

## Summary







The Department of Pesticide Regulation (DPR) contracted with Crowe LLP (Crowe) to conduct a study on the mill assessment, engage and consult stakeholders throughout the various stages of the study, and issue a final report outlining proposed mill options by June 2023. Crowe prepared this update to summarize outcomes from the third milestone of the Mill Assessment Study, which included the following activities:

- Released the Mill Alternatives Concept Paper (Concept Paper), on December 2, 2022, and conducted a public webinar on December 6, 2022, to present the mill design, usage, and implementation considerations described in the Concept Paper.
- Facilitated focus group sessions with interested stakeholders from various backgrounds to obtain feedback on the Concept Paper and collected and reviewed written responses from interested stakeholders on the Concept Paper.
- Released Workload Analysis Report on February 15, 2023; the Workload Analysis Report identifies the department’s estimated current and future programmatic needs, including preliminary estimates for DPR’s initial mill-related responsibilities associated with implementing recommendations included in the Sustainable Pest Management Roadmap for California (SPM Roadmap) released on January 26, 2023 by the department in collaboration with California Environmental Protection Agency (CalEPA) and the California Department of Food and Agriculture (CDFA).

## Mill Assessment Study Objectives

Crowe is examining six (6) study objectives, outlined in **Exhibit 1**, to provide DPR with a detailed plan including mechanisms to implement the options recommended as a result of the study.

### Exhibit 1 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 detailed options that incentivize the use of safer sustainable pest management practices across the state of California.</p>
	<p>Examine existing structure and rate of the mill assessment.</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 current and future revenues produced by that structure and rate.</p>		<p>Examine long-term sustainable funding that allows DPR to continue to fulfill its mission.</p>

## Mill Alternatives Concept Paper

The Concept Paper, released on December 2, 2022, provides Crowe's initial options for DPR's primary funding mechanism – the mill assessment – and serves as a foundational tool to successfully meet the Mill Assessment Study's objectives. On December 6, 2022, Crowe conducted a public webinar to provide an update on the study and present the mill design, usage, and implementation considerations along with the potential funding models addressed in the Concept Paper. The primary goals of the Concept Paper were to:

- Outline mill design, usage, and implementation considerations for review and feedback by DPR and interested stakeholders to support the refinement of Crowe's mill assessment recommendations
- Offer potential mill assessment funding models for review and feedback by DPR and interested stakeholders; and
- Communicate the remaining Mill Assessment Study milestones through the end of the contract period (June 2023).

The content described in the Concept Paper is expected to be further developed and refined through concerted review and feedback by DPR and interested stakeholders. Crowe's intent for the Concept Paper was to move the mill assessment 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.

## Stakeholder Focus Group Sessions on the Concept Paper

Following the release of the Concept Paper and the public webinar, Crowe conducted five (5) cross-sector focus group sessions with interested stakeholders from various backgrounds, including agricultural, environmental, environmental justice, registrants, applicators, regulatory partners, research entities, and others. The objectives of the focus group sessions were to obtain additional feedback from interested stakeholders on proposed mill design, usage, and implementation considerations detailed in the Concept Paper, provide a venue for stakeholders across different industries and interest groups to hear other's perspectives and ideas, and to inform Crowe's refinement of mill recommendations. Below is a list of focus group session participants.

**Focus Group Session Participants:**

- |                                                                                                      |                                                  |                                                                                     |
|------------------------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------------|
| 1. Agricultural Council of California                                                                | 10. California Certified Organic Farmers         | 21. Pesticide Management Advisory Committee                                         |
| 2. Almond Alliance                                                                                   | 11. California Rural Legal Assistance Foundation | 22. Reckitt Benckiser                                                               |
| 3. Almond Board                                                                                      | 12. California Specialty Crops Council           | 23. Syngenta                                                                        |
| 4. American Chemistry Council                                                                        | 13. California Women for Agriculture             | 24. University of California, Agriculture and Natural Resources                     |
| 5. Blue Diamond                                                                                      | 14. Californians for Pesticide Reform            | 25. University of California, Cooperative Extension                                 |
| 6. California Agricultural Aircraft Association                                                      | 15. Center for Biological Diversity              | 26. University of California, Department of Biological and Agricultural Engineering |
| 7. California Agricultural Commissioners and Sealers Association / County Agricultural Commissioners | 16. Citrus Mutual                                | 27. Western Wood Preserve Institute                                                 |
| 8. California Association of Pest Control Advisors                                                   | 17. Community Alliance with Family Farmers       | 28. Western Plant Health Association                                                |
| 9. California Association of Winegrape Growers                                                       | 18. CropLife                                     |                                                                                     |
|                                                                                                      | 19. Environmental Working Group                  |                                                                                     |
|                                                                                                      | 20. Household and Consumer Products Association  |                                                                                     |

