THE HONORABLE C. BRUNEL CHRISTENSEN, Director of Food and Agriculture has requested an opinion on the following questions concerning an advisory board under a marketing order issued pursuant to the California Marketing Act of 1937:

1. May the Avocado Advisory Board, with the approval of the Director, purchase real property and construct an office building thereon?

2. If the answer to the first question is affirmative, would legislative approval, or approval of another state agency, also be required for funding or other purposes?

3. If the director is authorized to grant approval without fiscal or other controls by another state agency, what limitations of state law on funding and architectural and construction contracting must the Director observe, if any?

4. Would the real property and improvements be exempt from taxation pursuant to Article XIII, Section 1 of the California Constitution, or otherwise?
The Conclusions are:

1. The California Marketing Act of 1937 (Food and Agriculture Code, sections 58601 through 59293), was enacted in the exercise of the State’s police power. The Avocado Advisory Board, operating under a marketing order adopted under that statute, may only act subject to the authorization and approval of the Director of Food and Agriculture. Assessments and other moneys collected under such marketing order are public moneys of the State continually appropriated for the proper and necessary costs of the particular marketing order. Such moneys are not subject to the usual budgeting and depositing procedures for most other State moneys. The Director of Food and Agriculture has discretion in approving budgets and expenditure as necessary and proper to defray the costs of the particular marketing order. This includes expenditures for the purchase of real estate and the construction of an office building thereon. No opinion is expressed as to the propriety of any exercise of such discretion by the Director of Food and Agriculture.

2. Only the approval of the Director of Food and Agriculture would be necessary for the funding of the project. The credit of the State may not be pledged for any amounts borrowed to finance the project the project so the usual authorizations and safeguards attending such pledging need not be complied with.

3. The suggested office building would be a project to be constructed under the provisions of the State Contract Act, Government Code, sections 14250 through 14424, since the structure would be constructed with State money and would be owned by the State.

4. The State would be the owner of any such land and building. Therefore, the property would be exempt from taxation under California Constitution, article XIII section 1, and Revenue and Taxation Code, section 202.

Analysis

The Marketing Order For The Promotion of California Avocados, As Amended (hereinafter “the order”) was issued December 23, 1971, effective January 1, 1972, by the Director of Agriculture (now the Director of Food and Agriculture, hereinafter “the Director”) under the authority of California Marketing Act of 1937, Division 21, Part 2 Chapter 1, comprising sections 58601 through 59293, of the Food and Agriculture Code (hereinafter “the act”). The marketing order is of long standing, having been amended from time to time and is still in effect under the administration of the advisory board provided for in the marketing order.
In the act the Legislature finds among other things that the disorderly and improper marketing of agricultural commodities “results in an unreasonable and unnecessary economic waste of the agricultural wealth of this state.” Food and Agriculture Code section 58651 (hereinafter, unless otherwise specified, all section references are to the Food and Agriculture Code). It is “declared to be the policy of this state to aid producers in preventing economic waste in the marketing of their commodities and to aid producers in restoring and maintaining their purchasing power at a more adequate, equitable and reasonable level.” Sec. 58652. Therefore, the marketing of agricultural commodities is “declared to be affected with a public interest” and the act is “enacted in the exercise of the police powers of this state for the purpose of protecting the health, peace, safety and general welfare of the people of this state.” Sec. 58653.

The act provides that any marketing order issued pursuant to the act “shall provide for the establishment of an advisory board to assist the director (of Food and Agriculture) in the administration of any marketing order.” Sec. 58841.

The members of advisory boards are appointed by the Director and “may hold office” at his pleasure. Sec. 58841.

Section 58845 sets forth the powers of such advisory boards in part in the following language:

“The director may authorize an advisory board to do all of the following:

“(a) Enter into contracts or agreements.

“(b) Employ necessary personnel, . . .

“(c) Incur such expenses, to be paid by the director from moneys which are collected as provided in this article, as the director may deem necessary and proper to enable the advisory board properly to perform its duties as authorized by this chapter. (Emphasis added.)

Section 58846 provides for the duties of such boards in part as follows:

“The duties of an advisory board are administrative only and any such board may do only the following:

“(a) Subject to the approval of the director, administer the marketing order.
“(e) Assist the director in the assessment of members of the industry and in the collection of funds to cover expenses incurred by the director in the administration of the marketing order. ..”

