

# Mill Assessment Study Mill Alternatives Concept Paper

December 2, 2022  
Agreement #21-C0060

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## Executive Summary

Crowe LLP (Crowe) prepared this Mill Alternatives Concept Paper (Concept Paper) on behalf of the Department of Pesticide Regulation (DPR) as part of the Mill Assessment Study. This Concept Paper provides Crowe's initial proposals for DPR's primary funding mechanism – the mill assessment – and serves as a foundational tool to successfully meet the Mill Assessment Study's objectives. This Concept Paper has three (3) primary goals:

1. Outline mill design, usage, and implementation considerations for review and feedback by DPR and interested stakeholders that will support the refinement of mill fee recommendations
2. Offer potential mill fee funding models for review and feedback by DPR and interested stakeholders
3. Communicate the remaining Mill Assessment Study milestones through the end of the contract period (June 2023).

Following the release of this Concept Paper, Crowe will conduct focus group sessions with stakeholders in December and January and will request all public comments on this paper by January 13, 2023. Comments received on the Concept Paper will inform the development of Crowe's Mill Assessment Study draft recommendations to be released in Spring 2023.

We expect in most cases the content described in this Concept Paper will be further developed and refined through concerted review and feedback by DPR and interested stakeholders. Our intent is to move the mill fee development process along by providing possible design, usage, and implementation concepts that can be enhanced and clarified by both DPR and interested stakeholders to promote full transparency in meeting the Mill Assessment Study's objectives.

This Concept Paper contains the following seven (7) sections:

- 1. Development of Mill Concepts and Guiding Principles** – We first summarize our work to-date on the Mill Assessment Study, including an overview of our program analysis, research, and interviews. We then provide an overview of mill concepts and guiding principles that will support the refinement of our eventual mill fee recommendations. The mill concepts presented in this Concept Paper reflect a “menu” of three increasingly detailed levels of mill assessment considerations. The eventual mill fee recommendations will reflect a combination of these components. The guiding principles presented in this Concept Paper were developed earlier in the Mill Assessment Study process and reflect criteria we will evaluate mill concepts against. Together, the mill considerations and guiding criteria establish a systematic approach to meet the Mill Assessment Study objectives.
- 2. Mill Design** – In this section, we describe mill design related considerations for review and feedback by DPR and interested stakeholders. Mill design considerations address how mill fees should be set and how they should be structured to provide a sustainable funding source for DPR that incentivizes sustainable pest management (SPM).
- 3. Mill Usage** – In this section, we describe mill usage related considerations for review and feedback by DPR and interested stakeholders. Mill usage considerations address what programmatic expenditures and other incentives should be covered by mill fees to continue to support DPR's mission.
- 4. Mill Implementation** – In this section, we describe mill implementation related considerations for review and feedback by DPR and interested stakeholders. Mill implementation considerations address when and how the mill fees should be implemented, monitored, and reviewed. Implementation considerations also address mill fees and their impact to DPR's overall funding sources to assure the department's key funding source is carefully assessed on an ongoing basis.

5. **Potential Proposed Mill Fee Funding Models** – In this section, we propose three (3) mill fee funding models, one (1) flat rate model and two (2) tiered models, for consideration by DPR and interested stakeholders.
6. **Potential Mill Fee Funding Models Not Proposed** – In this section, we provide background research and our rationale for excluding specific potential mill fee funding models for further consideration.
7. **Mill Assessment Study Next Steps and Milestones** – In this last section of the report, we provide details on the next steps and remaining milestones of the Mill Assessment Study. We first describe how we will leverage feedback from DPR and interested stakeholders on this Concept Paper and how we will conduct detailed analysis using the guiding principles to develop our mill fee recommendations. We conclude the report by detailing the Mill Assessment Study's remaining milestones to provide DPR and interested stakeholders with an understanding of planned timelines, activities, and outcomes to meet the Mill Assessment Study's objectives by June 2023.

## A. Mill Design, Usage, and Implementation Considerations

This Concept Paper outlines mill design, usage, and implementation related considerations for feedback and review by DPR and interested stakeholders. Below is a description of the considerations described in this Concept Paper:

- **Design considerations** cover the legal authority of the mill, how the mill is set initially and, in the future, the structure of the fee, alignment of the fee, and approaches to revenue stabilization
- **Usage considerations** cover how revenue from the mill is utilized by DPR and County Agricultural Commissioners (CACs), clarifying the types of programs to be funded, including alternatives that would utilize mill revenues to positively incentivize sustainable pest management activities
- **Implementation considerations** address the timing of the mill fee implementation and how mill revenue is monitored and adjusted over time. More broadly, we also consider how mill revenue is integrated with DPR's other funding sources within implementation.

**Exhibit 1** provides a summary overview of mill considerations, which is further described in the next several sections. The eventual mill recommendations must include design, usage, and implementation considerations. Within those high-level considerations, the eventual mill recommendations must address the mid-level considerations identified in the darker gray boxes in Exhibit 1 – setting, structure, funding for programmatic needs, funding for positive incentives, and timing. Each bullet within the lighter gray boxes represents a detailed level consideration of the mill with specific alternatives.

**Exhibit 1  
Summary Overview of Mill Considerations**

<b>Design</b>	<b>Setting</b>	<b>Structure</b>
	<ul style="list-style-type: none"> <li>• In Statute and Regulation</li> <li>• Alignment with Statutory Mandates and Regulation</li> <li>• Alignment with Program Expenditures</li> <li>• Alignment with Sustainable Pest Management (SPM)</li> <li>• Revenue Stabilization</li> </ul>	<ul style="list-style-type: none"> <li>• Tiered Rate vs. Flat Rate</li> <li>• Reserve Mechanism</li> </ul>
<b>Usage</b>	<b>Funding for Programmatic Needs</b>	<b>Funding for Positive Incentives</b>
	<ul style="list-style-type: none"> <li>• Program Core Needs</li> <li>• Program SPM Needs</li> <li>• County Agricultural Commissioner (CAC) Needs</li> <li>• Other Needs</li> </ul>	<ul style="list-style-type: none"> <li>• Research and Grants</li> <li>• Environmental and Human Health Monitoring</li> <li>• Registration of New Alternative Products</li> <li>• Other Positive Incentives</li> </ul>
<b>Implementation</b>	<b>Timing</b>	<b>Funding Source</b>
	<ul style="list-style-type: none"> <li>• Phased In</li> <li>• One-Time</li> <li>• Review, Monitoring, and Future Adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• Mill Funding</li> <li>• Registration Funding</li> <li>• Licensing and Certificating Funding</li> <li>• General Fund</li> <li>• Other: AB32, U.S. EPA</li> </ul>

## B. Potential Mill Fee Funding Models

This Concept Paper outlines three (3) potential mill fee funding models for feedback and review by DPR and interested stakeholders. It is important to note that the potential mill fee models described within this Concept Paper do not reflect Crowe's final mill fee recommendations and do not account for how much revenue will be derived from each approach. Our intent is to provide DPR and interested stakeholders with potential mill fee models for consideration to build upon using the design, usage, and implementation concepts described in this paper. Below is a description of the three (3) models described in this Concept Paper:

- **Flat Fee Model:** is consistent with the current mill fee structure and would generate mill revenue by assessing a flat rate on pesticide sales
- **Tiered Fee Model Based on Levels of Pesticide Category Workload:** generates mill revenue by assessing a tiered rate on pesticide sales based on pesticide group categories
- **Tiered Fee Model Based on Levels of Pesticide Product Workload:** generates mill revenue by assessing an additional fee on pesticide sales for those products that require a higher degree of activity (i.e., level of workload to regulate, monitor, and assess pesticides).

## C. Next Steps and Milestones

As a next step, Crowe will obtain input from DPR and interested stakeholders on the mill design, usage, and implementation considerations along with the potential mill fee funding models described in this Concept Paper. Crowe will then use this input to refine the mill considerations, options, and alternatives, to further inform our detailed analysis, and then to support the refinement of mill fee recommendations.

# 1. Introduction







## A. Purpose

Crowe LLP (Crowe) prepared this Concept Paper on behalf of the Department of Pesticide Regulation (DPR) as part of the Mill Assessment Study. This Concept Paper provides Crowe’s initial proposals for DPR’s primary funding mechanism – the mill assessment – and serves as a foundational tool to successfully meet the study’s six (6) objectives, listed in **Exhibit 2**. This Concept Paper has three (3) primary goals:

1. Outline mill design, usage, and implementation considerations for review and feedback by DPR and interested stakeholders that will support the development of our mill fee recommendations
2. Offer potential mill fee funding models for review and feedback by DPR and interested stakeholders
3. Communicate the remaining Mill Assessment Study milestones through the end of the contract period (June 2023).

Crowe will use this Concept Paper to seek feedback from DPR and interested stakeholders as an input, in addition to our analysis, to guide our efforts going forward. Following the release of this Concept Paper, Crowe will conduct focus group sessions with stakeholders in December and January and will request all public comments on this paper by January 6, 2023. Comments received on the Concept Paper will inform the development of Crowe’s Mill Assessment Study draft recommendations to be released in Spring 2023.

### Exhibit 2 Mill Assessment Study Objectives

	<p>Examine current and future funding needs for DPR while also considering the County Agricultural Commissioners (CAC) funding associated with mill-related responsibilities.</p>
	<p>Examine existing structure and rate of the mill assessment.</p>
	<p>Examine current and future revenues produced by that structure and rate.</p>
	<p>Examine detailed options that incentivize the use of safer sustainable pest management practices across the state of California.</p>
	<p>Examine incentivization options, including “tiering the mill assessment,” to incentivize the use of safer pest management tools, as well as evaluating strategies for linking how revenues are collected to the broader mission of DPR.</p>
	<p>Examine long-term sustainable funding that allows DPR to continue to fulfill its mission.</p>

## B. Background

In February 2022, DPR contracted with Crowe to conduct a study on the mill assessment, engage and consult DPR stakeholders throughout the various stages of the study, and issue a final report outlining proposed mill options. Crowe will provide DPR with a detailed plan including mechanisms to implement the options recommended as a result of the study.

Over the past decade, DPR has experienced an expansion in its workload as a result of new laws, regulations, court orders, and other demands. In the Fiscal Year (FY) 2021-22 state budget, DPR was allocated one-time General Funds to embark on a comprehensive study of its mill assessment that examines:

- The existing structure and rate of the mill assessment
- Current and future funding needs for DPR, including strategies for linking how revenues are collected to support DPR's broader mission objectives
- Existing County Agricultural Commissioners (CAC) funding associated with mill-related responsibilities and future needs
- Detailed options that incentivize the use of safer sustainable pest management across the state of California
- Current and future revenues produced by proposed structures and rates to provide long-term sustainable funding that allows DPR to continue to fulfill its mission.

### Safe and Sustainable Pest Management

In the FY2022-23 Budget Summary, the Governor's Office reported the following:

*"As part of its mission, the Department of Pesticide and Regulation is working to accelerate the transition to safer, more sustainable pest management practices that protect human health and the environment. This transition includes a focus on the effectiveness of pest management in maintaining public safety, supporting food production, and protecting California's natural resources, with an emphasis on broad compliance efforts. Enhanced enforcement of the state's pesticide use laws and regulations will further improve the health of communities across the state, including workers, and protect the environment."*

To advance this transition, the 2021 Budget Act allocated funds to enhance existing scientific and grant programs that promote safer, more sustainable pest management practices across the state, support environmental monitoring activities, and strengthen enforcement and community engagement activities. This included funding for a sustainable pest management work group and the mill assessment study to identify future options that "provide sustainable, long-term funding and support safer, more sustainable pest management practices."



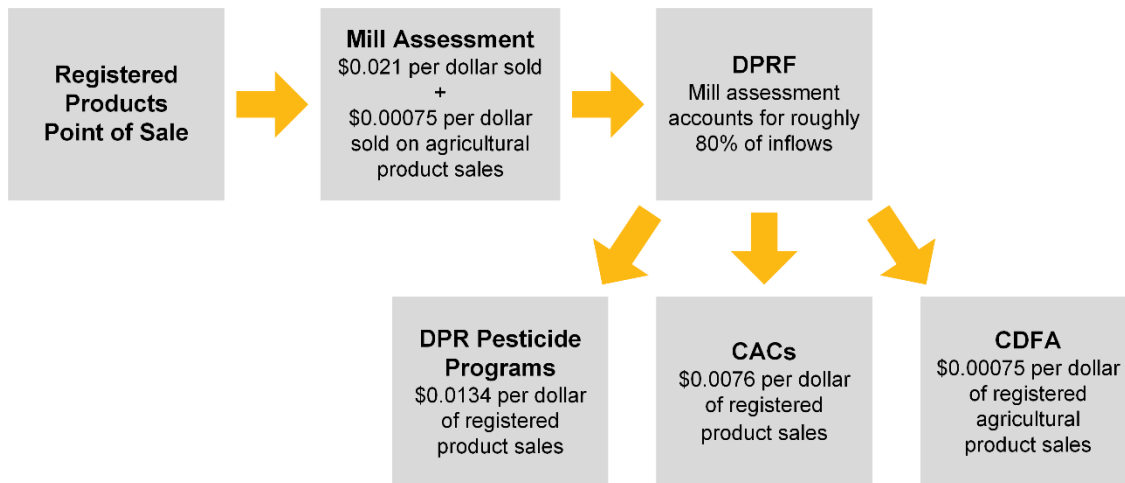
### Profile of the Mill Assessment

DPR’s primary funding mechanism, a mill assessment levied on the sale of registered pesticides at the point of first sale into the state, has not been updated in nearly 20 years. The current mill assessment fee was established in 2004 and is currently set<sup>1</sup> at a rate of 21 mills, or 2.1 cents on each dollar of registered pesticide product sales. DPR assesses an additional 0.75 mills, or .00075 cents on the sale of agricultural use pesticides.<sup>2</sup>

DPR’s mill assessment revenues flow into the Department of Pesticide Regulation Fund (DPRF), as illustrated in **Exhibit 3**, pursuant to FAC section 12841(g). Approximately 80 percent of the DPRF’s revenue is generated by inflows from the mill assessment. Other revenue sources that flow into the DPRF include fees on pesticide registrations and professional licenses, which account for roughly 20 percent of the fund’s inflows. Mill assessment revenues provide funding for the following:

1. DPR’s Pesticide Programs and Administration: Mill assessment revenues derived from 13.4 out of 21 mills levied on registered pesticide product sales fund the Department’s various Pesticide Programs and Administrative branches. DPR receives roughly 63.8 percent of mill assessment revenues. DPR’s programs are also funded by fees on pesticide registrations and professional licenses
2. County Agricultural Commissioner (CACs): Mill assessment revenue derived from 7.6 mills out of 21 mills levied on registered pesticide product sales is distributed to California’s 55 CACs performing local pesticide enforcement activities pursuant to federal and state pesticide laws and regulations. The CACs receive roughly 36.2 percent of mill assessment revenues
3. California Department of Food and Agriculture (CDFA): Mill assessment revenue derived from 0.75 mills levied on the sale of registered agricultural use pesticides funds the CDFA’s Consultation and Analysis Unit (CAU). The CAU focuses on potential pesticide regulatory impacts and pest management alternatives that may mitigate or prevent such impacts on production agriculture.

**Exhibit 3**  
**Mill Assessment Flow**



<sup>1</sup> The maximum assessment rate is set by statutes in California Food and Agricultural Code (FAC) sections 12841/12841.1. The Director sets the actual rate by regulation in Title 3 of the California Code of Regulations (3 CCR) section 6386 (Established Rate).

<sup>2</sup> FAC section 12841.1(a) requires an additional assessment be collected on sales of all pesticides, except those labeled solely for home, industrial, or institutional use. Therefore, a pesticide label that contains any "agricultural use" sites and applications will be subject to the additional mill assessment.

## 2. Development of Mill Considerations and Guiding Principles

The development of this Concept Paper reflects over seven months of detailed program analysis, research, and outreach to DPR's stakeholders as part of the Mill Assessment Study. Below is a summary of Crowe's work to-date:

- **Program Analysis:** At the inception of the Mill Assessment Study, Crowe conducted 14 interviews with DPR's subject matter experts (SMEs) to understand and document the department's overall existing program priorities and needs. Crowe analyzed DPR's historical program data, including but not limited to: pesticide sales data (MillPay), pesticide usage data (Pesticide Use Report (PUR)), and registration and licensing data. Crowe also analyzed DPR's fiscal data (e.g., detailed historical expenditures and revenues by program) and conducted a detailed workload analysis to understand and identify the department's existing and future resource needs by program to continue to meet its mission. Crowe evaluated CAC funding over the last eight (8) workload years, conducted a survey of CACs to obtain a general understanding of current and future program needs and conducted several group and one-on-one meetings with CACs.
- **Research:** Crowe also conducted extensive research on funding pesticide regulatory programs, including but not limited to: benchmarking USEPA and other state and countries' pesticide funding frameworks, reviewing DPR's 2003 report to the legislature, and reviewing the Government Accounting Office's (GAO) various studies and best practices on setting user and regulatory fees. Crowe also reviewed various scientific periodicals and papers on agricultural production, pesticide policies, and regulatory structures.
- **Outreach:** Since the inception of the Mill Assessment Study, Crowe has conducted over forty interview sessions with DPR's stakeholders, listed in **Appendix A**. In general, the objectives of these interview sessions were to provide stakeholders with an update on the Mill Assessment Study progress, to obtain stakeholders' various priorities and perspectives related to DPR's mission, pesticide regulatory activities, and sustainable pest management activities, and to obtain their input on potential mill assessment evaluation criteria.

Based on our work to-date on the Mill Assessment Study, Crowe has identified mill considerations along with a set of principles to guide the development and analysis of our mill fee recommendations. The concepts detailed in this paper refer to the design, usage, and implementation "considerations" or factors and other decisions to develop potential mill funding models. The guiding principles detailed in this paper refer to the criteria we will leverage to evaluate potential mill funding models. Together, the mill considerations and guiding principles detailed in this Concept Report will be integral to supporting the eventual development of our mill fee recommendations.

### A. Mill Considerations

Developing regulatory fees such as the mill requires review, analysis, and decision-making on multiple factors reflecting multiple levels of detail. For example, these factors may include, but are not limited to: how the fee is legally authorized, how the fee level is set, how the funds raised by fee revenues are utilized, how the fee is implemented, and how the fee is monitored, reviewed, and adjusted over time. To account for the varying levels of review, analysis, and decision-making at hand as part of this Mill Assessment Study, Crowe categorized key mill fee "concepts" or development factors into the following three (3) consideration levels:

- **Level 1 Considerations** refer to the first and most fundamental level of fee development and includes design, usage, and implementation considerations
- **Level 2 Considerations** refer to the second and more nuanced level of fee development; within each of the three (3) considerations we have identified two (2) options that address more specific elements
- **Level 3 Considerations** refer to the third and more specific level of fee development; within each option we identify several alternatives or choices.

