made available by Imperial to the California Department of Water Resources (Water Resources) at a specified price. Imperial is responsible for providing the water to Water Resources to sell. Legislation requires Water Resources to deposit all proceeds from the sale into the Restoration Fund, after deducting certain administrative costs. However, the California Department of Fish and Wildlife's (Fish and Wildlife) Fish and Wildlife's Inland Deserts regional manager (regional manager) explained that Fish and Wildlife does not anticipate that Metropolitan will purchase any additional water from Water Resources because of local opposition; thus, proceeds from this potential funding source are unlikely.

[10] Because the expenditure amounts for fiscal years 2003–04 through 2009–10 are beyond the audit period, we do not present them by major category.

[11] Proposition 84 authorized $47 million for the Restoration Fund; however, a portion of this amount is reserved for estimated bond issuance costs, leaving $45.4 million.

- Proceeds from special surplus water purchases: The QSA and its implementing legislation allow Metropolitan to pay a specified amount for all special surplus water it receives as a result of reinstatement of access to that water under guidelines issued by the United States Department of the Interior (Interior), subtracting any water delivered to Arizona as a result of a shortage. These funds must be paid into the Restoration Fund. According to the regional manager, Interior has not declared a surplus of water and is unlikely to do so in the near future due to current drought conditions. This directly impacts Metropolitan's ability to purchase and pay for surplus water. Thus, the regional manager explained that proceeds from this funding source are also unlikely.

- Ecosystem restoration fees: During the initial term of the QSA, most types of water transfers from Imperial are subject to an ecosystem restoration fee to cover the impact of the transfers on the sea. Fish and Wildlife is responsible for establishing this fee, which cannot exceed 10 percent of the compensation Metropolitan receives for the transfer of the water. Fish and Wildlife must deposit all proceeds from the fee into the Restoration Fund. However, it is unlikely that proceeds will be realized from these fees; the regional manager does not believe that Imperial will transfer any water subject to ecosystem restoration fees because Imperial has not expressed a willingness to make such water transfers.

As shown in Table A on page 40, the Restoration Fund received a total of about $32.1 million from the different funding sources as of June 30, 2013, with the majority of the funds received during fiscal years 2003–04 through 2009–10. This does not include about $200,000 in interest the fund earned over the period. As of the end of fiscal year 2012–13, the Restoration Fund had not received any proceeds from water purchases, special surplus water fees, or ecosystem restoration fees.

In addition to the $32.1 million, as of June 30, 2013, Fish and Wildlife expects to receive another $36.3 million from Proposition 84 and an additional $45.5 million from the Salton Sea Restoration Limit.[12] Of the $36.3 million in Proposition 84 funding, the Legislature has already appropriated $33.6 million as of the fiscal year 2013–14 Budget Act. Under the QSA, the three local water agencies may pay their Salton Sea Restoration Limit funding contributions in lump-sum payments or installments. Coachella and San Diego opted to pay their contribution amounts as lump-sum payments

[12] We based our projections for Proposition 84 funding on the total amount due to the Restoration Fund under the proposition, less estimated bond issuance costs, less the amount deposited into the Restoration Fund as of June 30, 2013.

in fiscal year 2004–05; adjusted for interest, these contributions totaled roughly $21 million. In contrast, Imperial chose to pay its contribution in installments beginning in 2003 and ending in 2047, at which time it will have paid about $47 million in total. Thus, the total combined contribution of Salton Sea Restoration Limit funds by all three local water agencies will be approximately $68.6 million.

Table A also presents amounts expended over the past three fiscal years from the Restoration Fund by major category. Over the 10-year period, the Restoration Fund's expenditures totaled roughly $17.9 million. During this same period, it received a total of $32.3 million in funds—including $200,000 in interest not shown in Table A—a difference of $14.4 million. However, due to encumbrances and adjustments totaling approximately $5.4 million, the available fund balance as of June 30, 2013, was nearly $9 million.[13] Table A identifies each of the departments' expenditures during our audit period by major category. As shown, Fish and Wildlife expended nearly $4 million, largely for personnel costs that it incurred implementing the Species Conservation Habitat Project and monitoring activities related to its interagency agreement with Water Resources. Water Resources incurred $6.4 million in expenditures during our audit period, the majority of which were related to costs for contracts it entered into with consultants. We describe the purposes of these expenditures in more detail in the Audit Results.

[13] *Encumbrances* are commitments for goods or services that have been ordered or contracted for but have not yet been received.