Members alternate members and employees of advisory boards “are not responsible individually in any way whatsoever to any person for liability on any contract or agreement of the advisory board.” Sec. 58847.

Except for “combined assessments,” each marketing order issued under the act “shall provide for the levying and collection of assessments in sufficient amounts to defray the necessary expenses which are incurred by the director in the formulation, issuance, administration and enforcement of the marketing order.” Sec. 58921.

Under section 58923, the advisory board for the particular marketing order “shall recommend to the director, from time to time, budgets to cover necessary expenses . . . and the assessment rates which are necessary to provide sufficient funds. If the director finds that each such budget and assessment rate are proper and equitable and will provide sufficient moneys to defray the expenses which may be incurred, he may approve such budget and rate of assessment and order that each producer and handler so assessed shall pay to the director” an assessment. Under section 58924 the amount of the assessment for expenses is limited in the case of producers to 2-1/2 percent of the gross dollar volume of sales of the commodity affected by the marketing order and in the case of processors, distributors or other handlers to 2-1/2 percent of the gross dollar volume of purchases of the commodity affected by the marketing order, except, under section 58925, the percentage of assessments to defray the expenses of advertising and sales promotion plans may be not more than 4 percent of the gross dollar volume of sales by all producers, processors, distributors or other handlers of the regulated commodity.

In lieu of these maximum assessment rates, section 58926 provides for a single assessment, commonly referred to as a “combined rate” of assessment, in marketing orders providing for advertising or sales promotion activities. Such “combined rate” must not exceed six and one-half percent of the gross dollar volume of sales of the commodity regulated during the applicable marketing season.

Section 58928 provides:

“If any advisory board of any marketing order has reason to believe that the administration of a marketing order will be
facilitated or the attainment of the purposes and objectives of the marketing order will be promoted thereby, the advisory board may borrow money with or without interest to carry out any proviso of any marketing order which is authorized by this chapter, and may hypothecate anticipated assessment collections that are applicable to such respective provisions.”

Assessments are “a personal debt of every person so assessed,” payable to the Director and, if unpaid, “the Director may file a complaint against such person in a state court of competent jurisdiction for the collection of the assessment.” Sec. 58929. The Director may add a ten percent penalty on delinquent payments of assessments. Sec. 58930.

With respect to the deposit and expenditure of assessments collected under marketing orders, section 58937 provides, in part:

“Any money which is collected by the director pursuant to this chapter shall be deposited in a bank or other depository which is approved by the Director of General Services, allocated to each marketing order under which it is collected, and, except as provided in Section 58941 (expenses of administrative services rendered to each marketing order by the Department of Food and Agriculture), it shall be disbursed by the director only for the necessary expenses which are incurred by the advisory board and which are approved by the director with respect to each marketing order.

“Funds so collected shall be deposited and disbursed in conformity with appropriate rules and regulations which are prescribed by the director….”

Under section 58938, at the end of any fiscal period adopted for any marketing order, the director may refund surplus moneys collected under such order or, upon recommendation of the advisory board and approval of the director, all or part of such surplus may be carried over the next fiscal period of such marketing order if the director finds such money is required to defray subsequent expenses under the marketing order. Such refunds are to be made on a pro rata basis to those on whose behalf they were collected. Similarly, section 58938 also provides for pro rata basis to those on whose behalf they were collected. Similarly, section 58938 also provides for pro rata refunds of surplus moneys upon termination of each marketing order.

Section 59081 provides for the suspension or termination of a marketing order where the director, after public notice and hearing, finds that the marketing order “is contrary to, or
does not tend to effectuate, the declared purposes or provisions of this chapter within the
standards and subject to the limitations and restrictions which are imposed in this chapter.”

Any marketing order is likewise to be terminated upon petition of 51 percent of the
producers who produce at least 51 percent of the volume of the product affected by the
marketing order, or by at least 51 percent of the handlers who handle at least 51 percent by
volume of such product. Sec. 59082. A procedure for reapprovals of the marketing order from
time to time is provided for in sections 59083 through 59086.

In addition to procedural and explanatory rules and regulations with respect to a
particular marketing order (sec. 59161), the director may issue general rules and regulations
applicable to the administration and enforcement of all marketing orders (sec. 59141) and
pursuant to section 58936 he “shall prescribe rules and regulations with respect to the assessment
and collection of funds” provided to be paid under each marketing order pursuant to section
58923 and related sections.