**Exhibit 4** provides a summary overview of mill considerations, which is further described in the next several sections. The eventual mill recommendations must include design, usage, and implementation considerations. Within those considerations, the eventual mill recommendations must address the other considerations identified in the darker gray boxes in Exhibit 4 – setting, structure, funding for programmatic needs, funding for positive incentives, and timing. Further, each bullet within the lighter gray boxes represents a potential feature of the mill. The eventual mill assessment recommendations will represent a combination of specific considerations that address design, usage, and implementation. Level 2 “Funding Source” is included because it is important to consider mill revenue within the broader construct of DPR’s other current and potential funding sources.

**Exhibit 4  
Summary Overview of Mill Considerations**

<b>Design</b>	<b>Setting</b>	<b>Structure</b>
	<ul style="list-style-type: none"> <li>• In Statute and Regulation</li> <li>• Alignment with Statutory Mandates and Regulation</li> <li>• Alignment with Program Expenditures</li> <li>• Alignment with SPM</li> <li>• Revenue Stabilization</li> </ul>	<ul style="list-style-type: none"> <li>• Tiered Rate vs. Flat Rate</li> <li>• Reserve Mechanism</li> </ul>
<b>Usage</b>	<b>Funding for Programmatic Needs</b>	<b>Funding for Positive Incentives</b>
	<ul style="list-style-type: none"> <li>• Program Core Needs</li> <li>• Program SPM Needs</li> <li>• CAC Needs</li> <li>• Other Needs</li> </ul>	<ul style="list-style-type: none"> <li>• Research and Grants</li> <li>• Environmental and Human Health Monitoring</li> <li>• Registration of New Alternative Products</li> <li>• Other Positive Incentives</li> </ul>
<b>Implementation</b>	<b>Timing</b>	<b>Funding Source</b>
	<ul style="list-style-type: none"> <li>• Phased In</li> <li>• One-Time</li> <li>• Review, Monitoring, and Future Adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• Mill Funding</li> <li>• Registration Funding</li> <li>• Licensing and Certificating Funding</li> <li>• General Fund</li> <li>• Other: AB32, U.S. EPA</li> </ul>

## Overview of Level 1 Mill Considerations

Level 1 mill considerations refers to the three (3) major elements that make up the overall mill fee framework: design, usage, and implementation. These are the fundamental components of the mill fee that must be established to successfully meet the study objectives. Below is a description of these considerations:

- **Design considerations** cover the legal authority of the mill, how the mill is set initially and, in the future, the structure of the fee, alignment, and approaches to revenue stabilization
- **Usage considerations** cover how revenue from the mill is utilized by DPR, clarifying the types of programs to be funded, including alternatives that would utilize mill revenues to positively incentivize sustainable pest management activities
- **Implementation considerations** address the timing of the mill fee implementation and how mill revenue is monitored and adjusted over time. More broadly, we also consider how mill revenue is integrated with DPR's other funding sources within implementation.

## Overview of Level 2 Mill Considerations

Level 2 mill considerations refer to the next layer of detail in developing the mill fee. Within each of the level 2 mill considerations, there are several decisions to be made that will ultimately define how the mill is designed, used, and implemented. Below is a list of level 2 mill considerations:

- **Setting** – Refers to the mechanism by which the mill is formally established, alignment of the mill, level of the mill, and extent to which the mill provides a stable revenue source. It answers the following questions:
  - Is the mill fee set in statute, or authorized in statute and set in regulation?
  - Is the mill aligned with statutory mandates, regulation, program expenditures, and incentivizing SPM?
  - Is the mill set to provide a stable revenue source?
- **Structure** – Refers to the basic construction of the mill:
  - Is it set at a single value?
  - Is it set at multiple different values based on established criteria (e.g., tiered)?
  - Does the mill structure provide for a funding reserve?
- **Programmatic Needs** – Defines how, and to what extent, mill revenues are utilized to cover DPR's programmatic needs. This includes how mill revenue could be utilized to further DPR's objective of incentivizing safer sustainable pest management:
  - What portion of unbudgeted core programmatic needs are funded by the mill?
  - What portion of future SPM programmatic needs will be funded by the mill?
  - At what level does the mill support CACs?
  - What other needs are funded by the mill?
- **Positive Incentives** – Considers how mill revenue could be utilized to support DPR's goal of safer sustainable pest management:
  - How does mill funding support and/or incentivize safer, sustainable pest management?
  - How does the mill support research, education, and/or grants to inform new pest management approaches?
- **Timing** – Considers practical aspects of how the mill is implemented, monitored, and adjusted over time:
  - Is there a built-in structure to adjust the mill in the future?
  - Is the mill fee implemented in a phased approach or as a one-time change?
  - What is the process to review and monitor the mill fee over time?
  - Is there a mechanism to adjust the mill fee over time?
  - How are stakeholders involved in the review process?
- **Funding Source** – Considers mill revenue within DPR's overall funding sources, including potential new sources of funding:
  - How does mill revenue contribute to DPR's overall mix of funding?
  - How do changes to mill revenue levels impact other current and potential DPR funding sources?

## Overview of Level 3 Mill Considerations

As Exhibit 4 illustrates, Crowe defined several detailed considerations within each of the six (6) option categories. The level 3 mill considerations identify the next layer of detail required to establish mill fee recommendations. The eventual recommended mill fee options will reflect a combination of items from this “menu” of level 3 mill considerations. Some of the considerations are exclusive. For example, the recommended mill structure cannot be implemented at one time and phased in. Other considerations are mutually compatible, such as the program expenditure alternatives.

The next several sections describe the specific level 3 considerations, summarize why Crowe selected them, and identify our initial assessment of potential implications and impacts of each. Crowe’s intent is that this Concept Paper offers enough specificity that stakeholders can provide informed perspectives on the potential impact of each consideration, including potential unintended consequences, administrative feasibility, and the extent that these approaches may incentivize safer sustainable pest management.

## B. Guiding Principles

Once DPR and stakeholders have had an opportunity to provide input on the alternatives presented in this Concept Paper, Crowe will then conduct a detailed review and analysis of each alternative compared against a set of guiding principles in order to develop mill fee recommendations that substantively meets the Mill Assessment Study’s objectives. The guiding principles, introduced earlier in the study, are summarized in **Exhibit 5**, and account for key take-aways from Crowe’s program analysis, research, and interviews with DPR’s stakeholders. In **Appendix B**, *Mill Assessment Study Guiding Principles Criteria*, we provide additional details on how Crowe will leverage DPR and interested stakeholders’ feedback on this Concept Paper along with our analysis using these guiding principles to develop our eventual mill fee recommendations.

### Exhibit 5 Mill Assessment Study Guiding Principles

	Provide a sustainable long-term funding source for the Department		Incentivize safe, sustainable pest management
	Align with the Department's mission, emerging priorities, and legal requirements		Support alignment of the Department's programmatic activities, including CACs, with appropriate funding sources
	Support the availability of tools, technologies, and practices to address the diverse pest management needs in the State		Incorporate objective measures
	Minimize the potential for unintended consequences		Foster transparency
	Minimize administrative burden		Allow for re-evaluation and refinement

### 3. Mill Design

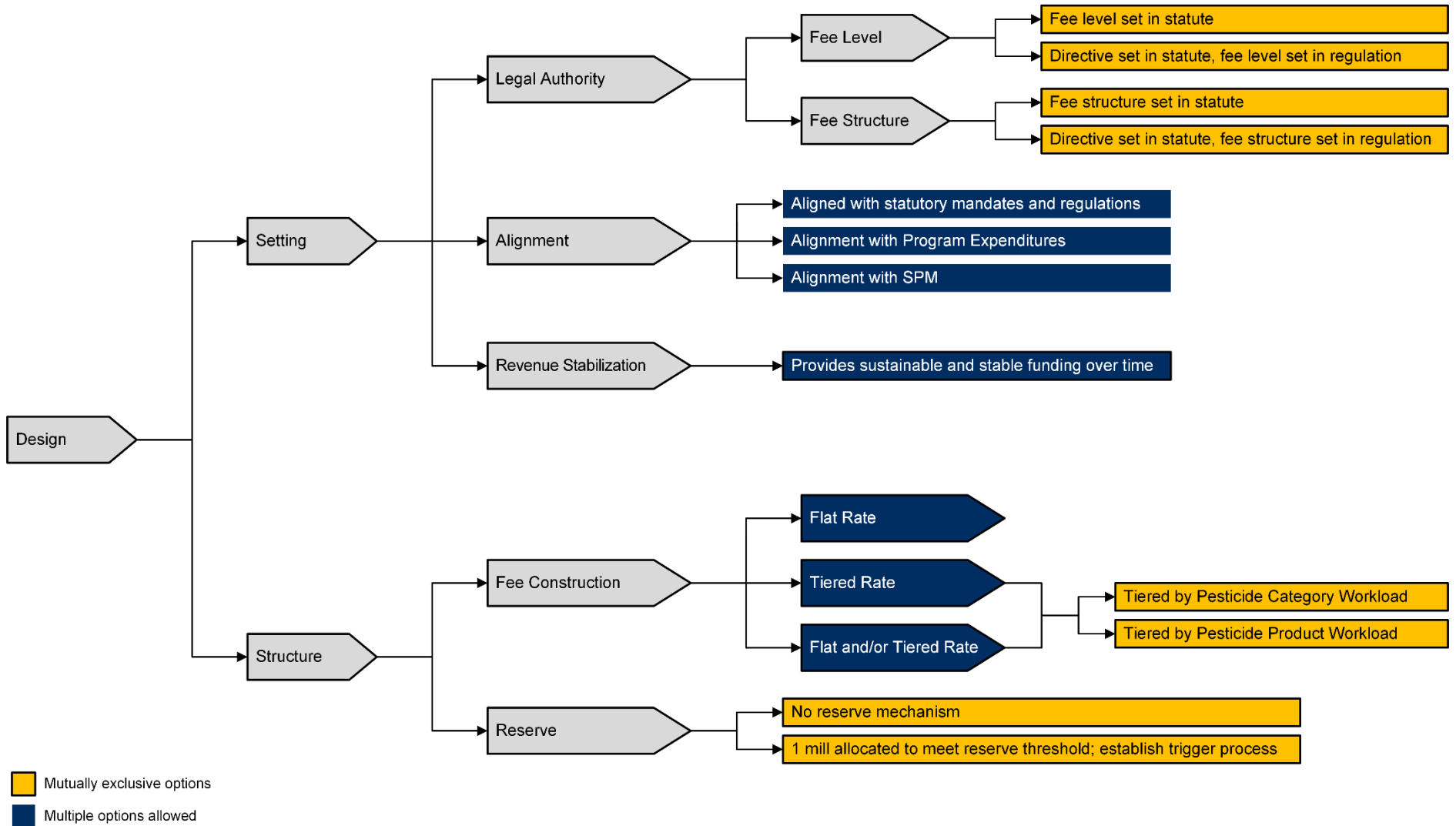
The mill fee's design – how it is set and how it is structured – is foundational to how it can effectively serve as a sustainable funding mechanism to support DPR's mission and how it can be eventually implemented and monitored over time. It is imperative to identify foundational mill fee design considerations as a first step before deciding on how mill fee funds can be utilized to continue to support DPR's mission and how or when an updated mill fee framework can be implemented. Just as important is how the mill's design will support the transition to safer, sustainable pest management.

The mill design considerations, shown in **Exhibit 6**, cover the legal authority of the mill, how the mill is set initially and, in the future, the structure of the fee, and approaches to revenue stabilization. The blue boxes in Exhibit 6 identify alternatives where multiple alternatives can occur at once. For example, the mill assessment can be aligned with statutory mandates and regulations AND aligned with program expenditures AND aligned with SPM at the same time. The yellow boxes represent mutually exclusive alternatives for which a decision must be made.

*Crowe is seeking stakeholders' perspectives on the blue alternatives – should these be part of the final mill recommendations, and why? Crowe is seeking stakeholders' perspectives on the yellow alternatives – which of these mutually exclusive alternatives do you prefer, and why?*



**Exhibit 6**  
**Mill Fee Design Considerations Decision Tree**



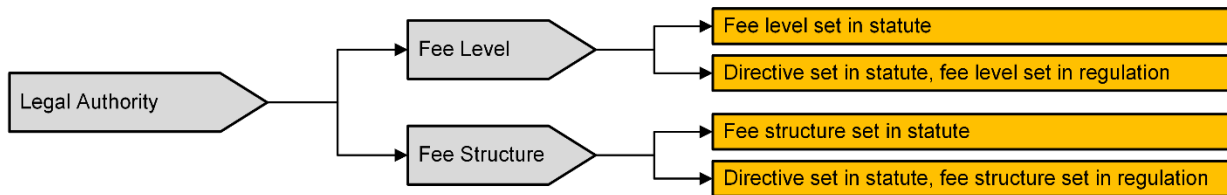
## A. Setting

The mill fee setting considerations described in this section address how the mill is legally established (e.g., in statute, in regulation), how the mill aligns with DPR’s statutory mandates, regulations, and programmatic expenditures, and at what rate(s) the mill is set to provide a stable revenue source for the department.

### In Statute and Regulation

Confirming the legal authorization of DPR’s mill fee is critical to the development of an updated mill fee framework given that the existing laws and regulations authorizing the current mill fee have not been updated in nearly 20 years. A key decision point of this Mill Assessment Study is to consider whether the mill fee level and/or structure is to be set in statute or through regulation, as illustrated in **Exhibit 7**. DPR and interested stakeholders should consider an appropriate legal framework that supports the transition to safer, more sustainable pest management.

**Exhibit 7**  
**Legal Authority Options for Mill Setting**



Currently, the maximum mill fee rate is set in statute through the FAC and the Director sets the actual rate in regulation through the California Code of Regulation (CCR). A key distinction is the FAC authorizes the maximum rate and who gets assessed the mill fee (i.e., the entity or person that first sold the registered pesticide in the state), whereas as the CCR authorizes the Director to establish the actual rate assessed. Below are key excerpts:

- FAC Section 12841.1 establishes the maximum rate: “The rate set by the director shall be no greater than 21 mills (\$0.021). However, if regulations are not adopted before a payment is due, payment shall be made at the rate of 17.5 mills (\$0.0175), and, upon adoption of regulations, payment of any additional amount due shall be made”
- Title 3 of CCR Section 6368 establishes the rate: “The director establishes the mill assessment on pesticide products at 21 mills (0.021) per dollar of sales for all sales of registered pesticides for use in this state pursuant to FAC Section 12841.”

Considering whether the mill fee rate and structure is set in statute or through regulation matters because the Legislature and DPR's respective authority will determine the extent to set the scope of an updated mill fee framework that accounts for potential changes in pesticide regulatory needs to support the transition to safer, sustainable pest management. A key implication involving the extent of what entity (either the Legislature or DPR) maintains more control over setting the mill fee is the flexibility to adjust the rate to meet DPR's funding needs in future years. For example, at the federal level, the GAO reports<sup>3</sup> an agency has greater flexibility when they are able to set a fee by regulation as compared to when a fee is set in statute. It is important to distinguish that DPR currently sets registration and licensing fees through regulation, rather than statute.

### **Alignment with Statutory Mandates and Regulations**

Another decision point to consider as part of setting an updated mill fee framework (i.e., rate and structure) is assuring it aligns with DPR's statutory mandates and regulations. DPR's overall authority is primarily coded and described within the FAC, Divisions 2, 6, and 7. DPR's regulations are primarily coded within Title 3 CCR. FAC Section 11501 sets forth DPR's six (6) primary mandates:

1. To provide for the proper, safe, and efficient use of pesticides essential for production of food and fiber and for protection of public health and safety
2. To protect the environment from environmentally harmful pesticides by prohibiting, regulating, or ensuring proper stewardship of those pesticides
3. To assure agricultural and pest control workers of safe working conditions where pesticides are present
4. To permit agricultural pest control by competent and responsible licenses and permittees under strict control of DPR and the County Agricultural Commissioners
5. To assure consumers and users that pesticides are properly labeled and appropriate for the use designed by the label that that state or local government dissemination of information on pesticide uses of any registered pesticide product is consistent with the uses for which the product is registered
6. To encourage the development and implementation of pest management systems, stressing application of biological and cultural pest control techniques with selective pesticides when necessary to achieve acceptable levels of control with the least possible harm to the public health, nontarget organisms, and the environment.

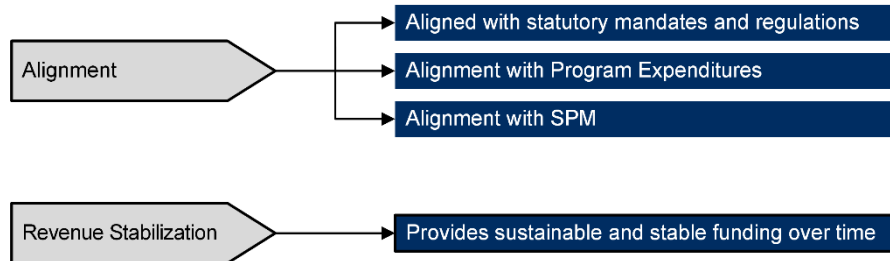
Crowe will analyze how the mill concepts defined through this development process align with DPR's mission, emerging priorities, and legal requirements as part of the next phase of Mill Assessment Study. DPR's mandates reflect a characteristic of most regulatory programs – they support the protection of public benefits through fees charged to regulated entities. This balance is important in aligning the fee with statutory mandates and regulations and in maintaining transparency and opportunities for stakeholder input to the fee-setting process.

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<sup>3</sup> Source: GAO-15-718 Federal User Fees

In **Exhibit 8**, we provide the proposed options related to regulatory alignment and revenue stabilization. Crowe believes these options are all important and that the final mill fee recommendations should be aligned and provide revenue stabilization. DPR and stakeholders may provide feedback on these options.

