

**Senator Jim Beall, Chair**  
**Senator Jim Nielsen**  
**Senator Hannah-Beth Jackson**



**Thursday, March 20, 2014**  
**9:30 a.m. or Upon Adjournment of Session**  
**Hearing Room 112**

**Consultant: Catherine Freeman**

**Special Item for Consideration—Coastal Climate Adaptation**

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**Resources—Environmental Protection—Energy—Transportation**

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Special Item for Consideration: Coastal Climate Adaptation
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**BACKGROUND:**

**Sea Level Rise in California.** According to the Administration, climate change in California during the next century is expected to shift precipitation patterns, accelerate sea level rise, and increase temperatures. The country's longest continuously operating gauge of sea level, at Fort Point in San Francisco Bay, recorded a seven-inch rise in sea level over the 20<sup>th</sup> century. As has been seen throughout the country such as with Hurricane Sandy, as well as the recent "king tides" (very high tides) in Southern California, much of the developed California coast is susceptible to the impacts of sea level rise. In recent events, high tides inundated parts of the Pacific Coast Highway, Huntington Beach, and other low-lying areas of Southern California. Parts of the San Francisco Bay Area also experienced flooding, including portions of Highway One in Marin County. These very high tides are considered a good indicator of the possible impacts of sea level rise and create challenges for local planners and developers in low-lying areas.

**Administration Efforts for Climate Adaptation.** In 2008, Executive Order (EO) S-13-08 called on state agencies to develop California's first strategy to identify and prepare for expected climate impacts. The EO focused on the need to understand and improve how sea level rise projections would impact the state's coastal and low-lying areas. The EO required the California Natural Resources Agency (CNRA) to develop a Climate Adaptation Strategy with various state agencies through the established Climate Action Team. These efforts were designed to be complementary, but not duplicative, of the state's strategy for reducing greenhouse gas (GHG) emissions. The Office of Planning and Research, in conjunction with CNRA, was required to provide land-use planning guidance related to sea level rise and other climate change impacts.

The state subsequently undertook two new climate change assessments (a previous assessment, in 2006, examined the broad impacts of climate change on California's assets). The first assessment, completed in 2009, attempted to provide initial economic impacts of climate change. It concluded that preparing for climate impacts, in addition to efforts to reduce GHG emissions, could substantially reduce California's risk of economic losses and damages. The second assessment, completed in 2012, focused on vulnerability and adaptation discussed in the 2009 Climate Adaptation Strategy (described below). This assessment focused more specific types of response needs related to ground exposure, sensitivity, and natural and human systems.

As discussed at the March 6 hearing, the CNRA has published a 200 page report entitled, "Safeguarding California: Reducing Climate Risk." The report provides policy guidance for state decision makers, and highlights climate risks to nine sectors in California, from agriculture to energy, and forestry to ocean ecosystems. The plan provides a multi-sector framework for state efforts to reduce climate risk and is designed to work in conjunction with the more in-depth, sector-specific climate planning and risk reduction activities, such as addressed in the 2013 sea level rise report.

The state also published the 2103 State of California Seal-Level Rise Guidance Document which states:

“Specifically, this document provides step-by-step guidance on how to address sea-level rise in new and updated Local Coastal Programs (LCPs) and Coastal Development Permits (CDPs) according to the policies of the California Coastal Act. LCPs and the coastal development permit process are the fundamental land use planning and regulatory governing mechanisms in the coastal zone, and it is critically important that they are based on sound science and updated policy recommendations. This document also contains guiding principles for addressing sea-level rise in the coastal zone; a description of the best available science for California on sea-level rise; specific policy guidance to effectively address coastal hazards while continuing to protect coastal resources; and, background information on adaptation measures, sea-level rise science, how to establish future local water conditions in light of sea-level rise, links to useful resources and documents from other state agencies, and Coastal Act policies relevant to sea-level rise.”

**Climate Adaptation Strategy.** The California Energy Commission (CEC) has taken the lead in developing the climate assessments and adaptation strategies for the state, through use of the Public Interest Energy Research (PIER) program. The CEC and CNRA have used this research to develop an Adaptation Planning Guide (APG), a decision-making framework intended for use by local and regional stakeholders to aid in the interpretation of climate science and to develop a systematic rationale for reducing risks caused, or exacerbated, by climate change. The CEC and CNRA have also released Cal-Adapt, a web-based tool which enables city and county planners, government agencies, and the public to identify potential climate change risks in specific areas throughout California.

## **MULTIPLE STATE AGENCIES INVOLVED WITH COASTAL CLIMATE ADAPTATION**

In addition to the state agencies previously mentioned (CEC, CNRA and Office of Planning and Research), several other state agencies have primary roles in the assessment and planning for coastal climate adaption. Below are four primary state agencies responsible for addressing aspects of sea level rise on the coast.