Crowe asked a series of questions during the sessions, including:

1. *Should the mill rate and/or structure be set in statute, or authorized in statute and set in regulation?*
2. *Should the mill structure provide for a funding reserve?*
3. *Should the mill rate be set at a single value (flat rate) or set a different value (tiered rate) based on established criteria?*
4. *Should the Department implement a tiered rate structure based on Pesticide Category Workload? Based on Regulatory Activities Workload?*
5. *Should mill revenues cover programmatic needs and why/why not?*
6. *Should mill revenues cover positive incentives and why/why not?*
7. *Should adjustments to the mill be implemented in a phased approach or as a one-time change?*
8. *What fiscal year should the updated mill fee be implemented?*
9. *Should there be a built-in structure to reevaluate the mill in the future?*
10. *Which of the three adjustments described in the Concept Paper do you prefer and why?*
11. *How do you think stakeholders should be involved in the review process?*
12. *How should mill revenue contribute to DPR's overall mix of funding?*
13. *What other potential funding sources do you think DPR should consider?*

## Overall Stakeholder Feedback on the Mill Alternatives Concept Paper

In addition to the focus group sessions, Crowe also invited interested stakeholders to provide written feedback on the Concept Paper. As of January 2023, Crowe received nine (9) letters and four (4) email submissions representing over forty (40) stakeholders from a broad range of backgrounds, many of which had also attended the focus group sessions. The written feedback largely mirrored the feedback shared by stakeholders during the focus group discussions. Below is a summary of stakeholders' feedback on the mill design, usage, and implementation considerations described in the Concept Paper.

### Mill Design Feedback

Mill design considerations, as described in the Concept Paper, cover the legal authority of the mill, how the mill is set legally, the structure of the mill, alignment of the mill to policy objectives, and approaches to revenue stabilization. Below are highlights from the feedback shared by stakeholders related to mill design:

- **Legal Authority for the Mill:** Most stakeholders expressed interest in setting the mill rate and/or structure in statute, noting the importance of the legislative process for public accountability. Some stakeholders also noted support for keeping the current legal authority of the mill where the maximum rate is set in statute and the current rate in regulation.
- **Funding Reserve Considerations:** Some stakeholders expressed openness to a reserve mechanism as part of the mill design. Stakeholders also noted that the implementation of a reserve mechanism should require clarity on the controls, accountability measures, definitions for what the reserve will be used for, and how an additional mill(s) threshold process would be implemented and monitored.
- **Predictability of the Mill:** Stakeholders noted the importance of having a predictable mill rate and/or structure to adequately plan for.
- **Rate Structure:** Some stakeholders supported the idea of a flat rate model primarily due to its predictability. Other stakeholders expressed support for the two (2) tiered models proposed in the Concept Paper (e.g., Tiered Fee Model Based on Levels of Pesticide Category Workload and Tiered Fee Model Based on Levels of Pesticide Product Workload Activities) and were interested to hear more specific details on how the tiered models would be implemented and administered.
- **Fairness of Tiered Funding Models:** Stakeholders raised concerns about the general fairness of the two (2) tiered funding models described in the Concept Paper. Specifically, stakeholders noted the substantial complexity and justification that would be required to identify fair, tiered rates based on general criteria described in the Concept Paper.

### Mill Usage Feedback

Mill usage considerations, as described in the Concept Paper, 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. Below are highlights from the feedback shared by stakeholders related to mill usage:

- **Understanding the Department's Fiscal Status:** Most stakeholders requested DPR to provide more information on the department's overall fiscal status. Stakeholders expressed the criticality of understanding the department's fiscal to provide informed feedback on how the mill should be utilized to continue to support the department's mission.