**Exhibit 8  
Alignment and Revenue Stabilization Options for Mill Setting**



**Alignment with Program Expenditures**

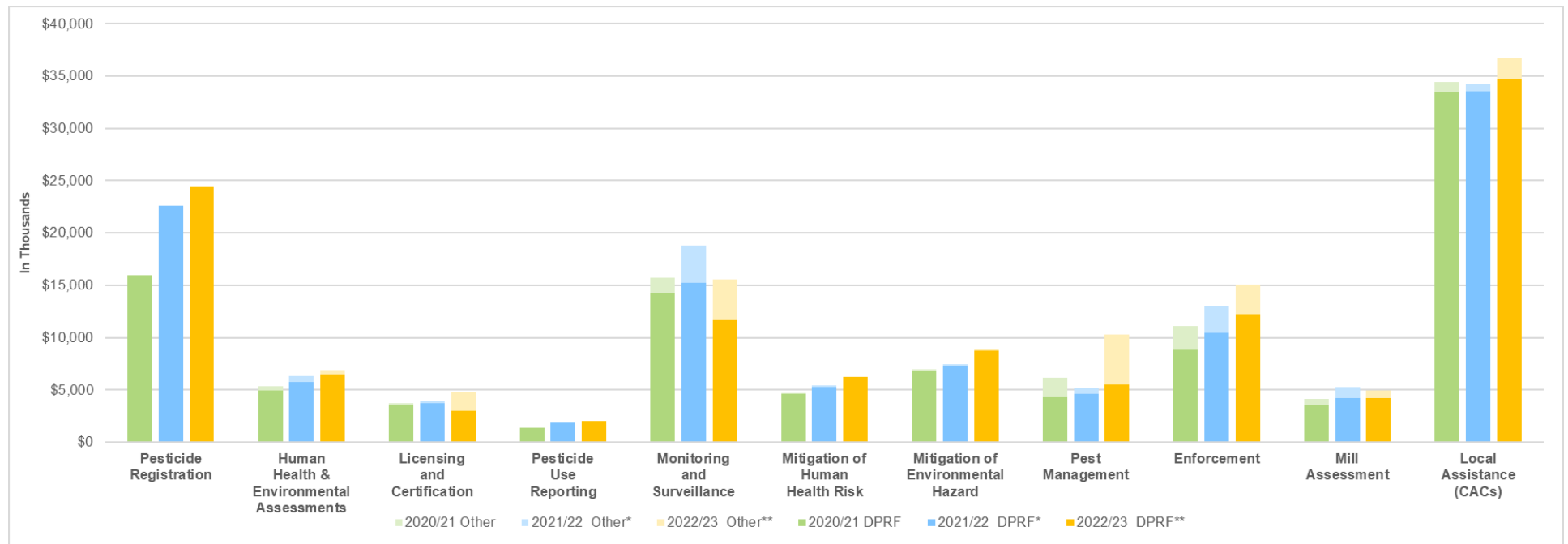
In addition to aligning with DPR’s statutory mandates and regulations, another decision point to consider as part of this Mill Assessment study is how the mill aligns with the department’s programmatic expenditures. We anticipate further discussion with DPR and interested stakeholders on the appropriateness of the mill to cover specific program costs, including the programmatic needs described in Section 4 of this report. In our consultation sessions with stakeholders, we heard varying opinions on the appropriateness of the mill to provide funding for DPR’s pesticide programs.

In **Exhibit 9**, we summarize DPR’s programmatic expenditures from FY2020/21 to FY2022/23 (budgeted). This exhibit identifies programmatic expenditures funded by the DPRF versus programmatic expenditures funded by other sources (e.g., General Fund). Revenue generated from the mill assessment covers most or all program expenditures besides Pesticide Registration, and Licensing and Certification, which are essentially covered by registration and license fees, respectively. Crowe will analyze how the mill concepts defined through this development process support alignment of the Department’s programmatic activities, including CACs, with appropriate funding sources.

**Alignment with SPM**

An additional decision point to consider as part of this study is how the mill aligns with the department’s transition to safer, more sustainable pest management, which is consistent with alignment with DPR’s mission. We anticipate further discussion with DPR and interested stakeholders on the appropriateness of the mill to cover specific SPM related program costs, including the SPM activities described in Section 4 of this report. In our consultation sessions with stakeholders, we heard varying opinions on the appropriateness of the mill to provide funding for SPM. Note that many of DPR’s existing budgeted programs and activities are already aligned with SPM.

**Exhibit 9  
Programmatic Expenditures<sup>4</sup>  
FY2020/21 to FY2022/23**



\* Estimated actual    \*\* Budget

<sup>4</sup> These program totals do not include Fund Users, Pro Rata, or Pension costs.

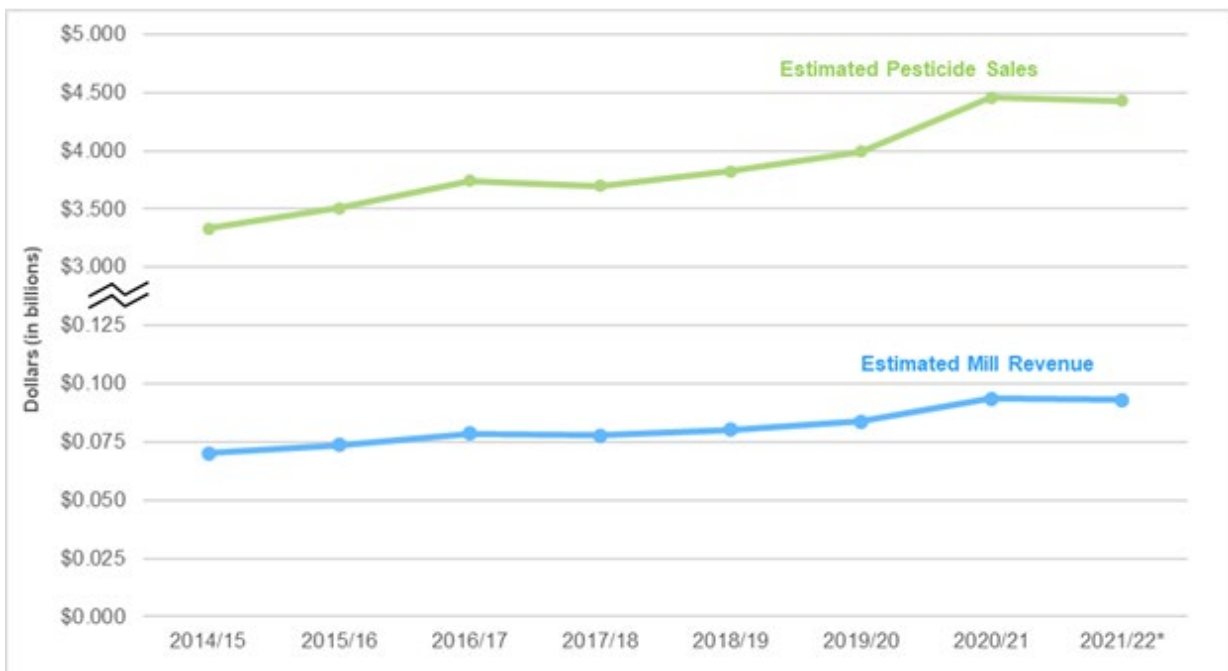
### Revenue Stabilization

A practical matter at hand as part of this Mill Assessment Study is an examination of the current and future revenues produced by the existing mill fee framework. A point of consideration when setting an updated mill fee framework will be establishing a sustainable funding stream to support DPR’s mission while supporting the transition to safe sustainable pest management. For reference, in **Exhibit 10**, we summarize estimated pesticide sales and estimated mill revenue generated from FY2014/15 through FY2021/22.

Another critical area to consider as part of the Mill Assessment Study is the potential loss of mill revenue as pesticide use potentially decreases over time in alignment with shifting to safer sustainable pest management approaches. This dynamic will need to be approached from multiple directions to ensure an updated mill fee framework provides stable revenue for DPR to meet its mission and to minimize budget funding risk. As part of the next phase of the Mill Assessment Study, Crowe will model and analyze varying pesticide sales scenarios to support the development of a mill fee framework that provides a stable revenue source, including modelling the following revenue stabilization mechanisms:

- An additional mill (or more) allocated to maintain a reserve threshold implemented through a trigger process when funding decreases to a certain level
- Building annual increases into the mill to target a specific revenue requirement based on annual pesticide sales projections
- Gradual increases in General Fund or other yet-to-be identified funding sources to “fill in” potential gaps in DPR’s overall funding needs
- Potential other revenue stabilization mechanisms provided as feedback by stakeholders as part of their review of this Concept Paper.

**Exhibit 10**  
**Estimated Pesticide Sales and Mill Revenue**  
**FY2014/15 to FY2021/22**

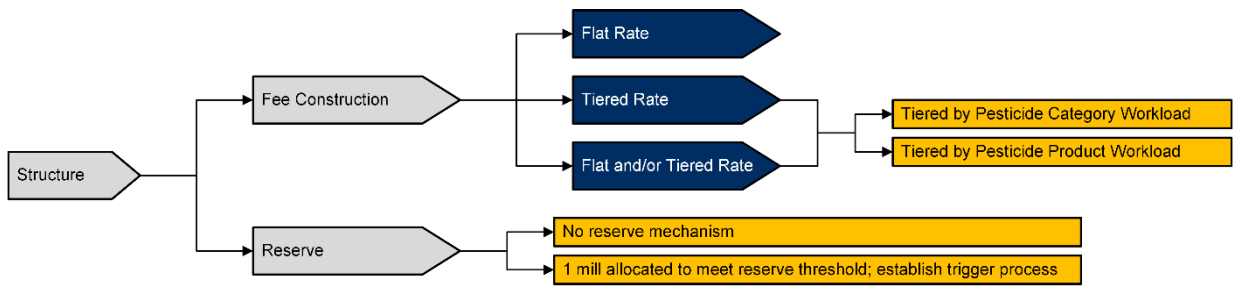


\* Estimated actual

## B. Structure

The mill fee considerations described in this section address structural elements of the mill design. We present options related to the fee construction itself (e.g., flat rate or tiered rate) and provide discussion of options related to a possible mill reserve mechanism. Ultimately, DPR and other stakeholders will need to consider and decide between the mutually exclusive structural mill elements below when evaluating the most effective and sustainable funding mechanism to support DPR’s mission. **Exhibit 11** provides an overview of these structural options. As part of the review of this Concept Paper, Crowe invites feedback on the decisions illustrated in Exhibit 11 (i.e., flat rate/tiered rate/mixed, tiered by pesticide category or pesticide product, etc.).

**Exhibit 11**  
**Structure Options for Mill Design**



### Tiered vs. Non-Tiered vs. Mixed

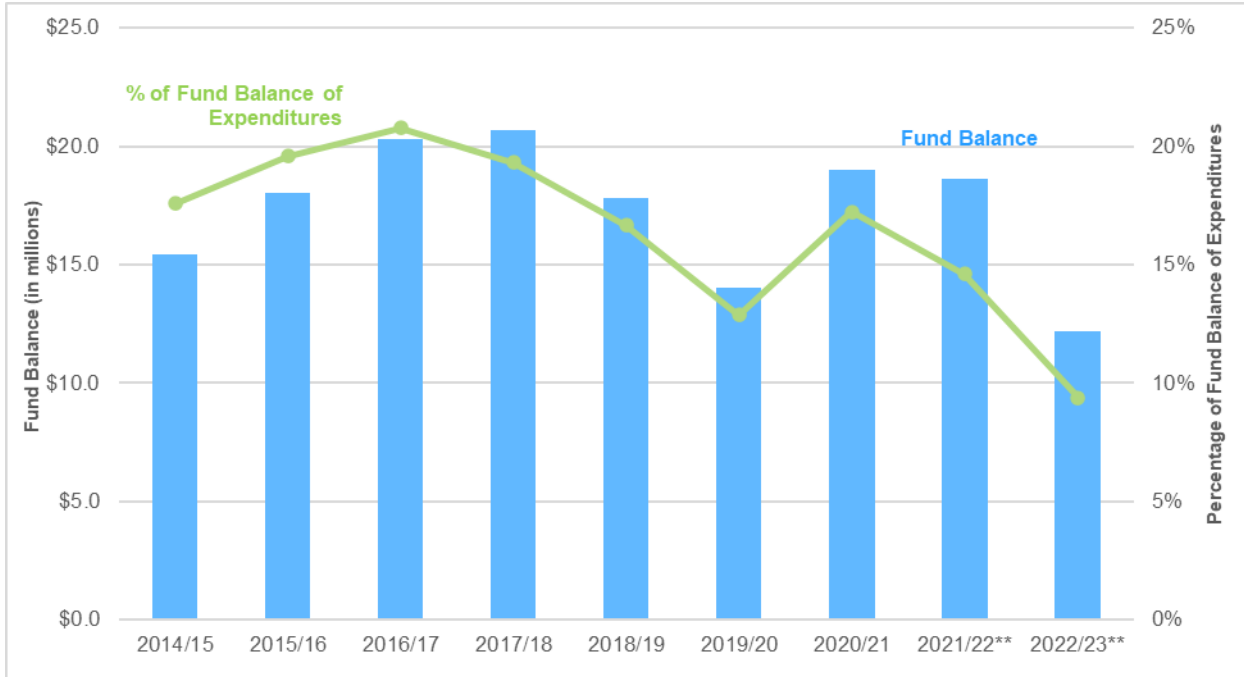
When determining the future structure of the mill, a critical structural decision point is whether to uniformly assess the mill fee or create a tiered mill assessment based on agreed upon criteria. The current mill assessment fee was established in 2004 and is set at a flat, uniform rate of 21 mills, or 2.1 cents on each dollar of registered pesticide product sales. The maximum assessment rate is set by statutes in California Food and Agricultural (FAC) sections 12841/12841.1. DPR levies an additional 0.75 mills, or .00075 cents on the sale of agricultural use pesticides. DPR could choose to adjust the mill amount but maintain the uniform assessment of the mill fee. Conversely, DPR may choose to implement a tiered assessment approach to the mill.

In **Section 6**, we present one potential flat rate and two (2) potential tiered alternatives that Crowe is considering at this point in the mill fee development process. Another approach for consideration could be a mixed rate structure that includes a “base” flat rate and an added tiered rate. In **Section 7**, we describe two (2) additional tiered alternatives the Crowe is not recommending for further consideration at this point in the mill fee development process and the rationale behind this decision.

### Reserve Mechanism

A reserve, fund balance, or unobligated balance measures the financial resources available in a governmental fund. For purposes of the DPRF, the fund balance refers to the resources available at the end of the fiscal year considering the starting balance, adjustments/transfers, revenues, and expenditures. **Exhibit 12** illustrates DPR’s shrinking fund balance through FY2022/23. It is important to note that in FY2020/21, DPR’s expenditures (budget) were reduced by roughly \$7 million as a result of statewide COVID-19 cost reduction mandates, including statewide furloughs and to maintain a higher fund balance. Absent of these budget reductions, DPR’s fund balance would be in a significantly worse situation.

**Exhibit 12**  
**Fund Balance and Percentage of Fund Balance of Expenditures**  
**FY2014/15 to FY2022/23**



\*\* Budget

Crowe’s research found no consistent fund balance policies or practices among government agencies. The Department of Finance does not have a written policy regarding an appropriate fund balance. There is no written statewide policy regarding an appropriate fund balance. However, the Government Finance Officers Association (GFOA) states that “it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.”<sup>5</sup> While the GFOA focus is on fund balances for general funds, it does recommend considering funding adequate reserves for non-general funds.

The Government Accounting Office (GAO), a non-partisan federal agency focused on improving government, recommends “where fees are expected to cover all or most program costs, and especially when program costs do not necessarily decline with a drop in fee collections, a reserve is important.”<sup>6</sup>

GAO does not recommend a specific fund balance level. As it relates to the general fund, GFOA recommends, at a minimum, that the fund balance equal at least two (2) months of regular operating revenues or regular operating expenditures. For the DPRF, this equals a fund balance of approximately \$20 million. Since eighty (80) percent of DPRF revenue is currently generated by the mill, our assumption is that funding for a reserve would be based on mill revenue. **Exhibit 13** summarizes the “No reserve mechanism” alternative, and **Exhibit 14** summarizes the “Funded reserve mechanism” alternative. **Exhibit 15** provides an example of a funded reserve mechanism described in Exhibit 14. Crowe invites stakeholder feedback on these two reserve funding alternatives.

<sup>5</sup> Best Practices: Fund Balance Guidelines for the General Fund. <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>.

<sup>6</sup> GAO, Federal User Fees: Substantive Reviews Needed to Align Port-Related Fees with the Programs They Support. GAO-08-321 (Washington, D.C.: February 22, 2008).



**Exhibit 13**  
**No Reserve Mechanism Description and Rationale**

Description	Rationale
<p>Under the no reserve mechanism alternative, DPR does not specifically address the need for a reserve or funding of a particular reserve level. Rather, DPR continues to allow the fund balance to fluctuate based on revenues and expenditures in any given year, seeking to keep these balanced through the annual budgeting process.</p>	<ul style="list-style-type: none"> <li>• Despite recent fluctuations, DPRF’s balance has been between \$10 million and \$20 million over the last eight years. The DPRF’s FY2021/22 ending balance was \$12.5 million its FY2022/23 budgeted ending balance is \$12.2 million.</li> <li>• Mill revenue, based on projected pesticide sales and maintaining the current mill fee level, is expected to remain stable at about \$95 million per year through 2025.</li> <li>• Given this stability, setting and targeting a particular reserve would add complexity.</li> </ul>

**Exhibit 14**  
**Funded Reserve Mechanism Description and Rationale**

Description	Rationale
<p>Under the funded reserve mechanism, DPR would develop a funding reserve policy and approach that would target a specific reserve level to be maintained. DPR would designate one (1) mill of the overall mill fee to build a reserve/fund balance of \$20 million (or some other specific amount). Crowe selected one (1) mill for this alternative because it would spread the reserve build-up over three years, which is consistent with best practices. Once the \$20 million reserve balance is achieved, the overall mill fee would be reduced by one (1) mill. Should the fund balance drop below the \$20 million threshold, the additional one (1) mill would once again be added to the overall mill fee. Exhibit 15 provides an illustration of this approach. After 3.1 years, the additional one mill would be eliminated, and not assessed again unless the fund balance dropped below \$20 million.</p>	<ul style="list-style-type: none"> <li>• Maintaining a fund balance reserve policy and mechanism is consistent with government accounting best practices, as described above.</li> <li>• The proposed reserve mechanism of an additional mill is only in place when there is a need to increase the fund balance to meet the reserve threshold target. This minimizes the financial impact on registrants while still maintaining a fiscally prudent reserve policy.</li> <li>• This mechanism also supports the sustainability of the DPRF by mitigating potential revenue volatility to assure the fund balance does not drop below the reserve threshold during the transition to safer, sustainable pest management.</li> </ul>

**Exhibit 15**  
**Example Funded Reserve Mechanism (as Described in Exhibit 14)**

Example Description	Example Value
Annual pesticide sales	\$4,500,000,000
Current fund balance	\$6,000,000
Current base mill fee	\$0.021
Example reserve fund fee	\$0.001
Annual revenue from base mill	\$94,500,000
Annual revenue from reserve fund fee	\$4,500,000
Years to reach \$20 million fund balance*	3.1

\* Assuming revenue and expenditures are equal during the three years.