Criminal, civil and administrative remedies and penalties are provided for violation of the
terms of the act, any marketing order or any rule or regulation issued under the authority of the
act. Secs. 59231-59293.

The Marketing Order For The Promotion Of California Avocados, As Amended,
effective January 1, 1972, is in the usual form of such orders. The order establishes an advisory
board of ten producers of avocados and four handlers (distributors or processors) of avocados “to
assist the Director in the administration” of the Order. Order, Article II, section A, 1. The initial
members of the Advisory Board and their alternates were appointed by the Director from
nominations received at the public meeting prior to the issuance of the Order. Order, Article II,
section B. Thereafter, advisory board members and alternates are appointed by the Director from
among persons nominated at separate annual meetings of producers and handlers. Members and
alternates serve for two years. Order, Article II, section L.

Article II, section I, lists the Advisory Board’s “duties and powers, which may be
exercised subject to the approval of the Director.” These include the powers and duties of
advisory boards set forth in sections 58845, 58846 and 58923.

Activities provided to be carried on under the order are advertising and sales promotion (Article
III), marketing and marketing surveys (Article IV) and production research and studies (Article
IVA) all with respect to avocados.
Following the act, Article V of the order provides for the recommendation each marketing season by the Advisory Board of budgets and rates of assessment for administration, for advertising and trade promotion and for research and survey studies. Also Article V requires the Board to recommend a “combined rate” pursuant to section 58926, which shall not exceed six and one-half percent of the gross dollar volume of sales of avocados by all producers to handlers.

Under Article V, section B.1, "If the Director finds that said budget or budgets and combined rate of assessment are proper and equitable and calculated to provide such amounts of money as may be necessary to properly carry out the provisions of this Marketing Order, he may approve said budget or budgets and establish a combined rate of assessment."

Article V, Section E, of the Order, provides for refunds of surplus assessment receipts at the close of any marketing season or upon termination of the Order, following generally the refund provisions of section 58938 of the act.

Article XIII of the Order provides that the Order shall remain in effect unless suspended or terminated in the manner therein set forth, which generally follows the provisions of sections 59081 through 59088 of the Act concerning termination or suspension of marketing orders.

The Legislature has found certain conditions to exist with respect to the marketing of agricultural products, has declared the public policy of the State with respect to such conditions and in the exercise of the State's police power has enacted the act to remedy the harmful conditions in accordance with such public policy. Through the Director, individual marketing order advisory boards are the instruments of the State in executing such policy.

The proceeds of assessments and other moneys coming to the Director as the result of each marketing order are used to carry out the public purposes of the marketing order. While in the hands of the Director such funds are public moneys even though kept in segregated accounts and not budgeted nor disbursed as are most other State public moneys through annual budget act and the State Controller.

In each marketing order "(t)he state itself exercises its legislative authority in making the regulation and in prescribing the conditions of its application … The State … as sovereign, imposed the restraint as an act of government." Par
Assessments under marketing orders adopted under the act have been considered as taxes for various purposes. For example, the court in In Re Farmers Frozen Food Company, 221 F. Supp. 385, 387 (D.C. No. Dist. Cal. 1963), in holding a claim of the Director for assessments due under the act to be entitled to priority in payment under section 64(a)(4) of the Bankruptcy Act, concluded that such unpaid assessments were a "tax." It pointed out that they are (1) an involuntary pecuniary burden, (2) imposed by, or under the authority of, the Legislature, (3) for public purposes, (4) under the police or, taxing power of the State. The Court noticed that the minority who deal in the commodity regulated by the marketing order but who have not assented to its adoption must pay the assessments levied under it, as well as the majority who assented to it. In Re Farmers Frozen Food Company, supra, was affirmed in a memorandum opinion under the name of J.M. Dungan, Trustee, Etc. v. Department of Agriculture, Etc., 332 F.2d 793 (C.A. 9th 1964).

Even though surplus assessments are subject to refund on a pro rata basis to industry members who have paid such assessments, while the assessments paid in remain in the hands of the Director they are State moneys.