Table A

Salton Sea Restoration Fund's Funding Sources and Expenditures for Fiscal Years 2003–04 Through 2012–13, and Anticipated Future Funding

FUNDING SOURCE	FISCAL YEAR 2003–04 THROUGH 2009–10	2010–11	2011–12	2012–13	TOTAL FOR 2010–11 THROUGH 2012–13	TOTAL AS OF JUNE 30, 2013	ANTICIPATED FUNDING	TOTAL FUNDING
Proposition 84—The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 *	$1,589,700	$3,846,400	$1,991,200	$1,578,400	$7,416,000	$9,005,700	$36,349,300	$45,355,000
Salton Sea Restoration Limit Funds†	21,961,700	467,500	300,400	348,000	1,115,900	23,077,600	45,488,200	68,565,800
Total Funding Sources	**$23,551,400**	**$4,313,900**	**$2,291,600**	**$1,926,400**	**$8,531,900**	**$32,083,300**	**$81,837,500**	**$113,920,800**

AGENCY	EXPENDITURES	FISCAL YEAR 2003–04 THROUGH 2009–10	2010–11	2011–12	2012–13	TOTAL FOR 2010–11 THROUGH 2012–13	TOTAL AS OF JUNE 30, 2013
California Department of Fish and Wildlife (Fish and Wildlife)	Personnel		$811,100	$982,500	$963,300	$2,756,900	
	Operating Expenses and Equipment		187,100	163,600	213,000	563,700	
	Indirect Costs		331,500	52,700	218,000	602,200	
	Subtotals	**$6,897,100**	**$1,329,700**	**$1,198,800**	**$1,394,300**	**$3,922,800**	**$10,819,900**
California Department of Water Resources (Water Resources)	Personnel		514,800	458,800	521,100	1,494,700	
	Consultant Costs		2,270,300‡	1,585,300	625,400	4,481,000	
	Operating Expenses and Equipment		37,500	7,800	14,400	59,700	
	Indirect Costs		136,300	118,600	143,800	398,700	
	Subtotals	**$670,200**	**$2,958,900**	**$2,170,500**	**$1,304,700**	**$6,434,100**	**$7,104,300**
Total Expenditures		**$7,567,300**	**$4,288,600**	**$3,369,300**	**$2,699,000**	**$10,356,900**	**$17,924,200**

Sources: California Fish and Game Code, Public Resources Code, Water Code, the Quantification Settlement Agreement, interviews with officials from Fish and Wildlife and Water Resources, and the California State Auditor's analysis of various Fish and Wildlife's California State Accounting and Reporting System reports and Water Resources' interagency agreement invoices.

Note: Fiscal years 2003–04 through 2009–10 are outside the audit period and thus the amounts for these years are unaudited and expenditures are not presented by major category.

* The Proposition 84 bond act provides the Salton Sea Restoration Fund (Restoration Fund) with a set amount of funding that is not adjusted for inflation. Of the roughly $36.3 million in anticipated future funding, approximately $33.6 million has been appropriated to the Restoration Fund, nearly all of which was appropriated in the fiscal year 2013–14 Budget Act. Proposition 84 authorized a total of $47 million for the Restoration Fund; however, a portion of this amount is reserved for estimated bond issuance costs, leaving $45.4 million available to the Restoration Fund.

† The Coachella Valley Water District and the San Diego County Water Authority opted to pay their Salton Sea Restoration Limit funding contributions in lump sums in fiscal year 2004–05. The Imperial Irrigation District opted to make its contribution in annual payments beginning in 2003 and ending in 2047; it pays interest on the unpaid balance at an annual rate of 6 percent.

‡ This amount is less than the total shown in Table 3 on page 33 because it does not include expenditures that were accrued in fiscal year 2009–10 but were actually paid in fiscal year 2010–11.

CALIFORNIA natural resources AGENCY

EDMUND G. BROWN JR., *Governor*
JOHN LAIRD, *Secretary for Natural Resources*

October 31, 2013

Elaine M. Howle, CPA
California State Auditor
621 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for providing the Agency with an opportunity to respond to the Bureau of State Audits (BSA) Audit of the Salton Sea Restoration Fund. We appreciate the efforts of your staff to work with all of the various entities responsible for Salton Sea restoration and feel that the resulting Audit provides a thorough review of the issues facing the region as well as thoughtful recommendations to further align and focus efforts at the Sea. The Natural Resources Agency doesn't have any concerns with the recommendations made by the audit and looks forward to working with the Legislature on this very important issue.

Sincerely,

John Laird
Secretary for Natural Resources

cc: Members of the Legislature
Office of the Lieutenant Governor
Little Hoover Commission
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press