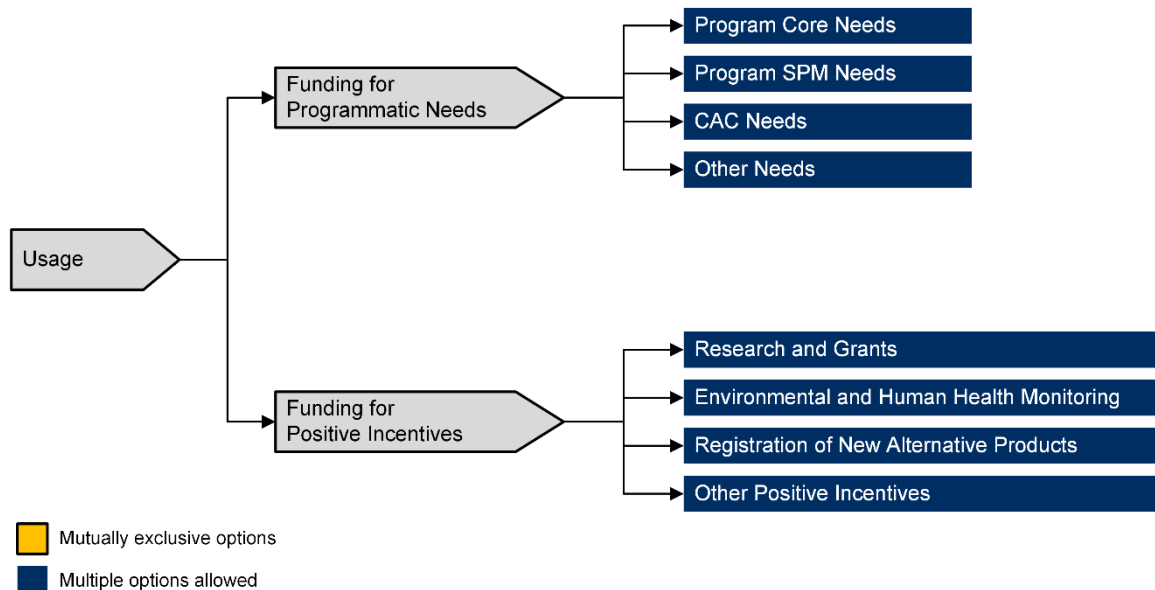
## 4. Mill Usage

In addition to mill design, another important consideration is how the mill is used to continue to support DPR’s mission and to incentive safer sustainable pest management. Mill usage considerations include how revenue from the mill is utilized by DPR, clarification of the types of programs to be funded by the mill, and options that would use mill revenues to positively incentivize sustainable pest management activities. These usage considerations will also have implications for determining the mill fee rate(s). For example, if a decision is made to fund additional programs or activities with mill revenues, this may likely necessitate a higher mill fee to generate additional revenue for DPR. However, as described in Section 5, Funding Allocation, there may be opportunities to supplement mill revenue with revenue from other funding sources. Mill usage considerations described in this section include the following two (2) options: 1) Funding for Programmatic Needs, and 2) Funding for Positive Incentives.

The mill usage considerations, shown in **Exhibit 16**, cover how revenue from the mill is utilized by DPR, and clarifies the types of programs to be funded, including alternatives that would utilize mill revenues to positively incentivize sustainable pest management activities. The blue boxes in Exhibit 16 identify alternatives where multiple alternatives can occur at once.

*Crowe is seeking stakeholders’ perspectives on the blue alternatives – should mill revenues cover these alternatives and why?*

**Exhibit 16**  
**Mill Fee Usage Considerations Decision Tree**

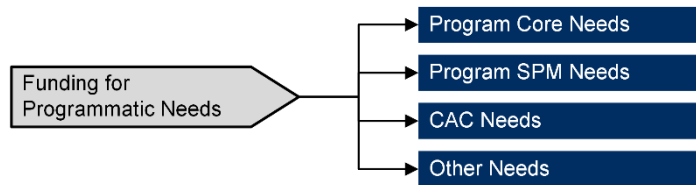


## A. Funding for Programmatic Needs

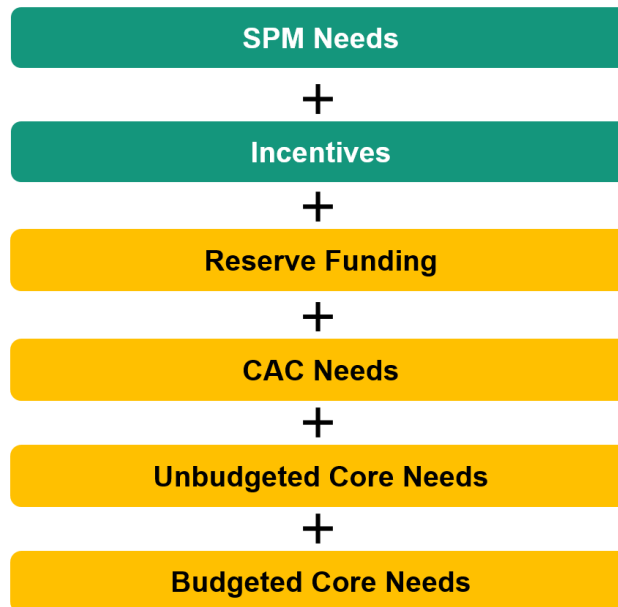
A key decision point of this Mill Assessment Study will be the determination to what extent mill revenues are utilized to finance DPR’s programmatic needs, including how mill revenues could be further utilized to incentivize safe, sustainable pest management. **Exhibit 17** illustrates four (4) categories of programmatic needs that could be funded by mill revenue.

In **Exhibit 18**, we provide a conceptual breakdown of DPR’s programmatic needs. The components in yellow reflect DPR’s core programmatic needs and the components in green reflect other programmatic needs to further support the transition to sustainable pest management. It is important to note there are likely overlaps between core and other programmatic needs and that we categorize DPR’s programmatic needs in these two (2) categories for discussion purposes only.

**Exhibit 17**  
Funding for Programmatic Needs Options



**Exhibit 18**  
Conceptual Breakdown of Programmatic Needs



Crowe is seeking input from stakeholders on the extent to which mill revenue should be utilized to support DPR's programmatic needs. The identification of the appropriateness for the mill to cover DPR's programmatic needs will further support the determination of the total amount of mill revenue DPR must generate on an annual basis. Once the total mill revenue requirement is determined, Crowe will calculate mill fee rate(s) for each of the mill fee funding models described in **Section 6, Proposed Potential Mill Fee Funding Models**.

We summarize DPR's programmatic and positive incentive needs, as follows:

- **Budgeted core needs** reflect the department's existing expenditures covered by mill revenues,<sup>7</sup> we assume these expenditures will continue to be covered by the mill; budgeted core needs could require additional mill revenues, depending on the extent to which mill revenue generated from pesticide sales matches increased personnel costs
- **Unbudgeted core programmatic needs** account for the department's existing unbudgeted "core" workload and indicates potential mill revenue needed to cover the unbudgeted workload. Core needs represents the additional resources that the DPRF needs to fulfill its mission
- **CAC needs** account for additional funding needs to support county-level pesticide regulatory and administration costs. CAC needs represents the additional resources that the CAC needs to fulfill its mission related to DPRF funds
- **Reserve funding** accounts for additional funding to safeguard the DPRF's reserve to mitigate the department's funding risk. Maintaining a fund reserve will help ensure continuity of essential DPR functions including public services
- **Positive incentives** account for additional funding for positive incentives to further support the transition to safer, sustainable pest management. The level of incentives would be based on the activities to be funded, and could include expansion of existing programs as well as new programs
- **SPM programmatic needs** account for the department's preliminary evaluation of SPM Roadmap related workload and indicates potential mill revenue needed to cover the unfunded workload.

### Unbudgeted Core Programmatic Needs

Crowe conducted a workload study to identify DPR's unbudgeted core programmatic needs to continue to meet its mission and ongoing obligations. In coordination with DPR, Crowe identified unbudgeted core workload, including existing gaps and/or inefficiencies, that is putting pressure on DPR's existing resources. In **Exhibit 19**, we summarize core programmatic activities by Branch that would require additional funding for DPR to continue to carry out its mission and statutory mandates. A key question and outcome of this Mill Assessment Study will be to determine what portion of DPR's unbudgeted core needs (i.e., programmatic activities) identified in Exhibit 19 would be funded by mill revenues.

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<sup>7</sup> Based on FY2021/22 estimated actuals.

**Exhibit 19  
Unbudgeted Core Programmatic Needs by Branch**

Branch	Summary of Core Programmatic Activities
Director's Office	<ul style="list-style-type: none"> <li>• Legal affairs to support additional alignment with the department's various legal requirements, mandates, and regulations</li> <li>• Outreach and public affairs to legislative, industry, environmental justice, and tribal stakeholders</li> </ul>
Integrated Pest Management Branch	<ul style="list-style-type: none"> <li>• Pesticide usage reporting data analysis, quality control, stewardship, GIS/spatial projects, and public records requests</li> <li>• Schools Program rulemaking to support Healthy Schools Act (HSA) compliance reporting enhancements, IPM outreach at schools and other sensitive sites</li> <li>• IPM grant management and funding to support increased outreach to potential applicants, achievement of grant outcomes, and completion of more projects that increase practitioner access to IPM knowledge, tools, and resources available</li> <li>• Endangered Species Program outreach and improvements</li> </ul>
Enforcement Headquarters Branch	<ul style="list-style-type: none"> <li>• Licensing and Certification Program regulatory activities including: enhancements to the processing and issuing of licenses, study guide and exam enhancements and development, legal consultation, legislative bill analysis, APCAC leadership, and continuing education</li> <li>• Product Compliance Program additional physical and online marketplace inspections</li> <li>• State Actions Program development of state enforcement actions for pesticide uses violations and cases, including additional enforcement actions for illegal residue cases</li> <li>• County Oversight Program statewide trainings to increase both the quantity and quality of CAC enforcement data reporting and response to public records act requests</li> </ul>
Enforcement Regional Offices Branch	<p>Additional programmatic needs at the Northern, Central, and Southern Regional Offices, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Verify statewide uniformity of the implementation of environmental laws, regulations, and policies with CAC personnel</li> <li>• Conduct sample collection and follow up investigations in the following programs: Food Safety Residue &amp; Pesticide Data Program (PDP); there is no follow up collection in PDP</li> <li>• Research, analyze, and develop science-based solutions to assure compliance with complex pesticide regulations</li> <li>• Oversight of Pesticide Use Enforcement activities and label interpretations for CAC personnel</li> <li>• Conduct product compliance inspections and follow up investigations</li> <li>• Training, correspondence, and special reports; responses to public information requests, including other governmental agencies, and the legislature</li> <li>• Industry and public relations, including attendance at community events, stakeholder consultations, or Environmental Justice events</li> </ul>
Pesticide Registration Branch	<p>Pesticide registration timeline reduction activities, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Implementation of new policies and enhanced procedures</li> <li>• Implementation of electronic transmission of documentation for registration actions (e.g., new product registrations and product label amendments, etc.) in addition to acceptance of hard copy letters</li> <li>• Examine the feasibility for the prioritization of secondary products (e.g., Alternative Brand Names, repackages, sub-registrations, etc.) reviews</li> <li>• Updates to DPR's Notification and Non-Notification Policy</li> <li>• Examine the feasibility for pre-screening applications</li> </ul>

Branch	Summary of Core Programmatic Activities
Pesticide Evaluation Branch	Pesticide evaluation process improvements, including rulemaking, to meet existing workload pressures within the following areas: <ul style="list-style-type: none"> <li>• Ecotoxicology</li> <li>• Microbiology</li> <li>• Chemistry</li> <li>• Plants, Pests, and Diseases</li> </ul>
Human Health Assessment Branch	<ul style="list-style-type: none"> <li>• Human health assessment evaluation consultations workload</li> <li>• Implementing active ingredient (AI) prioritization</li> <li>• Responses to public health information needs (e.g., Notification, Spray-Drift Task Force, etc.)</li> </ul>
Worker Health & Safety Branch	<ul style="list-style-type: none"> <li>• Exposure Monitoring and Industrial Hygiene Program dislodgable foliar study, evaluation of new personal protective equipment (PPE), potential biomonitoring study involving collaboration with other BDOs such as Department of Public Health (CDPH), and outreach to urban pesticide users</li> <li>• Human Health Mitigation Program outreach on pesticide safety, including outreach to Hmong and Punjabi farmworker communities on illness/injury reporting and workers' rights; conduct research and development of mitigation measures on additional AIs; outreach to urban areas; geocoding of pesticide use, and pest pressure in various regions of the state</li> </ul>
Environmental Monitoring Branch	<ul style="list-style-type: none"> <li>• Air Program continuous evaluation and outreach, including oversight</li> <li>• Ground Water Program monitoring and surveillance support</li> <li>• Surface Water Program monitoring and surveillance support</li> </ul>
Information Technology Branch	<ul style="list-style-type: none"> <li>• Web development support and other services</li> <li>• GIS infrastructure support</li> <li>• Enterprise software and procurement support</li> <li>• Information security oversight and support for patching technical needs</li> <li>• Database administration</li> <li>• Portfolio management and compliance, including project management and contract management</li> </ul>
Fiscal, Audits & Business Services Branch	Unbudgeted workload activities in other Branches signals a likely increase in additional fiscal, audit, and business services workload, including but not limited to: <ul style="list-style-type: none"> <li>• Departmental accounting, including but not limited to: cashiering, accounts payable, and reporting processes</li> <li>• MillPay administration, compliance, controls, and stakeholder management</li> <li>• Departmental budget management and administration</li> <li>• Audits, case reviews, and administration</li> <li>• Contracts and procurement</li> </ul>
Human Resources Branch	<ul style="list-style-type: none"> <li>• Leave Benefits Administration</li> <li>• Health and safety administration</li> <li>• General personnel services</li> </ul>

### SPM Programmatic Needs

In addition to the identification of DPR’s unbudgeted core programmatic needs, we also identified DPR’s preliminary SPM programmatic needs to meet initial SPM Roadmap initiatives. As noted above, there is overlap between the activities identified as “core” and “SPM”. In **Exhibit 20**, we summarize SPM programmatic activities by Branch that would require additional funding to support DPR in meeting key initiatives of the SPM Roadmap. A key question and outcome of this Mill Assessment Study will be to determine what portion of DPR’s SPM needs (i.e., programmatic activities) identified in Exhibit 20 would be funded by mill revenues.

#### Exhibit 20 Program SPM Needs by Branch

Branch	Summary of SPM Programmatic Activities
Integrated Pest Management Branch	<ul style="list-style-type: none"> <li>• SPM implementation, leadership, policy development, coordination and project management, stakeholder outreach</li> <li>• SPM related urban use data collection, review, and system planning, development and implementation, stewardship, stakeholder outreach</li> <li>• Development of SPM related licensing criteria, online course development for Pest Control Advisers (PCAs), SPM integration in Extreme Heat (EH) projects, and outreach to various agencies and organizations on SPM adoption in sectors such as multi-family housing, local stormwater pollution prevention, food service facilities, municipal operations/programs, etc.</li> <li>• Market outreach, public awareness campaign support, development and outreach regarding pest and disease workbooks, invasive species, biosecurity tools, and sector targeted SPM toolkits</li> <li>• Development and maintenance of SPM webpage, focused social media promotion of SPM, and coordination and integration of SPM messaging and goals into Extreme Heat projects</li> </ul>
Pesticide Registration Branch	<ul style="list-style-type: none"> <li>• Prioritized review for safer, more sustainable products</li> <li>• Implementation of new SPM related policies and enhanced procedures</li> <li>• Enhanced registration processes to support transitions</li> </ul>
Pesticide Evaluation Branch	<ul style="list-style-type: none"> <li>• New active ingredient and major new use evaluations, for ecotoxicology, microbiology, chemistry, and plants, pests, and diseases</li> <li>• Revisions to evaluation reports to improve transparency and accessibility</li> </ul>
Human Health Assessment Branch	<ul style="list-style-type: none"> <li>• CEQA compliance</li> <li>• Additional evaluation of existing higher-risk chemistries</li> <li>• Continued development of AI prioritization</li> <li>• Continued responses to public health information needs</li> <li>• SPM goals for evaluation of safer alternatives</li> <li>• Faster risk assessments and mitigation</li> </ul>
Information Technology Branch	<ul style="list-style-type: none"> <li>• Application development and project management to support target SPM efforts</li> </ul>

**CAC Needs**

In coordination with DPR, CACs enforce federal and state pesticide laws and regulations. The mill’s future level of support for CACs’ needs will need to be considered and eventually identified as part of the Mill Assessment Study along with future level of support for DPR’s core and SPM programmatic needs.

According to FAC Section 12841, CACs are entitled to “an amount equal to the revenue derived from 7.6 mills (\$0.0076) per dollar of sales for all pesticide sales for use in this state,” in which the total revenues generated all allocated between the state’s 58 counties for reimbursement of specific pesticide regulatory and administration costs. CCR Title 3 Chapter 6 further specifies “the criteria to be used in allocating pesticide mill assessment funds to counties based upon each county’s costs, pesticide regulatory activities, workload, and performance, pursuant to FAC Section 12844.” We summarize CACs’ existing reimbursement criteria items and apportionment, as described in FAC Section 12844 and CCR 6393, in **Exhibit 21**.

**Exhibit 21  
Summary of Criteria Items and Apportionment  
Pursuant to FAC Section 12844 and CCR 6393**

Criteria Item	Apportionment	Description
1. Inspections	3 percent	The total number of Pesticide Use Enforcement Program inspections completed in accordance with the prioritization plan agreed upon by the Director and the commissioners and the commissioner’s negotiated work plans
2. Lic/Reg/ID	3 percent	The total number of licensed pest control dealers located in each county; licensed pest control advisers, pest control businesses, pest control aircraft pilots, and farm labor contractors registered in each county; structural pest control operators providing notice of work in each county; active operator identification numbers in each county; and any additional similar workload activities approved jointly by the Director and the commissioners
3. Private Applicator	3 percent	The total number of private applicator certificate holders certified in each county
4. Work Hours	3 percent	Work hours expended on pesticide related activities that are agreed upon by the Director and the commissioners, provided the work hours are expended by persons holding a Pesticide Regulation and/or Investigation and Environmental Monitoring license or by unlicensed persons qualified to apply for a Pesticide Regulation and/or Investigation and Environmental Monitoring license who are closely supervised by persons holding a Pesticide Regulation and/or Investigation and Environmental Monitoring license
5. Expenditures	3 percent	Expenditures reported by each county for pesticide-related activities that are agreed upon by the Director and the commissioners
6. Lbs. of Pesticides	3 percent	The total pounds of pesticides used in the county that have been reported pursuant to Food and Agricultural Code section 12979
7. Permits/Notice of Intent	21 percent	The total number of restricted materials permits, and permit amendments issued by each county; sites identified on all restricted materials permits and permit amendments issued by each county; and notices of intent reviewed by each county
8. Lbs. of Non-Ag Pesticides	21 percent	Based on the total pounds of nonagricultural-labeled pesticides sold in this state in relation to each county’s population. Pounds of pesticide sold data shall be derived from mill assessment collection information provided to the department. Population data shall be based on the most recent U.S. census information
9. PUR Data Records	40 percent	Based on each county’s pesticide use report data records in relation to the total number of pesticide use report data records submitted to the department by all counties



### CAC Funding Survey

Crowe distributed a survey to all 55 CACs to obtain a general understanding of current and future funding needs and pressures at the county-level to meet existing regulatory demands. We received 21 out of 55 CACs responses. In general, the responses we received validated the diverse needs of CACs and reflected the State's agricultural, social, economic, and geographic diversity. Below is a summary of key outcomes of the survey:

- 90% of respondents indicated the mill does not adequately cover existing state pesticide regulatory costs
- The mill's existing allocation of CACs' total funding ranged from 17% to 93%; in **Exhibit 22**, we provide FY2021/22 average percentages of CACs' total funding, which indicates mill allocation (on average from the CACs that responded) makes up nearly half of their total funding
- Additional funding needed to support activities ranged from \$26,000 to almost \$2 million
- Some CACs responding to the survey noted dissatisfaction with, or lack of relevance of, FAC 12844 and CCR 6393 for apportioning mill between counties
- Strong preference that additional funding support new position(s) to effectively meet workload demands, as demonstrated in **Exhibit 23**, which indicates CACs' responses on the key drivers for increase pesticide regulatory costs at the county-level (respondents could select more than one key driver).