The purpose of marketing order assessments is to produce sufficient funds to carry out the provisions of the Marketing Order. Sec. 58923. In approving the advisory board's recommended budget and assessment rate, the Director must find them to be "proper and equitable" and that they will "provide sufficient moneys to defray the expenses" of the Marketing Order. Sec. 58923. Article V of the Marketing Order adopts the same language.

Such assessments are kept in special accounts and allocated to the particular marketing order. Sec. 58937. Except for general expenses of the Department of Food and Agriculture, such assessments "shall be disbursed by the director only for the necessary expenses which are incurred by the advisory board and which are approved by the director with respect to each marketing order." Sec. 38937.

The provisions of sections 58923, 58937, and related sections, have been construed to take the depositing and expenditure of marketing order funds out of the normal budgeting and deposit procedures for State funds under California Constitution, Article IV, section 12, and Government Code sections 13320 through 13326 and 16300 and following. For example, in connection with a discussion of the Governor's Proposed Budget for marketing services of the Department of Food and Agriculture, it is said in the Report of the Legislative Analyst on the Budget Bill for the 1974-1975 Fiscal Year, at page 237:
The department also collects and expends approximately $33.8 million under 38 marketing orders or similar programs established at industry request to aid in solving problems related to production, control, and advertising of agricultural products. These marketing order expenditures do not appear in the Governor's Budget because they are handled as special trust fund accounts in the Agriculture Fund.

Thus, there is no annual appropriation of the proceeds of marketing order assessments and other moneys in the Budget Act. The usual budgetary approval by the Department of Finance is not required of marketing order budgets. Instead, the budget and assessment rate recommended by the advisory board to provide sufficient funds to cover necessary expenses of the particular order is approved as proper, equitable and sufficient by the Director. Sec. 58923. Such moneys are to be expended pursuant to section 58937 which provides that the proceeds of assessments under each marketing order "shall be disbursed by the director only for the necessary expenses which are incurred by the advisory board and which are approved by the director with respect to each marketing order."

In Opinion No. NS 2685, issued by this Office on June 19, 1940, to the State Controller, it was concluded that language in Agricultural Code, section 1300.17 (the act in its previous form) similar to the language now in section 58923 constituted a continuing appropriation for the necessary and approved expenses of the particular marketing order under which the assessments were levied. Excerpts from Opinion No. NS 2685 are pertinent:

"It is settled that no particular form or language is required for an appropriation. In determining whether an appropriation has been made, the intention of the Legislature is to be ascertained from the entire statute. (Riley v. Johnson, 219 Cal. 513, 519.) To an appropriation nothing more is requisite than a designation of the amount and the fund out of which it is to be paid. (People v. Brooks, 16 Cal. 1.)

"Here the manifest intention of the Legislature was to provide a means of disbursing moneys paid into the designated fund…"
"It is, we think, manifest that the Legislature could not have contemplated that the moneys… were to become frozen in that fund thereby making it impossible to carry out the purposes of the statute …. While the language of the statute as amended is not as clear as it might be … we are of the opinion that it is sufficient to constitute an appropriation. When the statute as a whole and the factual background surrounding the past operations of the Department of Agriculture in administering the various programs promulgated pursuant to that statute are considered, there can be no doubt but that the Legislature intended to make an appropriation."

Thus, the amounts on hand resulting from marketing order assessments and other moneys arising from the marketing order are public moneys continually appropriated under the Food and Agriculture Code to defray the necessary and approved expenses of the marketing order under which the assessments were collected.

In Opinion No. NS 2617, issued by this Office to the Director of Agriculture on May 28, 1940, in concluding that, if approved by the Director of Agriculture, an advisory board might use proceeds of assessments to pay premiums on automobile public liability insurance, it was said that the question as to what expenditures are necessary and proper to enable an advisory board to properly perform its duties under a marketing order "is one to be determined by the director in the exercise of a sound discretion."

With respect to the first question, there is no express authority in the act for an advisory board to own property, real or personal. Neither is there any indirect reference to ownership of property by such boards. As has been said, assessments are paid to the Director and are disbursed by him. Sec. 58937. But, when authorized by the Director, an advisory board may "enter into contracts or agreements" and may "incur such expenses, to be paid by the director from moneys which are collected" under the marketing order, "as the director may deem necessary and proper to enable the advisory board properly to perform its duties." Sec. 58845. The board must use personal property in carrying out its duties. Also, it must meet somewhere, and its staff must occupy some office space. Thus, the authority to own property, either in the name of the advisory board, the director, the State, or otherwise, to carry out the purposes of each marketing order may be implied from the entire act although not expressly stated in the statute.