- **Understanding the Department's Core Programmatic Needs:** Stakeholders generally supported funding DPR's core programmatic needs utilizing mill revenues. Some stakeholders noted the challenge of providing feedback on mill usage considerations without understanding the department's current and future programmatic needs for its mill related responsibilities.
- **Understanding the Department's SPM Programmatic Needs:** Some stakeholders were cautious about expressing support for funding the department's sustainable pest management (SPM) programmatic needs utilizing mill revenues without first understanding DPR's priorities as part of the SPM Roadmap.
- **Funding for Positive Incentives:** Stakeholders had mixed opinions on whether mill revenues should support funding for positive incentives (i.e., options where DPR could potentially utilize mill revenues to support the transition to safer, sustainable pest management). Some stakeholders supported funding specific positive incentives such as additional support for registration of alternative products, research, grants, reevaluation, and risk assessments using mill revenues.

#### Mill Implementation Feedback

- **One-Time v. Phased Approach:** Stakeholders generally supported a phased implementation approach rather than a one-time mill adjustment, though they noted that it would depend on various factors like the degree of change to the mill structure and/or the mill rate to ultimately determine the best implementation approach.
- **Fiscal Year 2023/24 v. Fiscal Year 2024/25:** Several stakeholders supported the implementation of a mill adjustment during Fiscal Year 2024/25, whether phased or not, noting that there would not be enough time to properly propose a budget change for Fiscal Year 2023/24 and that the later timeline would give more time for stakeholders to plan for potential mill rate adjustments.
- **Fee Review, Monitoring, and Future Adjustments:** Most stakeholders supported regular review, monitoring, and adjustment of the mill at set intervals (e.g., every four (4) to five (5) years). Stakeholders also expressed the need for transparent stakeholder engagement throughout the mill reevaluation process.
- **Funding Sources:** Many stakeholders would like DPR to consider funding sources outside of the mill, such as the General Fund, to support needs that fall outside of the department's authorized programs. Some stakeholders emphasized the opinion that DPR's funding should be separated from pesticide sales. In addition, some stakeholders expressed concern about the sustainability of the Department of Pesticide Regulation Fund should pesticide sales decline. Lastly, some stakeholders also expressed that a diversity of funding sources may be appropriate to adequately provide a sustainable funding framework to support DPR's current and future programmatic needs.