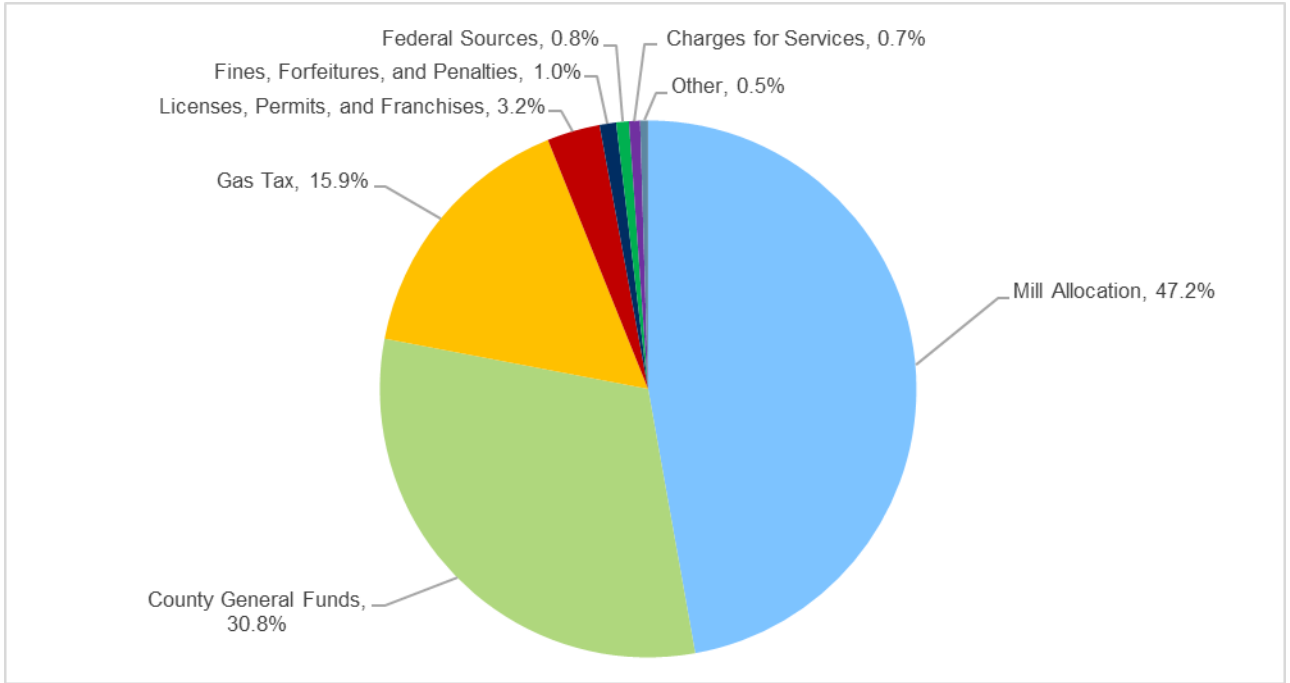
Crowe understands the survey results do not reflect the entire CAC population. Though not comprehensive, the survey results offer valuable insight to support the identification of potential options outside of the existing disbursement criteria framework set forth in CCR 6393 to support CACs' potential funding needs. We understand that CAC funding reflects a complex balance and intend to obtain additional feedback from DPR and interested stakeholders along with CACs on potential options outside of the existing disbursement criteria framework set forth in Section 6393 to support CACs' future funding needs through further engagement.

### **Other Needs**

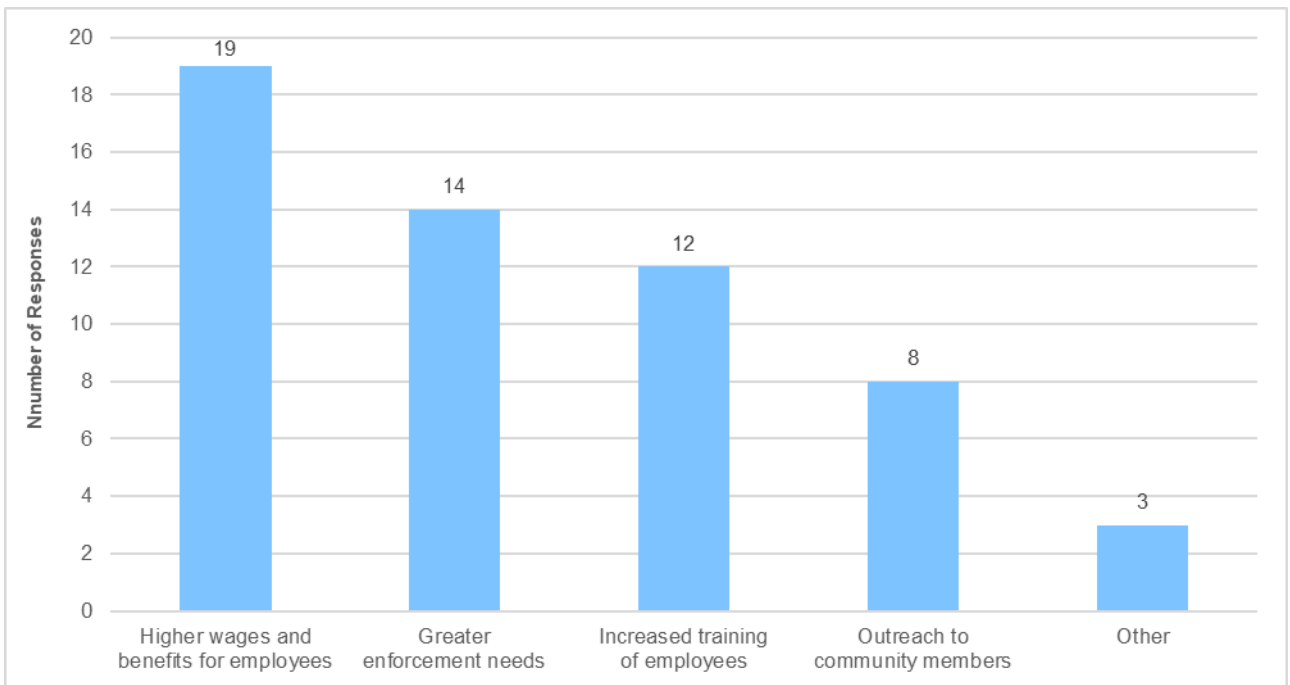
A final point of consideration under funding for DPR's programmatic needs is the mill's future level of support for other needs, primarily including support for CDFA. Crowe will continue to consult with DPR, CDFA, and stakeholders to determine whether additional mill revenue for CDFA is appropriate. Below is an excerpt from FAC 12841, which authorizes mill funding for CDFA:

*"The director may only collect up to an additional three-fourths mill (\$0.00075) per dollar of sales, in addition to the rate established pursuant to Section 12841, if necessary to fund, or augment the funding for, an appropriation to the Department of Food and Agriculture to provide pesticide consultation to the department pursuant to Section 11454.2. The necessity of this additional assessment shall be determined by the Secretary of Food and Agriculture, in consultation with the director, on an annual basis after consideration of all other revenue sources, including any reserves, which may be appropriated for this purpose. The secretary's written determination, including a request for a specified additional assessment and the basis for that request, shall be provided to the director by a time and in a manner prescribed by the director."*

**Exhibit 22**  
**CAC Funding Sources**  
**FY2021/22 Average Proportions**



**Exhibit 23**  
**Primary Drivers of Increased Pesticide Regulatory Costs**



## B. Positive Incentives

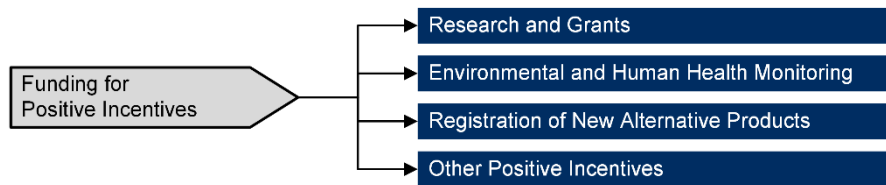
DPR’s FY2021-22 budget change proposal (BCP), *Transition to Safer, Sustainable Pest Management*, intended to incentivize safer sustainable pest management through its mill assessment fee and structure. The use of economic incentives as a policy mechanism to promote environmental protection has been studied extensively, and implemented, since the late 1970s. Examples include effluent or emission charges to limit air and water pollution, taxes on specific materials such as benzene, subsidies to promote use of ethanol, and deposit-refund systems on beverage containers. There is a large body of literature on the theory and practice of these policies.

Incentives can be categorized as intrinsic or extrinsic. Intrinsic incentives come from an internal motivation to do something for its own sake, for example a feeling of personal fulfillment or satisfaction. Extrinsic incentives involve providing a material reward for accomplishing a task (a positive incentive) or by threatening some punishment for certain activities (negative incentives). There are many examples in behavioral economics that show that reliance on fines and rewards can sometimes backfire when they “offend or diminish our ethical sensibilities.” Behavioral and operational changes may be induced by a combination of all types of incentives. For example, the Inflation Reduction Act signed into law by President Biden in August 2022 incorporated positive incentive tools including, but not limited to: tax credits to promote electric vehicle sales, grants for low-carbon technologies, and funding for environmental justice initiatives for disadvantaged communities.

The transition to safer, sustainable pest management reflects a broad scale change in behavior and operational practices with significant economic, environmental, and health implications. It may be best served by a combination of incentive mechanisms that help address the root causes that are limiting the transition. The Sustainable Pest Management Work Group (SPM Work Group) has been studying this topic for last 18 months. The SPM Work Group shared a discussion draft with member networks in June 2022 and expects to release a final document by early January. Crowe also received recommendations and suggestions for how the mill fee could be utilized to support SPM and Integrated Pest Management (IPM) during the stakeholder consultations.

Under the “Positive Incentives” option for mill fee usage we identify three potential program areas where DPR could expand support as a means to support the transition to safer, sustainable pest management. There are many more potential mechanisms, which could be included in the “Other Positive Incentives” alternative. **Exhibit 24** illustrates potential funding to create positive incentives for transitioning to safer sustainable pest management. Crowe invites feedback from stakeholders on these options and identification of other positive incentive mechanisms.

**Exhibit 24**  
**Positive Incentive Funding Options for Mill Usage**



## Research and Grants

Stakeholders identified the lack of information and understanding on SPM and IPM as a primary barrier to reducing pesticide use. There is a need for more research on alternative practices, protocols, products, technologies, and application methods to inform SPM and IPM activities. Research and technical support entities including, but not limited to: the University of California Integrated Pest Management (UCIPM), California State University Agricultural Research Institute, and UC Cooperative Extension are considered to be in a strong position to conduct this type of research with the appropriate funding. For industry to change practices, they must be confident that there are alternative products or approaches that will meet their needs. Utilizing an additional portion of the mill to further research in this area could be an important step in incentivizing safer pest management.

## Environmental and Human Health Monitoring

Another information gap cited in the SPM Work Group Discussion Draft and in the stakeholder interviews was the lack of information on the environmental and health impacts of pesticide products. DPR could expand the use of mill funding to further support environmental and human health monitoring, improving the monitoring infrastructure to enable a more informed approach to address problems and change behavior.

## Registration of New Alternative Products

One barrier to transitioning to safer pest management is the lack of alternative products or technologies. Many stakeholders identified the need for a faster and more transparent registration process. DPR is undertaking initiatives, such as CalPEST, to improve the pesticide registration process. For the most part, DPR's pesticide registration program is funded by registration fees charged to registrants. However, it may be appropriate to utilize some mill funding targeted specifically to products that are identified as safer alternatives. There is also an opportunity to further support alternative practices that do not require registration.

## Other Positive Incentives

Stakeholders identified many other potential mechanisms to increasing the use of SPM/IPM, many of which are also listed in the SPM Work Group Discussion Draft. DPR could utilize mill funding to further support programs within DPR or other through other entities (CDFA, CACs, others) such as:

- Education and incentives for Pest Control Advisors (PCAs) and growers to learn and promote SPM/IPM approaches
- Incentives and/or "insurance policies" for farmers adopting safer pest management
- Grants and institutional procurement to help support farmers adopting SPM/IPM
- Support education and certification of "green cleaning" products
- Expediting risk assessments
- More support for local enforcement and training
- Funding for additional protection programs (e.g., buffer zones) for communities close to pesticide use
- More focus on pest prevention and detection.

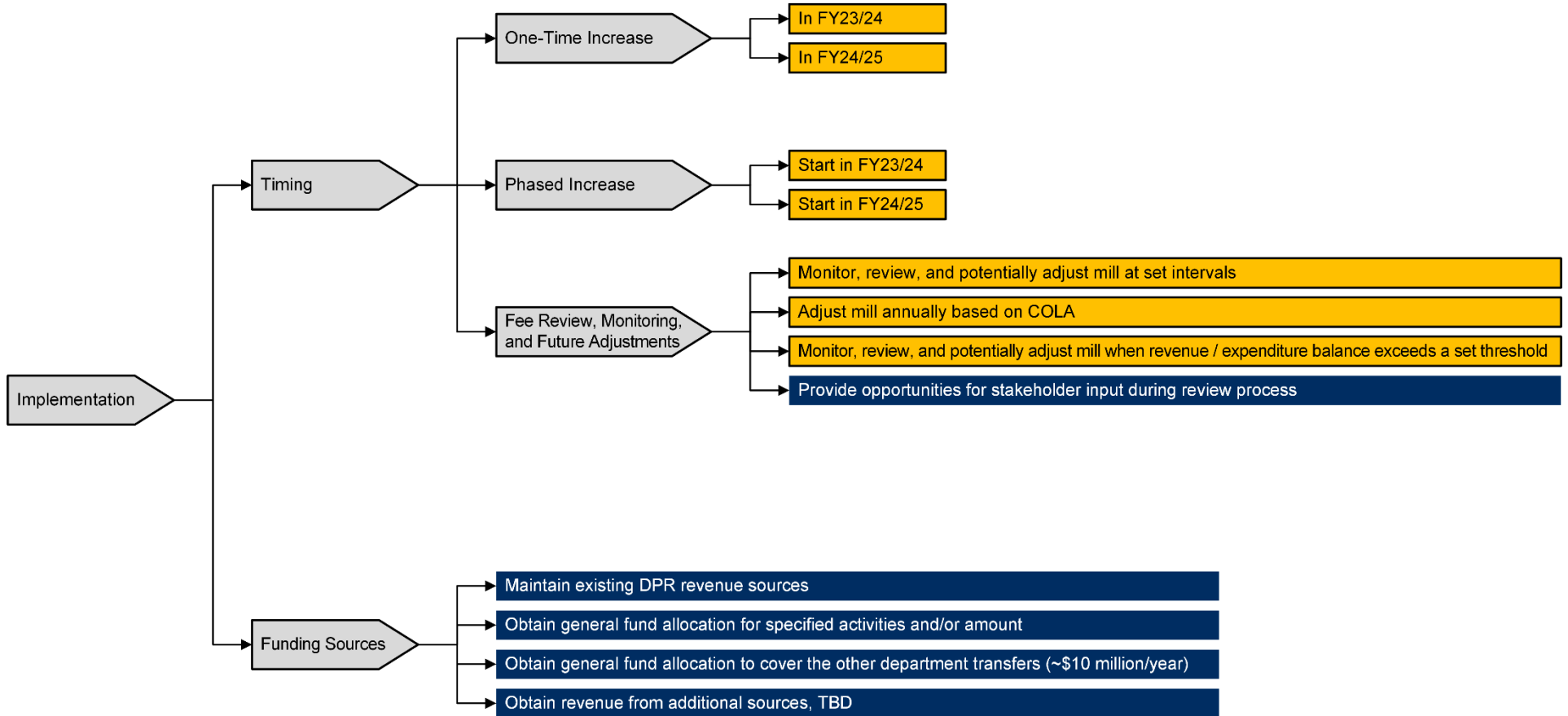
## 5. Mill Implementation

Mill implementation considerations address the “nuts and bolts” of executing the mill fee. Within mill implementation, the options are timing and funding allocation. The specific alternatives identify implementation dates and approaches to review, monitor, and adjust the mill over time. These approaches may not be particularly controversial, rather, they cover decisions that must be made as the mill fee is updated and implemented.

The mill implementation considerations, shown in **Exhibit 25**, address the timing of the mill fee implementation and how mill revenue is monitored and adjusted over time. More broadly, we also consider how mill revenue is integrated with DPR’s other funding sources within implementation. The blue boxes in Exhibit 25 identify alternatives where multiple alternatives can occur at once. The yellow boxes represent mutually exclusive alternatives for which a decision must be made.

*Crowe is seeking stakeholders’ perspectives on the blue alternatives – should these be part of the final mill recommendations, and why? Crowe is seeking stakeholders’ perspectives on the yellow alternatives – which of these mutually exclusive alternatives do you prefer, and why?*

**Exhibit 25**  
**Mill Fee Implementation Considerations Decision Tree**



- Mutually exclusive options
- Multiple options allowed

## A. Timing

Within timing, we first discuss approaches to roll-out new mill fee recommendations. These approaches cover both the year(s) of implementation and whether a new mill is phased in or implemented at one time. Crowe also proposes several approaches to review, monitor, and update the mill in future years.

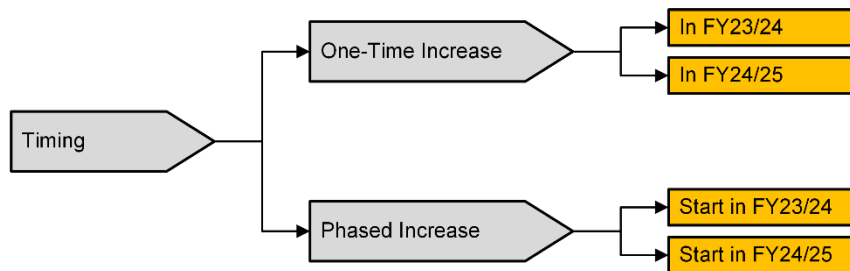
### Phased versus One-Time

**Exhibit 26** identifies four (4) factors related to timing of the mill recommendations. The first two (2) factors are whether the eventual mill recommendations will be implemented in a single increase or phased-in over multiple years. A phased increase could be implemented over two (2) to four (4) years, depending on the overall increase compared to the current 21 mill fee. Crowe recognizes that the preference for a one-time or phased increase may depend on how much the mill fee is increased, which is still under evaluation.