Thus, as a general proposition, the Director has authority to authorize the expenditure of the receipts from
marketing order assessments and other moneys accruing under such order to purchase real estate and for the construction of an office building provided such transactions carry out the purpose of the particular marketing order and, in the informed judgment of the director such purchase and construction are equitable under all the circumstances and necessary and proper to enable the advisory board to carry out its duties.

There may be a number of reasons for such purchase and construction to be neither necessary nor proper. We are advised that advisory boards usually, if not universally, rent office space and do not own their own land or office buildings. Thus, in assenting to a marketing order by the terms of which assessments are to be levied for "necessary and proper" expenses of initiating, administering and enforcing the order, those regulated by the order and who pay the assessments may not be given warning that capital transactions are to be engaged in by the advisory board. It may be questionable if diverting part of the assessment proceeds for such purpose would be "equitable" under section 58923. Then, the advisory board is limited in its expenditures to the amount of money on hand plus borrowing, authorized by section 58928. Neither the Director nor the advisory board may pledge the credit of the State for the repayment of the loan. Furthermore, the marketing order may be terminated at any time under certain contingencies as is the case with other marketing orders.

Also, sections 58924, 58925 and 58926 place limitations on the amount of assessments that may be collected. The same is true of Article V of the Marketing Order providing for assessments. Thus, it may be impracticable for the advisory board to undertake the proposed purchase and construction project.

All these, and perhaps many more circumstances, are to be taken into consideration by the Director in exercising his discretion to approve or not to approve any budget proposed by the advisory board which would include the capital project in question.

On the other hand, there may be considerations leading the Director to approve the project. It may be that a number of advisory boards in the same vicinity may find it practicable to cooperate to buy land and construct an office building to be used by all of them and to share the expenses of the acquisition and construction rather than renting individual office space. Or many other considerations may outweigh any of the objections to the proposal.

We express no opinion upon whether or not a budget containing provision for the proposed real estate purchase and office building should or should not be approved by the
Director. We merely say that it is the opinion of this Office that in the exercise of a sound discretion the Director is authorized by the act to approve such expenditures if he finds them proper, equitable and necessary to properly carry out the Provisions of the Marketing Order.

The second question is whether in connection with the project legislative approval or the approval of any State agency other than the Director would be required for funding or other purposes. The answer is in the negative. So far as funding is concerned, section 58928 provides that an advisory board may borrow money if "the administration of a marketing order will be facilitated or the attainment of the purposes and objectives to the marketing order will be promoted thereby … to carry out any provision of any marketing order." The same section authorizes the hypothecation of applicable anticipated assessment collections.

Although section 58928 does not by express language make the authority of advisory boards to borrow money subject to the authorization or approval of the Director, such power, as is the case with all other powers of an advisory board, is subject to the Director's authorization or approval.

As hereinafter discussed, the construction must be pursuant to the State Contract Act (Government Code, sec. 14250, et seq.). Under Government Code, section 14780, as a general proposition, construction contracts by a state agency must be approved by the Department of General Services. But contracts let under the State Contract Act are exempt from such approval by section 14780 itself.

Other than such action by the Director, no other authorization or approval is required to fund the suggested acquisition and construction. As has been seen, an advisory board's funds are continually appropriated for necessary and proper needs of the board in carrying out the purposes of the marketing order. Ordinarily, a capital project must be presented to the Department of Finance by the operating agency for inclusion in the Governor's Budget, the Legislature must then appropriate or allocate the money for the project and the carrying out of the project may be made subject to the approval of the Public Works Board. None of these steps need be taken by an advisory board or by the Director in carrying out a recommendation of the advisory board to acquire a site and construct an office building. Since the credit of the State may not be pledged to secure any borrowings for advisory board purposes, the usual safeguards attending such pledge need not be complied with.

Other than the approval of the project by the Director, no approvals by other State agencies suggest themselves in connection with the funding of the suggested acquisition and
construction.

The third question is as to limitations on architecture and construction of the suggested project.