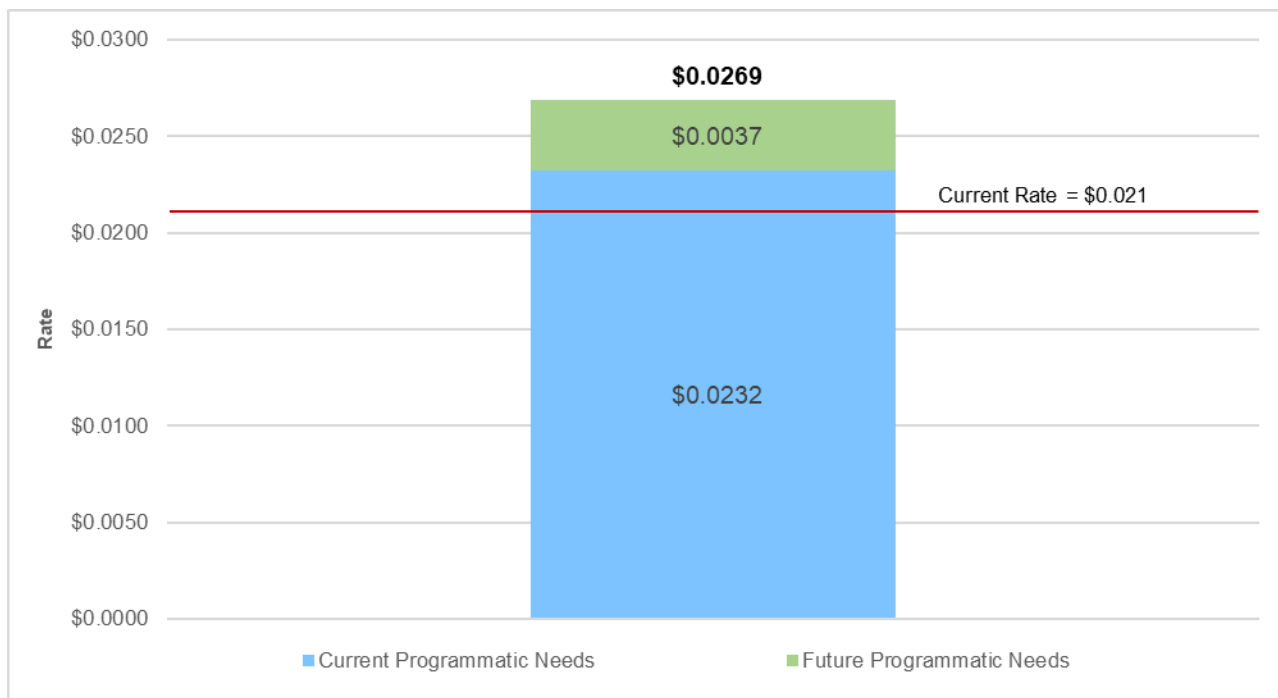
## Workload Analysis Report

The Workload Analysis Report, released on February 15, 2023, provides the results of Crowe’s workload analysis of DPR’s Pesticide Programs and Administration, and builds off the mill usage considerations described in the Concept Paper. Below, we provide a summary of the key findings of Crowe’s workload analysis:

- Current Programmatic Needs:** DPR’s current annual programmatic needs, as reflected in its FY2022/23 budget for mill-related responsibilities, total approximately \$102.1 million – approximately \$47.1 million to support personal services related expenditures, and \$55.0 million to support other needs including CACs (\$34.7 million), operating and equipment expenditures (\$11.8 million), external agency fund users (\$4.4 million), and shares of pro rata and supplemental pension obligations (\$4.1 million).
- Future Programmatic Needs:** DPR’s future annual programmatic needs based on our workload analysis, total approximately \$16.1 million for its mill-related responsibilities. Approximately 80 percent is estimated to support pesticide programs, which includes \$2.8 million in estimated needs to support the initial implementation of the SPM Roadmap, released on January 26, 2023.
- Estimated Mill Funding Implications:** Based on the needs identified above, the estimated total revenue requirement to support DPR’s current and future annual programmatic needs for mill-related responsibilities, including estimated needs to support the initial implementation of the SPM Roadmap, is approximately \$118.2 million. The additional revenue would require a minimum mill rate of \$0.0269 or a 27.9 percent increase to the current mill assessment rate of \$0.021.

In **Exhibit 2**, we provide an example of a mill rate “build-up” accounting for the \$0.0269 total minimum mill rate to support DPR’s current and future programmatic needs. Assuming FY2021/22 pesticide sales, the current mill rate of \$0.021 is not adequate to support DPR’s current and future programmatic needs.

**Exhibit 2**  
**Estimated Total Revenue Requirement**  
**Example of Minimum Mill Rate to Support Current and Future Programmatic Needs**



Crowe’s Workload Analysis Report only accounts for DPR’s estimated current and future programmatic needs (i.e., revenue required to support DPR’s Pesticide Programs and Administration that perform mill related responsibilities). Additional funding to support CACs, CDFA, reserve needs, and positive incentives (e.g., research and grants, environmental and human health monitoring, registration of new alternative products, etc.) would likely impact DPR’s revenue requirement and associated mill rate(s).

## Next Steps

As a next step, Crowe will continue to evaluate stakeholders’ feedback on the Concept Paper and the results of our workload analysis along with other potential mill funding needs to develop our mill recommendations. **Exhibit 3** outlines Crowe’s upcoming project milestones on the Mill Assessment Study, which includes conducting a detailed analysis of mill alternatives, developing recommendations, and creating a proposed plan to support implementation. Crowe will work with DPR to notify and obtain stakeholder feedback on our eventual mill recommendations to be released in Summer 2023.

### Exhibit 3 Mill Assessment Study – Remaining Project Milestones