A phased increase has the advantage of providing registrants more time to adapt to a higher fee, but multiple smaller increases may be more difficult for DPR and registrants to administer. However, a phased increase could potentially extend the time DPR operates under a budget deficit depending on mill revenue inflows. Additionally, a phased increase could impact DPR's ability to appropriately fund their unbudgeted core needs and SPM programmatic needs.

A one-time increase would be easier to administer, but may be harder for registrants, particularly smaller companies, to adjust to. The third and fourth factors apply to either the one-time or phased increase and relate to when a new mill fee would be implemented. Implementation could begin as soon as FY2023/24, or could be postponed for a year, with implementation beginning in FY2024/25. Implementing in FY2023/24 has the advantage of supporting DPR's programmatic needs and addressing the shrinking fund balance sooner. Implementing in FY2024/25 has the advantage of providing registrants with more time to adapt to the new fee.

**Exhibit 26**  
**Timing Options for Mill Implementation**

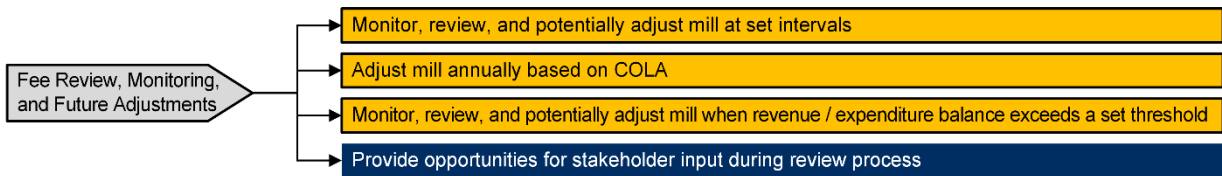


### Review, Monitoring, and Future Adjustments

Fee reviews can be comprehensive, such as Crowe is undertaking with the Mill Assessment Study, or simple reviews that evaluate the balance between actual and projected revenue and expenditures the mill fee supports. There are no specific recommendations or best practices on the frequency or form of fee reviews, although many federal agencies review fees annually. In any effort to review, monitor, and/or make future adjustments to the mill it will be important to provide opportunities for stakeholder input and transparency in the reasoning behind the mill fee changes. As summarized in **Exhibit 27**, Crowe provides three approaches to reviewing, monitoring, and making future adjustments to the mill:

- Monitor, review, and potentially adjust the mill at set intervals (e.g., every one, two, or five years)
- Adjust the mill annually based on COLA
- Monitor, review, and potentially adjust the mill when the balance between revenue and expenditures exceeds a set threshold.

**Exhibit 27**  
**Review, Monitoring, and Future Adjustment Options for Mill Implementation**



DPR’s 2021 State Leadership Accountability Act (SLAA) Report findings highlight the need for reviewing and monitoring fees. The SLAA identified the “expanded scope of programs with static funding” as a key risk to the department’s funding status. Below we provide an excerpt from the report:

*“Since 2014, DPR has experienced a significant expansion in its workload as a result of new laws, regulations, and court orders. While DPR has obtained additional resources to support some of this work, many of these new mandates compete for resources that have been previously dedicated to the department’s core work. This significant amount of unfunded work has increased demands on staff trying to manage already full workloads. The additional work areas include, but are not limited to, federally mandated licensing Certification and Training requirements, increased Environmental Justice (EJ) initiatives and activities, and expanding DPR’s outreach and education to be responsive to community groups. The additional unfunded demands and mandates have challenged DPR’s ability to effectively carry out its core mission and statutory mandate to protect human health and the environment through the regulation of pesticides and promotion of reduced risk pest management. The often unfunded expansion in scope of DPR’s work has required existing programs and their staff to absorb and address new demands and directives while conducting their core work, stressing staff and their ability to timely complete that work.”*



Future Adjustments refers to mill structure options that address the need to update the mill over time. The current 21 mill fee has been in place since 2004. As the SLAA described, DPR’s workload has expanded. Because the mill is charged against pesticide sales, there is a built-in mechanism that theoretically accounts for inflation. As pesticide prices increase, so does mill revenue. However, DPR’s increased responsibilities and program expenditures do not necessarily align with inflationary pressures on pesticide prices.

Crowe identified three possible approaches to reviewing the mill fee and making future mill adjustments. **Exhibits 28, 29, and 30** provide the description and rationale for three potential future adjustment approaches. Note that the design consideration of whether to establish mill values in statute or in regulation will impact how the mill can be adjusted going forward.

**Exhibit 28**  
**Monitor, Review, and Adjust Mill Revenue Description and Rationale**

Description	Rationale
<p>Under this alternative, DPR would conduct a regular review of the mill fee. DPR could define a fee review process that reflects their needs related to variations in program revenues and expenditures. For this alternative, Crowe recommends a simple review on an annual basis to ensure that mill revenues and program costs are aligned. DPR could conduct a more comprehensive review every five to seven years, or when the annual reviews find that there is a significant misalignment between mill revenues and mill-funded program expenditures. Within both the annual and comprehensive reviews, it will be important to allow for public participation to ensure appropriate transparency.</p> <p>Under this alternative, DPR would maintain the ability to increase (or decrease) the mill should revenues and expenditures become misaligned, as determined by a regular review process. There are two potential scenarios for mill adjustments. The first is to provide for a maximum mill fee level within enabling statutes or regulations and provide DPR with the authority to increase the fee up to that maximum level (the current approach). The second would be to allow DPR to define the mill fee level in regulation, and thus to enable DPR to change the mill fee through the regulatory process. Both scenarios should provide for stakeholder input and transparency in the reasoning behind the mill fee changes.</p>	<p>The GAO notes that regular reviews of user fees such as the mill provide decision makers with “comprehensive information necessary to support robust deliberations about fee financing.”<sup>8</sup> GAO further notes that without fee reviews there is a risk that fees become misaligned with costs and consequently overcharge or undercharge users.</p> <p>The need to update regulatory user fees to reflect current alignment of revenues and expenditures is foundational to the definition of a user fee. Most fees are reviewed and updated at a regular frequency, whether that be one, two, or five-year cycles. The twenty-year wait to update the mill fee is not reflective of good public policy. It is important to note that maintaining the ability to update the mill fee does not necessarily mean that DPR can increase the fee at will and without stakeholder input.</p>

<sup>8</sup> GAO, Federal User Fees: Key Considerations for Designing and Implementing Regulatory Fees. GAO-15-718 (Washington, D.C.: September 16, 2015).

**Exhibit 29**

**Review and Adjust Mill Annually Based on COLA Description and Rationale**

Description	Rationale
<p>This approach would consist of a simple review conducted annually to evaluate the balance of mill revenue and expenditures and then an adjustment of the mill fee based on the most recent Consumer Price Index (CPI) for Western Area urban consumers (bls.gov/cpi). In typical years the CPI is between 1% and 3%. However, the CPI rose above 8% between September 2021 and September 2022<sup>9</sup>, reflective of the current inflationary environment. Within this approach, DPR would conduct an annual review of the mill revenue and expenditures in September of each year. At the same time, DPR would obtain the most recently available year-over-year CPI, calculate the updated mill fee, develop revenue projections based on the adjusted mill, and provide registrants with information on the updated mill to be implemented started in January of each year.</p>	<p>This approach would be consistent and predictable year-to-year and reflect current economic conditions. It is based on data published by the Bureau of Labor Statistics. While DPR’s expenditures may not increase at the same rate as the COLA, the adjustment would likely cover some share of annual program cost increases.</p> <p>A potential concern related to this approach is that pesticide prices may also increase annually at a rate that is reflective of the COLA, so that adjusting the mill based on COLA might be double counting the COLA increase, resulting in more mill revenue than is needed to cover program costs. One way to overcome this challenge is to calculate the different rates of change among broad CPI and actual pesticide sales data to inform whether an adjustment is necessary.</p>

**Exhibit 30**

**Review and Adjust Mill Based on Revenue / Expenditure Balance Threshold Description and Rationale**

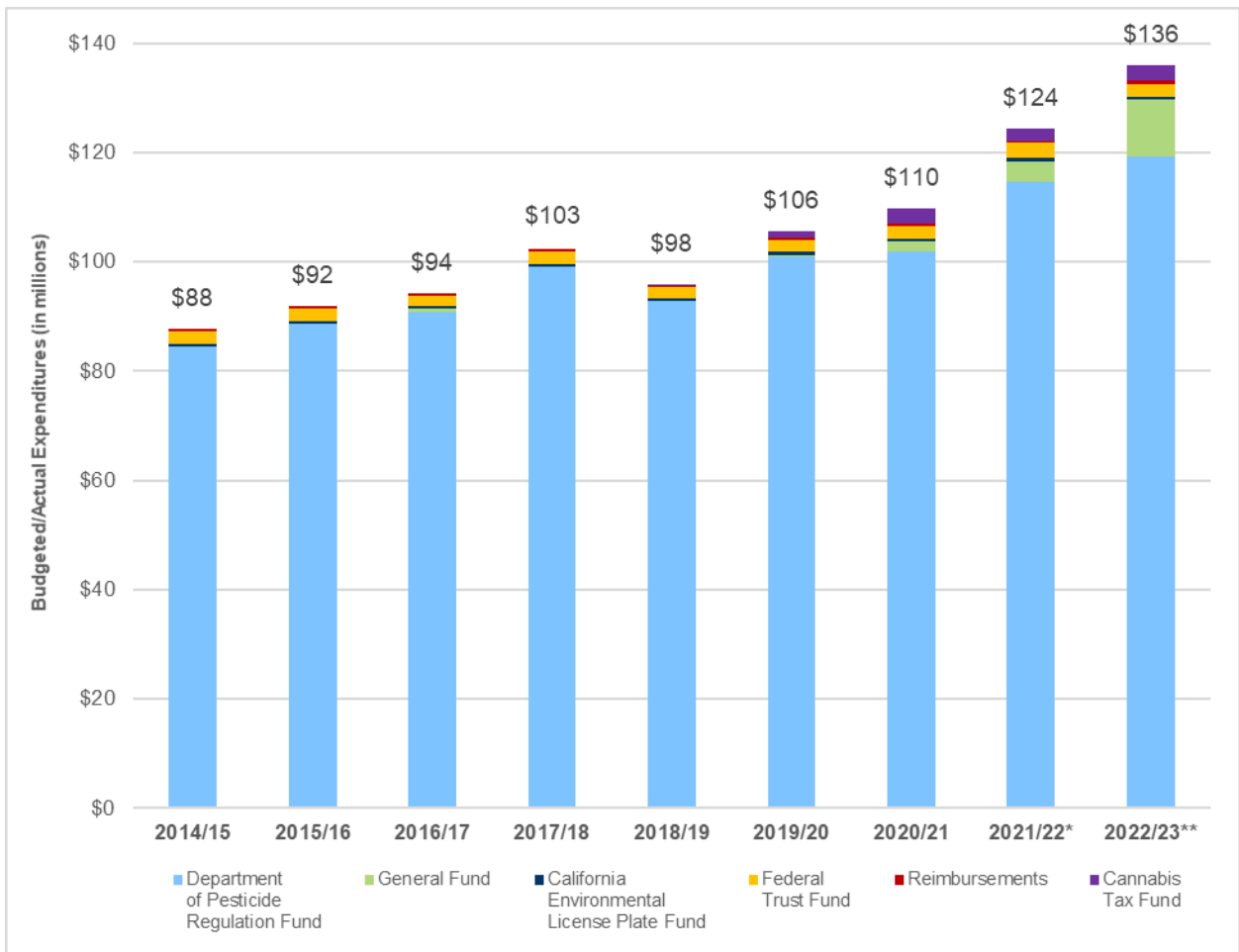
Description	Rationale
<p>This approach would measure the fund ratio and would trigger a review of the mill when the ratio fell below 1.2. The fund ratio is equal to (Fund Balance + Revenue)/Expenditures. A ratio of 1.2 indicates that the reserve is approximately equal to 2 months of expenditures. If the fund ratio evaluation triggered a review, DPR would evaluate current and projected revenues and expenditures and determine whether the mill should be increased, and the amount. This review could result in a temporary assessment of the 1 mill to fund the reserve described in Exhibit 15.</p>	<p>With this approach the mill reviews and potential adjustments would not be triggered until the fund ratio fell below a threshold below what is considered a best practice reserve level. Thus, DPR would not be required to conduct a mill review until conditions warranted but the approach does include a mechanism to make mill adjustments when necessary.</p>

<sup>9</sup> Above 8% year-over-year increase in CPI began February 2022.

## B. Funding Sources

This section of the report provides discussion related to DPR’s other funding sources, including licensing fees, registration fees, and General Fund. In the next phase of the Mill Assessment Study, Crowe will further examine the role of other funding sources in ensuring the sustainability of the overall DPR funding model. **Exhibit 31** illustrates that currently DPR relies on very little funding outside the DPRF, which includes mill, registration, and licensing revenue. **Exhibit 32** identifies five (5) potential funding allocation options. Crowe is seeking stakeholder feedback on the potential role of these options within DPR’s funding mix.

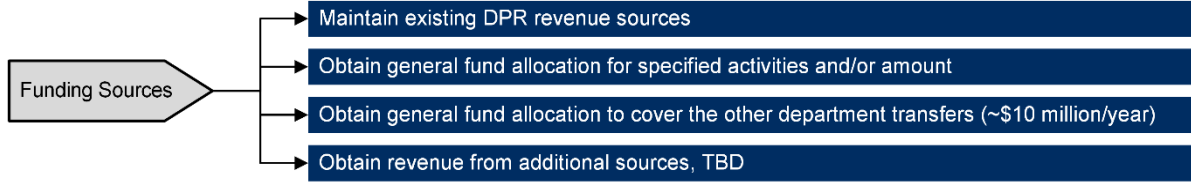
**Exhibit 31**  
**DPR Funding by Source<sup>10</sup>**  
**FY2014-15 to FY2022-23**



\* Estimated actual    \*\* Budget

<sup>10</sup> Totals match budget galley, which exclude \$3 million to \$10 million in costs (depending on year) related to fund users, pro rata, and pension.

**Exhibit 32  
Funding Sources Options for Mill Implementation**



**Mill Funding**

The DPRF accounts for over 90 percent of DPR’s revenue in a typical year (without General Fund allocations). Over 80 percent of the DPRF is generated through the mill fee. While registration and licensing and certification are intended to cover those specific program costs, the mill is essentially the catch-all for the majority of DPR expenditures. Generating revenue from other funding sources is one mechanism to support the DPRF over time as pesticide sales decrease. To the extent that DPR leverages other funding sources to support programmatic needs and fund positive incentives, it will help reduce pressure on mill fee revenue.

**Registration Funding**

Registration fees account for approximately 15 percent of the DPRF. The U.S. EPA Office of Pesticide Programs and California law require registration of certain pesticide products sold, distributed, or used in California. All new products, for new and currently approved active ingredients, cost \$1,150 to register, and product registration renewals costs \$1,525 per year.

Registration fees are intended to cover the costs of pesticide registration, although the cost of the new CalPEST system has resulted in higher registration costs than fees in the short term. DPR increased registration fees in Fall 2021 and could consider increasing registration fees in the future to support to support pesticide registration. Other considerations could be to charge fees for research authorizations, experimental use permits, and/or Section 18s.

**Licensing & Certification Funding**

Licensing and certification is another self-funded program, with fees charged to licensed pest control applicators generally covering the costs of the program, as specified in statute. DPR will be increasing licensing and certification funding to support new positions that are currently being supported by bridge General Fund. Future program costs are likely to increase due to expanded education and training related to SPM/IPM; however, it may be appropriate to consider other funding sources to support some new programs given the broader environmental and health benefits.

## General Fund

One of the primary outcomes of the 2003 Blue Book study and resulting mill fee legislation was to eliminate DPR's reliance on the General Fund. The General Fund is an attractive funding source when state budgets are robust. However, General Fund is a risky source of funding when budgets are strained, as they are projected on the LAO's November 2022 *California's Fiscal Outlook* report. When DPR was reliant on General Funds, there were several years when programs had to be cut because of budget constraints. As part of the FY2021-2022 BCP, DPR received one-time General Funds of \$29 million over two years: FY2021-2022 (\$20.25 million) and 2022-2023 (\$8.75 million) to support unfunded DPR programs until DPR completed the Mill Study.

During our interviews, many stakeholders continued to discuss the role of the General Fund in DPR's funding structure. The suggested role of the General Fund in DPR's funding structure varied across stakeholders. Some expressed DPR should use the General Fund as a way to "delink" DPR's direct funding from pesticide sales, whereas others expressed using the General Fund to help supplement the department's activities that benefit the general public.

While user-fee funding may be most appropriate for the majority of DPR's revenue needs, there may be opportunities to consider General Fund for specific program activities. For example, some SPM/IPM programs that result in broader public benefits may be appropriately funded with General Fund. Another option would be to consider General Fund for the approximately \$10 million in costs that are allocated to other state departments (CalEPA, OEHHA, CalRecycle, ARB, CDPH, etc.). However, these options may potentially create risk and uncertainty given that the General Fund may not be a sustainable long-term fund source.

## Other Funding Sources

DPR currently receives limited funding from other sources including the California Environmental License Fund, Federal Trust Fund, Reimbursements, and Cannabis Tax Fund. Other funding sources may become increasingly important should mill revenue decline over time as a result of reduced pesticide use. For example, CDFA currently operates four Cap-and-Trade funded programs that provide grants to support agricultural practices that reduce emissions: the Healthy Soils Incentive Program, the State Water Efficiency and Enhancement Program (SWEEP), Farmer and Rancher Climate Change Solutions, and Conservation Agriculture Planning Grants Program. These programs were identified by many stakeholders as models that DPR could leverage to support SPM/IPM, perhaps in partnership with CDFA. It is important to note there are more demands on Cap and Trade funding than available revenues given that it is a limited fund source. Federal agencies such as the US EPA and the Natural Resources Conservation Service (NRCS) under the United States Department of Agriculture (USDA) may also be a source of additional financial as well as technical support. Reliance on federal funding has the same drawbacks as the State's General Fund.

As part of the detailed analysis of alternatives, Crowe will evaluate the potential for other funding sources to supplement the DPRF. DPR's reliance on other funding sources, including the General Fund, may not sustainably provide a long-term funding source for the state's pesticide programs. However, Crowe will examine other funding sources to identify future opportunities.