Neither the Property Acquisition Law (Government Code, secs. 15850 through 15866) nor the State Building Construction Act of 1955 (Government Code, secs. 15800 through 15849) is applicable. Each of these statutes requires that the appropriation act or other statute authorizing the capital outlay shall expressly provide that the project be carried out pursuant to the terms of the Property Acquisition Law (Government Code, sec. 15853) or the State Building Construction Act of 1955 (Government Code, secs. 15801, 15808), as the case may be. The continuing appropriation of advisory board moneys in the Food and Agricultural Code makes no reference to either of these laws contained in the Government Code. Thus, they are not applicable to the proposed project.

However, the State Contract Act (Government Code, secs. 14250 through 14424) would apply to the construction of the proposed office building. With certain exceptions, not presently relevant, the State Contract Act covers “projects” which include the erection or construction of "any state structure" or any "state improvement” costing in excess of $10,000. Government Code, sec. 14254. Under the statute, in the case of the advisory board structure in question construction would be under the sole charge and control of the Office of Architecture And Construction of the Department of General Services. Government Code, sec. 14255; see Government Code, secs. 14951, 14952, 14953, 14956, 14957. The State Contract Act, unlike the two statutes previously mentioned, does not require an express statutory provision in the budget item or statute authorizing the construction to make it applicable to "projects" as defined in such Act.

The contemplated office building, if it is to cost more than $10,000 appears to be a "state structure, building…or …improvement within the definition of a "project" in Government Code, section 14254. State moneys will be used to defray the costs of any such structure. The advisory board is created by a statute of the State and is wholly controlled and financed by the State to carry out the police power of the State. The structure when completed will be owned by the State. The termination of the particular marketing order may require the State to dispose of the land and building but while the structure is being erected and during the life of the marketing order it is certainly owned by the State. Thus, it is concluded that if and when approved by the Director of Food and Agriculture the construction of the proposed office building is required to be performed under the terms of the State Contract Act.
Even though a structure is a "project" subject to such Act, under certain circumstances the planning and construction may be exempted from the provisions of the statute and may be carried on by the agency itself. Government Code, sec. 14256. While primarily under the supervision and control of the Office of Architecture and Construction, in certain cases the actual architectural and supervisory work may be done by private engineers and architects under contract with the Department of General Services. Government Code, sec. 14952. But neither the advisory board nor the Director is at liberty to arrange for the construction in disregard of the provisions of the State Contract Act.

The fourth question is whether the real property and improvements would be exempt from property taxation. The California Constitution, article XIII, section 1 exempts from taxation "property … such as may belong to this State … " Also, Revenue and Taxation Code, section 202, subdivision (d) repeats the constitutional exemption of "(p)roperty belonging to this State". This is the unquestioned law in California. People v. Chambers, 37 Cal.2d 552, 555 (1951); see Redevelopment Agency v. Malaki, 216 Cal.App.2d 480, 488 (1963). "In determining the scope of the constitutional exemption ownership is the decisive factor … " Eisley v. Mohan, 31 Cal.2d 637, 642 (1948). It is immaterial whether the property is held or used by the public body in a "proprietary" or "governmental" capacity so far as the tax exemption is concerned, so long as it is owned by a public body. Anderson-Cottonwood Irrigation District v. Klukkert, 13 Cal.2d 191, 199 (1939). Statutes exempting private property from taxation are strictly construed. However, "the rule is otherwise as to public property which is to be taxed only if there is express authority therefor. (Pasadena v. County of Los Angeles, 182 Cal. 171, 174:…”) The Housing Authority v. Dockweiler, 14 Cal.2d 437, 454 (1939).

Agencies and instrumentalities of the State such as irrigation districts (Anderson-Cottonwood Irrigation District v. Klukkert, supra, 13 Cal.2d 191, 199 (1939), reclamation districts (Reclamation Dist. No. 551 v. Sacramento County, 134 Cal. 477, 479 (1901), and the University of California (Webster v. Board of Regents, 163 Cal. 705, 708 (1912) are exempt from taxation under the constitutional provision.

Whatever the precise nature of an advisory board under the Act, the fact remains that so long as the particular marketing order remains operative and the land and building have not been disposed of, the State is the owner of such capital assets and they would be exempt from taxation as property belonging to the State under the provisions of California Constitution, article XIII, section 1 and Revenue and Taxation Code, section 202.