## 6. Proposed Potential Mill Fee Funding Models

In this section, we describe three (3) potential mill fee models, including our rationale for including them within this Concept Paper for consideration by DPR and interested stakeholders. These mill fee models reflect general approaches and can be used in combination (e.g., a flat fee plus tiered fee) to potentially assess a mill fee on the sale of pesticide sales within the state to cover DPR’s revenue needs while supporting the transition to safer sustainable pest management. It is important to note that the potential mill fee models described within this section do not reflect Crowe’s final mill fee recommendations and do not account for how much revenue will be derived from each approach. Our intent is to provide DPR and interested stakeholders with potential mill fee models for consideration to build upon using the design, usage, and implementation concepts described in this paper.

The programs that are funded by the mill along with the allocation of mill revenue with other funding sources will determine the total amount of mill revenue that DPR must generate on an annual basis. Once the total mill revenue requirement is determined, Crowe will calculate mill fee rate(s) for each of the mill fee funding models described below. The three (3) potential mill fee models described in this section include:

- A. Flat Fee Model
- B. Tiered Fee Based on Levels of Pesticide Category Workload Model
- C. Tiered Fee Based on Levels of Pesticide Product Workload Model.

### A. Flat Fee Model

The flat fee model is the most simplistic out of the three (3) potential mill fee models described in this section. This model mirrors DPR’s existing flat fee model. In **Exhibit 33**, we provide a general description of the flat fee model and describe our rationale for including this approach within this paper.

**Exhibit 33**  
**Flat Fee Model**  
**Description and Rationale**

Description	Rationale
<p>The flat fee model assumes mill revenue would be generated by assessing a flat rate on the sale of pesticide sales within the state (i.e., the same way mill revenue is currently generated). The flat fee model represents the status quo as far as structure but would be set at a higher rate that is currently in place. Once total mill fee revenue needs are identified, Crowe will determine the mill fee level that will be projected to provide the necessary revenue. Based on current pesticide sales projections, each mill is expected to generate approximately \$4 million in revenue.</p>	<p>Our rationale for including this approach for consideration is to identify a simple mill fee model that generates mill revenue via a flat fee to cover DPR’s programmatic needs, as identified through workload studies and through the evaluation of Mill Usage considerations. This funding model does not include an explicit incentivization mechanism built within the fee structure but could provide additional funding that would alleviate pressure on DPR and CACs’ existing resources along with additional funding positive incentives and DPR’s SPM programmatic needs identified to-date.</p>

Crowe understands this “status quo” approach does not reflect a departure from DPR’s existing flat fee funding model. However, this model does provide a flexible approach to potentially provide a sustainable long-term funding source should DPR and interested stakeholders agree to rate stabilization, reserve mechanisms, and other considerations to minimize future funding risk. Additionally, this approach could potentially provide funding to support DPR’s programmatic needs, including additional funding for CACs and CDFA, along with funding for the department’s preliminary programmatic activities that support the transition to safe, sustainable pest management.

It is unclear if this model would signal or incentivize safe, sustainable pest management. However, revenue generated through a flat fee mill could be designated to fund activities that would create incentives. We intend to further examine this model by obtaining feedback from DPR and interested stakeholder and conducting detailed comparative analysis of how this approach meets the study’s guiding principles.

## B. Tiered Fee Model Based on Levels of Pesticide Category Workload

The tiered fee model based on levels of pesticide category workload would generate mill revenue by assessing a tiered rate on pesticide sales based on pesticide categories. DPR registers the following “high-level” categories of pesticides:

- Antimicrobials
- Biochemicals and microbials (i.e., biopesticides)
- Conventional pesticides
- Plant growth regulators
- Spray adjuvants
- Others.

In **Exhibit 34**, we describe the tiered fee based on pesticide category model and our rationale for including it as a potential mill fee model for consideration within this paper.

During the detailed analysis phase of the study, Crowe will further define and evaluate pesticide workload by category and identify categories that would potentially have higher (or lower) mill fee rates to cover associated workload. We will also evaluate the sustainability of this approach to provide a long-term funding source for DPR. It is unclear if this model would signal or incentivize safe, sustainable pest management. However, revenue generated through this tiered model could be designated to fund activities that would create incentives. We intend to further examine this model by obtaining feedback from DPR and interested stakeholder and conducting detailed comparative analysis of how this approach meets the study’s guiding principles.

**Exhibit 34**  
**Tiered Fee Based on Pesticide Category**  
**Description and Rationale**

Description	Rationale
<p>Under this tiered fee mechanism, pesticide categories that result in additional workload for DPR and/or CACs would be assessed a higher or differential mill fee than other pesticide categories. Conversely, pesticide categories that require less workload would be assessed a lower mill fee. During the detailed analysis phase of the Mill Assessment Study, Crowe will define a process for capturing the potential varying levels of workload associated with different pesticide categories. Based on Crowe’s preliminary assessment, there could be multiple ways to classify pesticides by category, but as a starting point we will start with the “high-level” pesticide categories, including: antimicrobials, biochemicals and microbials, conventional pesticides, plant growth regulators, and spray adjuvants. Because DPR’s focus on specific pesticide categories changes over time, DPR would reevaluate this approach to prepare and publish new differential mill fees that align with the costs associated with workload by pesticide category.</p>	<p>Our rationale for including this approach for consideration is that in general, certain categories of pesticides may require a higher (or lower) degree of focus by DPR, and thus more (or less) time and resources. By grouping pesticides in high level categories rather than individual pesticide products or active ingredients as in the Tiered Based on Levels of Pesticide Product Workload model, this approach is potentially less burdensome from an administrative perspective.</p> <p>A potential challenge with this is approach is identifying/classifying each pesticide under one or more of these categories. We will work with DPR program SMEs to identify options to adequately categorize pesticides using this approach in order to appropriately assess this model as part of the next phase of the Mill Assessment Study.</p>

### C. Tiered Fee Model Based on Levels of Pesticide Product Workload Activities

The tiered fee based on levels of pesticide product workload activities would assess an additional fee on pesticide sales for those products that require a higher degree of regulatory activity (i.e., level of workload to regulate, monitor, and assess pesticide risks). There are certain pesticide products or active ingredients that require a higher level of focus for DPR staff and/or CACs. Examples of areas with higher levels of workload and/or regulatory activities could include, but are not limited to:

- Reregistration evaluations and consideration of label amendments
- Reevaluations, which can be initiated for one or more reasons, as identified in CCR Section 6221, triggering a multi-year review of existing and potentially new data in order to carry out the provisions of FAC Sections 12824, 12825, 12825.5, 12826, and 12827
- Toxic air contaminant monitoring for the evaluation and control of chemicals as toxic air contaminants
- Multi-agency coordination on human health and environmental exposure review
- Pesticides subject to data coordination and collaboration
- Development and oversight of mitigation measures when specific pesticide uses of concern are identified
- Environmental monitoring (surface water, groundwater, drinking water contaminants)
- Frequency of incidents report under the Pesticide Illness Surveillance Program (PISP)
- Restricted Materials requiring CACs to issue permits
- Pesticides identified in enforcement investigations and cases
- Pesticides subject to environmental fate reviews.

In **Exhibit 35**, we describe the tiered fee based on pesticide product workload activities model and our rationale for including it as a potential mill fee model for consideration within this paper.

During the detailed analysis phase of the study, Crowe will further define and evaluate pesticide workload by products and identify products that would potentially have higher (or lower) mill fee rates to cover associated workload. We will also evaluate the sustainability of this approach to provide a long-term funding source for DPR. It is unclear if this model would signal or incentivize safe, sustainable pest management. However, revenue generated through this tiered model could be designated to fund activities that would create incentives. We intend to further examine this model by obtaining feedback from DPR and interested stakeholder and conducting detailed comparative analysis of how this approach meets the study’s guiding principles.

**Exhibit 35**  
**Tiered Fee Based on Levels of Pesticide Product Workload Activities**  
**Description and Rationale**

Description	Rationale
<p>Under this tiered fee mechanism, those pesticide products that result in additional workload for DPR and/or CACs would be assessed a higher mill fee than other products. During the detailed analysis phase of the Mill Assessment Study, Crowe will define a process for identifying these higher activity products. Based on Crowe’s preliminary assessment, there could be at least 100 products that would incur the higher fee. Because the focus on particular chemicals changes over time, every two to three years, DPR would reevaluate the list of higher activity products and active ingredients to prepare and publish a new list of products that would incur the additional fee. The additional mill would be applied to the base mill for those products. For example, if the base fee was 35 mills, the list of higher activity products would incur a fee of 40 mills (+ 5 mills). The additional revenue would be targeted to support funding for specific positive incentives described in Section 4.</p>	<p>This approach is aligned with DPR’s workload because pesticides that require more effort by DPR staff would pay a higher fee. The additional fee is not likely to incentivize users to change products; however, it does send a signal to users that this product is subject to additional focus/regulation/concern by DPR. This approach also supports positive incentives for safer sustainable pest management, consistent with the study objectives.</p>



## 7. Potential Mill Fee Models Not Proposed

As the Crowe team has gathered more information and progressed in the Mill Assessment Study, like many research efforts, we found it was necessary to reexamine some of our early assumptions about the ability of certain mill fee models to meet DPR's funding needs and other Mill Assessment Study objectives. In the beginning phases of the Mill Assessment Study, we expected to propose tiered mill fee models based on signal words and hazard/risk criteria – these are mill fee models examined by DPR and others in the past, and they incorporate tiers, as defined in the study objectives. However, ultimately our research and analysis suggest that a mill fee model based on signal words or hazard/risk level is not likely to meet the objectives of this Mill Assessment Study. In the remainder of this section, we first provide supporting background and research and then describe our rationale for not proposing the following mill fee funding models:

- Tiered Mill Assessment Funding Model Based on Signal Words
- Tiered Mill Assessment Funding Model Based on Hazard/Risk Level

### A. Supporting Background and Research

DPR's FY2021-22 BCP, *Transition to Safer, Sustainable Pest Management*, intended to incentivize safer sustainable pest management through its rate and structure. One of the primary intents of the FY2021-22 BCP was to utilize a differential (tiered) assessment on the mill fee to incentivize pesticide purchasing behavior towards "safer" products. However, as became clear in responses to FY2021-22 BCP, implementation of punitive incentive mechanisms can quickly become complicated especially when assessing additional fiscal costs to augment market behavior. Below we summarize some of the research related to these economic theories of incentivization and behavioral influence as support for excluding the proposed mill fee models from additional evaluation as part of the Mill Assessment Study.

#### Quantifying the Incentive Required to Influence Behavior

Using taxes or fees to influence behavior, whether that be taxing products considered "bad" such as cigarettes or pollutants, or a differential fee on pesticides, provides a mechanism to generate revenue to support programs and to, ideally, change behavior. The extent to which a tax or fee changes behavior depends on a range of factors that may be unique to individuals, but that typically follow certain principles of economic behavior related to pricing, perceived costs and benefits, risk, and alternatives.

The price elasticity or inelasticity of demand is an economic metric that refers to the degree to which demand for a particular product changes in response to changes in price. A product is said to be elastic when the demand for that product shifts up when prices drop and conversely the demand drops when prices increase. Typical examples of elastic goods are luxury items while examples of inelastic products are prescription drugs and gasoline. The price elasticity of demand is calculated by dividing the percentage change in quantity demanded by the percentage change in price. Inelastic products have elasticity ratios of less than one, reflecting that an increase in price does not result in much, if any, change in demand. Elasticity is basically a measure of consumers' willingness and/or ability after a price change to postpone purchasing or search for substitutes. When considering pesticide use, factors that affect elasticity of demand include availability of substitute goods, necessity, duration of the price change, brand loyalty, and perceived risk of changing purchasing decisions.

Below, we briefly summarize two research studies that evaluated the price elasticity of pesticides in the context of policies to influence pesticide use. Both found pesticides to be price inelastic, e.g., an increase in pesticide price is not likely to result in a commensurate change in demand. Non-Ag products such as disinfectants would also tend to be inelastic. For example, during the height of the COVID-19 pandemic, consumers and businesses were purchasing disinfectant at any cost.

A 2013 study evaluating European Union pesticide policies<sup>11</sup> explored the potential for introducing “an optimal pesticide policy” at the EU level from an economic point of view. The study discussed the complexity of developing an ideal policy. One factor adding to the complexity was pesticide demand elasticity, defined as the responsiveness of the pesticide quantity demanded to a change in the pesticide price. The study identified over twenty-five research articles that measured pesticide price elasticities ranging from  $-0.02$  to  $-0.8$ , indicating that pesticide demand is inelastic.

A more recent study in the *Journal of Agricultural Economics*<sup>12</sup> compiled studies measuring elasticity of demand for pesticides similarly found pesticides to be inelastic, with a median price elasticity of demand of  $-0.28$ . The study noted that the effectiveness of taxation schemes to reduce harmful use of pesticides depends on the price elasticity of demand for pesticides. The study did identify variations in the amount of inelasticity based on pesticide types (herbicides were more elastic) and crops (specialty crops were more inelastic). The study indicated that there will be some quantity reduction of pesticide use as prices are increased, but that “large levels of taxation are required to realize substantial quantity reductions.”

These studies, both compilations of other research, confirm that identifying a price differential that serves to directly incentivize safer pesticide use will, at best, be challenging. Anecdotal statements from some stakeholders noted that recent large price increases in pesticide prices due to supply chain issues and inflation have not reduced demand for pesticides.

Consistent with the economic research, the Legislative Analyst’s Office (LAO) evaluation of DPR’s FY2021-22 BCP noted that the proposed tiered rates might not be strong enough to send a market signal to discourage the use of more toxic pesticides. DPR’s January 2003 Report to the Legislature (i.e., “the Blue Book”) identified that pesticides are generally a small percentage of agricultural production costs. Crowe evaluated cost of production studies for nine of the top ten crops utilizing the largest quantities of pesticide active ingredient.<sup>13</sup> Pest management costs for these crops averaged 4.7% of total costs and ranged from 1.4 percent to 14 percent. Taken as a whole, the research strongly indicates that a tiered tax on pesticides would not meet the goal of changing pesticide purchasing behavior.

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<sup>11</sup> <https://www.sciencedirect.com/science/article/pii/S1573521412000395> Skevas, T. et al. “Designing the emerging EU pesticide policy: A literature review. *NJAS – Wageningen Journal of Life Sciences*, Volumes 64-65, September 2013.

<sup>12</sup> Bocker, T. and Finger, R. A meta-analysis on the elasticity of demand for pesticides. *Journal of Agricultural Economics*, Volume 68, No. 2, 2017.

<sup>13</sup> Current Cost and Return Studies, Almond, Wine Grape, Grape, Processing Tomato, Orange, Strawberry, Walnut, Pistachio, and Rice. *Agricultural & Resource Economics*, UC Davis, 2017 to 2021, <https://coststudies.ucdavis.edu/en/current/>.

## B. Tiered Mill Fee Funding Model Based on Signal Words

The following section details the rationale behind not including a tiered mill based on EPA's signal word labeling as a proposed mill alternative. This alternative would reflect a shift in approach from the current flat-fee mill assessment on pesticide sales to a risk-based tiered mill assessment, where higher toxicity pesticides (based on signal word definition) are assessed at a higher fee. Prior to the FY2021-22 budget BCP, DPR evaluated four (4) mill tiering alternatives, ultimately selecting signal words for the tiering criteria, as they are clearly identified and defined. Prior to selecting signal words for tiering, DPR evaluated tiering structures based on restricted material status, selected risk criteria, and a point system that incorporated signal words, restricted material status, and selected risk criteria.

Specifically, the BCP proposed, "pesticide products registered and sold within California would be assessed a mill assessment fee ranging from 25 to 45 mills based on EPA's signal work labeling, "Caution, "Warning," and "Danger and Danger/Poison." Proponents of this alternative may view this tiered approach as a means to incentivize reduced risk pesticides, furthering DPR's mission of fostering reduced-risk pest management. California would be the first state to set tiered levels in this manner. However, the BCP was ultimately unsuccessful and proved to be an unpopular alternative for some stakeholders. Crowe's more recent stakeholder engagement efforts during Task 4 of this Mill Assessment Study also highlighted existing stakeholder concerns. Some stakeholders believe that this definition does not properly reflect a wholistic view of pesticide risk. One concern raised by stakeholders was that signal words reflect acute toxicity risk, and thus do not account for chronic toxicity, carcinogenicity, and many environmental impacts. Other stakeholders raised concerns about unintended consequences. For example, many registrants sell products in a concentrated form to reduce packaging and shipping costs. These concentrated products are assigned a Danger signal word due to the concentration, but they are diluted prior to use.

As described in the above section, *Quantifying the Incentive Required to Influence Behavior*, research suggests that implementing a tiered mill structure based off signal word classification would not incentivize safer pesticide use, as the effectiveness of models to reduce harmful use of pesticides depends on the price elasticity of demand for pesticides, and research has shown that pesticide sales and use are inelastic. Because of this, the process to identify mill fee rates at which this incentive would potentially influence behavior will likely be challenging. Although signal words offer a clear and defined structure by which to create a tiered mill model, early evidence indicates that different policy mechanisms may be necessary to incentivize pesticide purchasing behavior that will optimally support the Administration's vision of transitioning to safe, sustainable pesticide management.

### C. Tiered Mill Fee Funding Model Based on Hazard/Risk Level

A tiered mill model based on hazard/risk level would reflect a shift in approach from the current flat fee mill assessment on pesticide sales, to a model where higher toxicity or hazardous pesticides are assessed at a higher fee. Proponents of this alternative may view this tiered approach as a means to incentivize reduced risk pesticides, furthering DPR's mission of fostering reduced-risk pest management. However, similar to a tiered mill based on signal words, there is limited evidence to suggest that implementing a tiered mill structure in this manner would influence behavior and ultimately promote the use of safer pesticides based on the general inelasticity of pesticide use.

Additionally, unlike a tiered model based on signal words, implementation of this mill fee funding model would likely require a significant effort to define the hazard or risk level criteria by which to create the mill tier criteria. The Blue Book, referencing a 1997 report from the UC's Environmental Health Policy Program, identified challenges that remain today – namely, that “there are a variety of types of adverse environmental impacts caused by pesticide use, and no easy way to identify the worst pesticides overall.” Similarly, the previously mentioned 2013 study evaluating European Union pesticide policies,<sup>14</sup> which explored the potential for introducing an optimal pesticide policy framework at the EU level, acknowledged the difficulty with implementing such a policy is that “obtaining an accurate estimate of the monetary value of pesticide damage (or benefit) is not an easy task...(and) requires rigorous information on different dimensions and aspects of pesticide use.”<sup>15</sup>

As part of the Mill Assessment Study, Crowe researched potential mill tier criteria including the Globally Harmonized System (GHS) Acute Toxicity Hazard categories, Pesticide Illness Surveillance Program data, various risk criteria (reproductive toxin, carcinogen, groundwater contaminant, cholinesterase inhibitor), low-risk assessment criteria proposed in scientific literature, environmental monitoring data, and pesticides on the Prop 65 list. One challenge is that scientific understanding of pesticide risks has evolved over time. As research on pesticide toxicity, health, environmental impacts evolve, any criteria by which pesticide use is tiered based on definitions of risk and/or hazard are likely to change. Furthermore, a pesticide that is determined to be “low hazard” could become “high hazard” if used without the proper precautions or applied at high levels. Our research found that there is no clear and scientifically consistent approach to determining hazard, particularly with a high enough degree of certainty to justify a differential monetary fee.

Even if it was possible to attain a consensus on the appropriate criteria by which to create a hazard-based tiered mill, the process to identify the mill cost at which this incentive may influence behavior will likely be challenging much like the tiered signal word alternative discussed above. Moreover, we feel this alternative is likely to be administratively burdensome, as compared to other mill alternatives.

<sup>14</sup> <https://www.sciencedirect.com/science/article/pii/S1573521412000395> Skevas, T. et al. “Designing the emerging EU pesticide policy: A literature review. NJAS – Wageningen Journal of Life Sciences, Volumes 64-65, September 2013.

<sup>15</sup> T. Skevas, A.G.J.M. Oude Lansink & S.E. Stefanou (2013) Designing the emerging EU pesticide policy: A literature review, NJAS: Wageningen Journal of Life Sciences, 64-65:1, 95-103, DOI: 10.1016/j.njas.2012.09.001.

## 8. Next Steps and Milestones

In this last section, we first describe next steps to obtain input from DPR and interested stakeholders on this Concept Paper. We then outline the remaining milestones to complete the Mill Assessment Study by June 2023.

### A. Next Steps

Over the next two months, Crowe will be gathering input on this Concept Paper from DPR and interested stakeholders, as summarized in **Exhibit 36**. Crowe will utilize stakeholder input to help refine the mill considerations and to further inform our detailed analysis and development of a recommended mill fee.

Crowe plans to conduct additional follow-up interviews and focus groups with stakeholders including members of the Pesticide Management Advisory Committee (PMAC), CACs, and other stakeholders to gather input on the Concept Paper and key mill design, usage, and implementation decisions. Crowe will leverage stakeholder input on mill considerations to:

- Inform our understanding of the impacts of mill structure alternatives to stakeholders
- Inform our understanding of potential unintended consequences of mill structure alternatives
- Inform our understanding of the extent that mill alternatives incentivize safer and sustainable pest management
- Refine mill considerations, options, and alternatives.

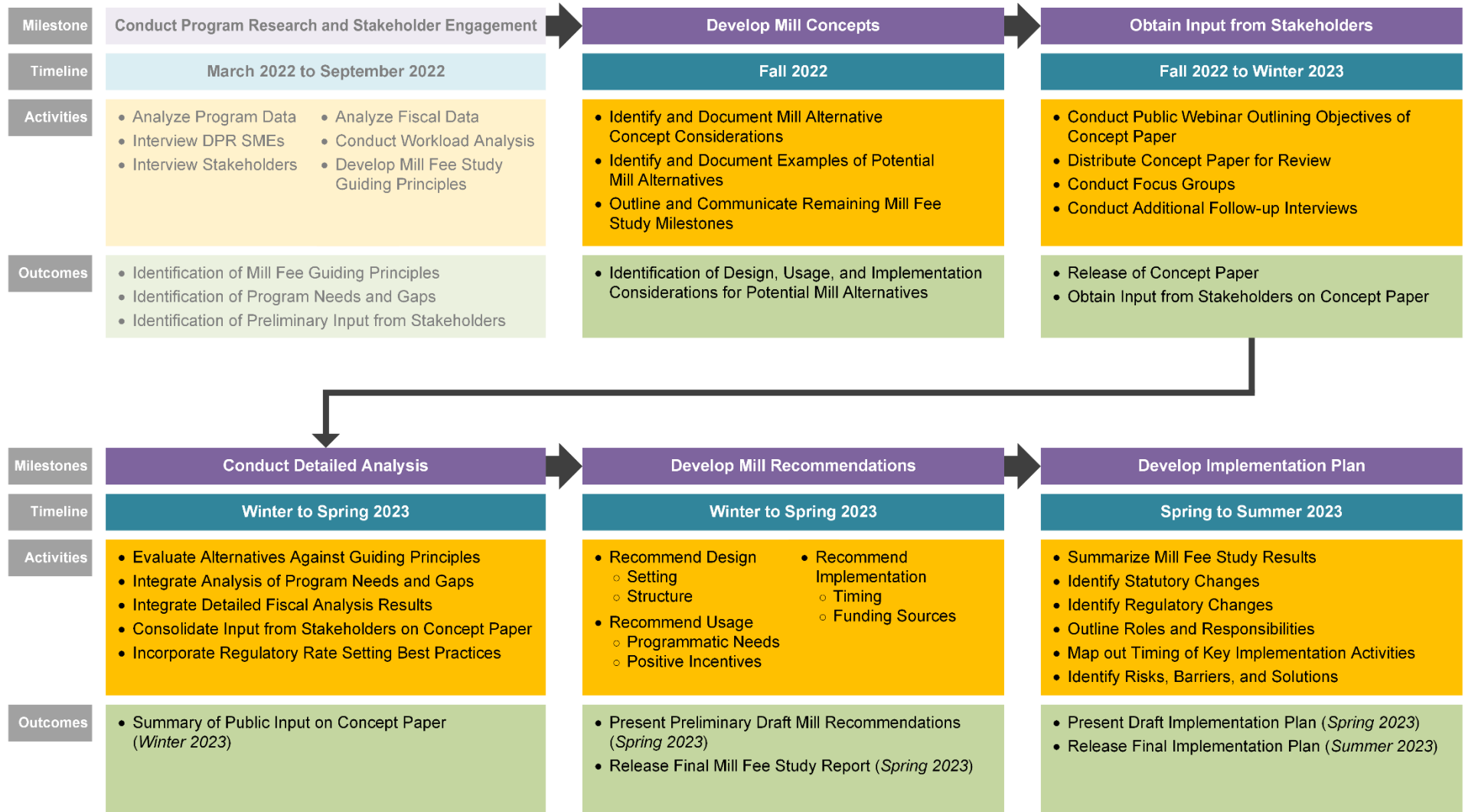
**Exhibit 36**  
**Stakeholder Input Milestone**

Milestone	Obtain Input from Stakeholders
Timeline	Fall 2022 to Winter 2023
Activities	<ul style="list-style-type: none"> <li>• Conduct Public Webinar Outlining Objectives of Concept Paper</li> <li>• Distribute Concept Paper for Review</li> <li>• Conduct Focus Groups</li> <li>• Conduct Additional Follow-up Interviews</li> </ul>
Outcomes	<ul style="list-style-type: none"> <li>• Release of Concept Paper</li> <li>• Obtain Input from Stakeholders on Concept Paper</li> </ul>

## B. Remaining Milestones

**Exhibit 37** outlines remaining Mill Assessment Study milestones, including expected timelines, activities, and outcomes to be completed by June 2023.

**Exhibit 37**  
**Mill Assessment Study Milestones**



## Appendix A: Stakeholders Consulted To-Date

In **Exhibit A-1**, we list the 30 stakeholders that we have conducted consultation sessions with since the inception of the Mill Assessment Study.

### Exhibit A-1 Stakeholders Consulted To-Date

No.	Stakeholder
1	Agricultural Council of California
2	Almond Alliance
3	American Chemistry Council
4	Bayer
5	California Agricultural Commissioners and Sealers Association / County Agricultural Commissioners
6	California Association of Pest Control Advisors
7	California Association of Winegrape Growers
8	California Department of Food and Agriculture
9	California Farm Bureau Federation
10	California Institute for Biodiversity
11	California Rural Legal Assistance Foundation
12	California Specialty Crops Council
13	Californians for Pesticide Reform
14	Center for Biological Diversity
15	Central California Environmental Justice Network
16	Citrus Mutual
17	Community Alliance with Family Farmers
18	Corteva
19	CropLife
20	Environmental Working Group
21	Household and Consumer Products Association
22	Leadership Counsel for Justice and Accountability
23	Marrone Bio
24	Mosquito and Vector Control Districts Association
25	Natural Resources Defense Council
26	Pesticide Action Network North America
27	Reckitt Benckiser
28	Syngenta
29	University of California, Integrated Pest Management
30	Western Plant Health Association



## Appendix B: Mill Assessment Study Guiding Principles Criteria

**Exhibit B-1** illustrates how Crowe will utilize the guiding principles to evaluate mill fee considerations against the guiding principles. For each guiding principle we summarize what a positive, neutral, or negative result would indicate. Ultimately, once DPR and stakeholders have had an opportunity to provide input on the alternatives presented in earlier sections of this Concept Paper, Crowe will conduct a detailed and systematic review and analysis of each proposed alternative compared against the Guiding Principles in order to develop mill fee recommendations that substantively meets the Mill Assessment Study's objectives. Crowe may identify additional evaluation criteria during our detailed analysis.

**Exhibit B-1  
Mill Assessment Study Guiding Principles  
Evaluation Criteria**

Principle	Description	Positive	Neutral	Negative
<p><b>Provide a sustainable long-term funding source for the Department</b></p>	<p>This principle is consistent with a key objective of this Mill Assessment Study. The Department of Pesticide Regulation Fund (DPRF) has been operating under a structural deficit in five (5) out of the eight (8) budget cycles from FY2014-15 through FY2021-22 and it is projected to operate under a structural deficit in the next budget cycle. The DPRF receives approximately 80 percent of its revenues from the mill assessment, which has not been updated in nearly 20 years. The 2021 State Leadership Accountability Act (SLAA) Report documents the Department’s significant risk of expanding workload responsibilities as a result of new laws, regulations, and orders without the additional resources to support the work. The additional unfunded demands and mandates have challenged DPR’s ability to effectively carry out its core mission. Additionally, DPR’s mill generated revenue continues to be volatile with changing sales dynamics between agricultural pesticides and non-agricultural pesticides. DPR is seeking a sustainable long-term funding mechanism that allows it to continue to fulfill its mission and effectively address its expanding workload responsibilities.</p>	<p>Provides revenue stability and sustainable funding for the transition to safer, sustainable pest management.</p>	<p>Could provide revenue stability and sustainable funding for the transition to safer, sustainable pest management.</p>	<p>Does not provide revenue stability and sustainable funding for the transition to safer, sustainable pest management.</p>
<p><b>Incentivize safer, sustainable pest management</b></p>	<p>Consistent with DPR’s statutory authority, and under the direction of Governor Newsom, California is moving towards a safer, sustainable pest management system. One of the goals of the 2021-2022 <i>Transition to Safer, Sustainable Pest Management</i> budget change proposal was to implement a tiered mill assessment structure that would advance safer, sustainable pest management by assessing a mill assessment fee on pesticides based on the signal word on their labels. DPR has other initiatives intended to plan and prepare for this transition – most importantly, the Sustainable Pest Management (SPM) Work Group. The SPM Work Group was convened in March 2021 by DPR and the California Department of Food and Agriculture (CDFA). The group, made up of diverse participants, released draft recommendations this year to help inform how DPR and the state will build on its efforts towards safer and sustainable pest management. Within DPR, the Integrated Pest Management (IPM) Branch has also been preparing for the transition to safer and sustainable pest management with increasing community outreach and engagement responsibilities. As California continues to move towards safer and sustainable pest management, DPR will need to continue to support and align to this transition through its initiatives, activities, and funding. This guiding principle is consistent with the Governor’s original proposal; however, the specific support mechanisms are still to be determined, and may be guided by the upcoming recommendations of the SPM Work Group.</p>	<p>Provides funding that will directly support SPM; creates a positive economic incentive to implement SPM.</p>	<p>Could result in increased adoption of SPM, although the impact is indirect and uncertain.</p>	<p>Does not incentivize or support SPM.</p>

Principle	Description	Positive	Neutral	Negative
<p><b>Align with the Department's mission, emerging priorities, and legal requirements</b></p>	<p>The Mill Assessment Study recommendations must align with DPR's mission, emerging priorities, and legal requirements. DPR's mission is to protect human health and the environment by regulating pesticide sales and use and by fostering reduced-risk pest management. DPR's responsibilities include pesticide product evaluation and registration and continues through statewide licensing, evaluation of health impacts, environmental monitoring, field enforcement of laws regulating pesticide use, encouraging development and adoption of least-toxic pest management practices, and sustainable pest management. DPR's responsibilities are increasing as new priorities emerge for the Department. DPR is authorized by law and other legal requirements to carry out its various responsibilities. Any changes to the mill fee and/or structure should align with the Department's mission, emerging priorities, and legal requirements.</p>	<p>There are clear linkages between DPR's mission, emerging priorities, and legal requirements.</p>	<p>There are linkages between many, but not all, of DPR's mission, emerging priorities, and legal requirements.</p>	<p>There are not linkages between DPR's mission, emerging priorities, and legal requirements.</p>
<p><b>Support alignment of the Department and CACs' programmatic activities with appropriate funding sources</b></p>	<p>The Mill Assessment Study recommendations should support alignment of the Department and CACs' workload activities with appropriate funding sources. As we continue to review and conduct the workload analysis component of the Mill Assessment Study, we anticipate that additional current and emerging programmatic activities will come to light. Some additional programmatic activities include, but are not limited to: increased outreach, IPM activities, cannabis regulation, systems alignment, enforcement training, and others. It will be important to align any changes in the mill fee and/or DPR's funding structure in a way that supports the Department's current and future programmatic activities, including the CACs' apportionment of funding.</p>	<p>There are clear linkages between programmatic activities and funding sources, particularly mill funding.</p>	<p>Programmatic activities are partially aligned with funding sources.</p>	<p>There is no clear alignment of programmatic activities and funding sources.</p>
<p><b>Support the availability of tools, technologies, and practices to address the diverse pest management needs in the State</b></p>	<p>As we think about evaluating the mill assessment, it is crucial to consider how the mill assessment may affect the availability of effective tools, technologies, and practices to address California's diverse pest management needs. Several stakeholders during interview process noted concerns that any changes to the mill fee and/or structure would create pesticide product availability issues. Stakeholders also noted that if DPR is to support a transition to safer pesticide products, those safer products must be evaluated and registered through DPR's registration process. Pesticides are integrated into California's \$50 billion agricultural industry and are important tools for public health and controlling invasive species. The diversity of our State requires a broad array of pest management tools, practices, technology, and innovation. As we move forward with the Mill Assessment Study, taking into consideration some of DPR's other initiatives regarding registration, we will need to ensure a balance of tools, technologies, practices, and alternatives are available to effectively address our state's diverse pest management needs.</p>	<p>Addresses the need to expand knowledge about new tools, technologies, and practices, improve the registration process, and/or provides a mechanism to register new and effective pest management tools and practices as substitutes.</p>	<p>Somewhat addresses the need to expand knowledge about new tools, technologies, and practices, improve the registration process, and/or provides a mechanism to register new and effective pest management tools and practices as substitutes.</p>	<p>Does not address the need to expand knowledge about new tools, technologies, and practices, improve the registration process, and/or provides a mechanism to register new and effective pest management tools and practices as substitutes.</p>
<p><b>Incorporate objective measures</b></p>	<p>Criteria used to determine the mill amount(s) must be clear, science-based, and objective. Objective measures are important for instilling a level of fairness through logic and data-backed evidence as we continue with the Study. There are significant challenges associated with utilizing the mill assessment as a policy tool to incentivize behavior. That said, it will be important to evaluate a range of potential alternatives, including various tiered mill structures that could incentivize and/or fund safer sustainable pest management.</p>	<p>The mechanism to set mill level(s) is clearly defined using criteria that are understood and agreed upon, based on quantifiable data, and/or based on best available science.</p>	<p>The mechanism to set mill level(s) is defined; however, criteria and/or data are not consistently understood or agreed upon.</p>	<p>The mechanism to set mill level(s) is not clearly defined and criteria are not agreed upon.</p>

Principle	Description	Positive	Neutral	Negative
<b>Minimize the potential for unintended consequences</b>	Crowe and DPR will need to carefully consider the various risks and unintended consequences resulting from proposed changes to the mill. A fundamental aspect of policy development is that the policy results in the intended purpose. During initial interviews with stakeholders, many believed that the previous tiered mill structure proposed in the <i>Transition to Safer, Sustainable Pest Management</i> budget change proposal would produce unintended consequences. For example, stakeholders felt that the proposal would have conflicted with efforts to reduce packaging through concentrated products or that additional testing to obtain a lower tier would be counter to efforts to avoid animal testing. As part of our identification and evaluation of alternatives, it will be important to anticipate and understand the full spectrum of potential intended and unintended consequences.	Potential unintended consequences have been identified and assessed, and are not likely to result in significant negative impacts.	Potential unintended consequences have been identified and assessed, and some could result in negative impacts.	Potential unintended consequences have been identified and assessed, and are likely to result in negative consequences.
<b>Foster transparency</b>	Transparency is a fundamental part of DPR’s own guiding principles and values. As community interest in pesticide use has grown in recent years, the Department is taking noticeable steps towards greater transparency and additional communication to explain the work that both the Department and CACs perform. Transparency is important for the Mill Assessment Study process and for proposed mill assessment approaches. Crowe and DPR should strive to clearly explain and demonstrate the reasoning and methods for proposed mill assessment alternatives. Transparency will continue to be important for not only the public, but DPR’s key stakeholders as we continue with the Mill Assessment Study.	The process to develop, analyze, and select the alternative is clearly explained, logical, and analytically sound.	The process to develop, analyze, and select the alternative is mostly explained, logical, and analytically sound.	The process to develop, analyze, and select the alternative appears random or politically driven.
<b>Minimize administrative burden</b>	Changes in the mill assessment and/or structure could have significant effects on DPR, their partners, and their external stakeholders’ business processes. Minimizing administrative burdens is an important factor for developing and evaluating alternatives to the current mill. Crowe will use this guiding principle to help navigate the feasibility, resource demands, and explore areas for greater efficiency and synergies when developing and evaluating alternatives.	Does not pose significant new, unavoidable, or burdensome administrative requirements on DPR or registrants.	Will result in some additional unavoidable administrative requirements on DPR and/or registrants; however, these can be addressed through education and clear processes.	Is complex for DPR to administer and would result in additional resources and systems; would also be administratively burdensome for registrants.
<b>Allow for re-evaluation and refinement</b>	The last guiding principle relates closely to providing a sustainable long-term funding source for the Department. Allowing for continual revaluation and refinement is critical for maintaining the sustainability and longevity of DPR’s future revenue stream. One example of a comparable fee structure that allows for revaluation and refinement is the California beverage container processing fees and handling fees, which are updated approximately every two (2) years based on the cost of recycling, cost of living, and other factors. This guiding principle is aligned with the need for a sustainable funding source for the Department.	There is a mechanism built into the alternative to re-evaluate and if necessary, update the mill based on a clearly defined process, including a trigger for re-evaluation.	There is a mechanism built into the alternative to re-evaluate and if necessary, update the mill; however, there are uncertainties.	There is no mechanism to re-evaluate and refine the mill.