**State Coastal Conservancy (SCC).** The SCC’s Climate Ready program provides a focus for the state’s work protecting important coastal resources and habitats from the current and future impacts of climate change. The SCC is collaborating with local partners and other agencies to reduce greenhouse gas emissions and prepare coastal communities. SB 1066 (Lieu), Chapter 611, Statutes of 2012, gave the SCC explicit authority to work with its partners on projects to address the effects of climate change on coastal resources along the coast and within the San Francisco Bay Area.

**State Coastal Conservancy Climate Ready Program.** The SCC's Climate Ready program provides a focus for SCC work, protecting coastal resources and habitats from the current and future impacts of climate change. The SCC collaborates with local partners and other agencies to reduce greenhouse gas emissions and prepare communities along the coast and within the San Francisco Bay for climate change. SB 1066 (Lieu), Chapter 611, Statutes of 2012, gave the SCC explicit authority to work with its partners on projects to address the effects of climate change on coastal resources along the coast and within the San Francisco Bay Area, including those that:

- prepare our communities for extreme weather events, sea level rise, storm surge, beach and bluff erosion, salt water intrusion, and flooding;
- address threats to coastal communities, natural resources, and infrastructure; and,
- reduce greenhouse gas emissions.

Using remaining bond funds, the SCC solicited grants for climate readiness, and though it received grant requests totaling over \$13 million in the first round, but was only able to fund \$1.1 million in projects. The projects ranged from Eureka to Imperial Beach and included cities, airports, conservation districts and regional nonprofits. Because bond funds are limited, it is unlikely that larger solicitations will be possible in the near future without a new funding source.

**Bay Conservation Development Commission (BCDC).** BCDC staff has taken a lead in developing an Adaptation Assistance Program (AAP) to provide information and resources to Bay Area local and regional governments to assist them in planning for, and adapting to, the impacts of a changing climate. These outreach efforts primarily focus on addressing the needs of land use planning, public works, park and open space districts, flood control districts, and wastewater authorities, as well as resource-based managers.

The AAP aims to help San Francisco Bay Area communities achieve coordinated and region-wide adaptation to climate change impacts by building capacity within local governments to assess climate change issues, and to plan for and implement adaptation strategies.

BCDC has identified five broad program components for accomplishing this objective:

- building partnerships that cut across jurisdictional boundaries, both geographic and sectoral;
- public outreach to build community and institutional support for adaptation planning;
- education to help planners and managers develop knowledge and skills for adaptation planning;
- creation of a "one-stop shop" website and information clearinghouse; and,
- development and dissemination of strategies to improve the region's resilience and adaptive capacity.

**State Lands Commission (SLC).** The SLC provides stewardship of state lands, waterways, and resources through economic development, protection, preservation, and restoration. The SLC also manages state oil and gas leases in coastal areas, including offshore oil platforms, for which it receives royalties from the sale of the produced oil.

According to the SLC, sea level rise resulting from climate change is an issue that has far reaching consequences for California, including the lands under the jurisdiction of the SLC. Lands within the SLC's jurisdiction and adjacent properties are already vulnerable to a wide range of naturally occurring events, including storms and extreme high tides. While some of these lands remain undeveloped, significant portions of California's shoreline areas have been developed, including areas either pursuant to a lease from the SLC or pursuant to authorization from local government trustees of state tide and submerged lands. The SLC has an important role to play in addressing the issue of sea level rise and assuring that those decision-makers involved in proposed and existing development on the state's Public Trust lands consider the impacts of sea level rise.

**California Coastal Commission (CCC).** The CCC is the primary state agency responsible for administering the 1976 Coastal Act. The CCC, in partnership with coastal cities and counties, plans and regulates the use of land and water in the coastal zone. Development activities, which are broadly defined by the Coastal Act to include (among other things) construction of buildings, divisions of land, and activities that change the intensity of use of land or public access to coastal waters, generally require a coastal permit from either the Coastal Commission or the local government.

Land use planning in the coastal zone, as in the rest of the state, is the primary responsibility of local governments. However, the Coastal Act imposes a number of requirements on land use in the coastal zone. Most significantly, the act requires local governments to adopt Local Coastal Programs (LCPs) to govern development of land in their jurisdictions that lie within the coastal zone.

In preparing to develop LCPs, many local governments have chosen to divide their coastal zone territory into several segments. This is done when a local government's coastal jurisdiction encompasses several distinct regions with different land use issues. A separate LCP is developed for each coastal segment. There are currently 128 coastal segments within the 76 coastal cities and counties. A LCP must contain: (1) a land use plan, and (2) zoning ordinances to implement the land use plan. In general, LCPs must be designed to ensure maximum public access to the coast, provide recreational facilities, protect the marine environment, and otherwise promote the goals and objectives of the Coastal Act.

The Coastal Commission reviews and certifies LCPs for conformity with the act. As originally passed, the act required all local governments in the coastal zone to have submitted LCPs to the CCC by January 1, 1980. However, this deadline has been extended several times, and today some jurisdictions still have not submitted LCPs to the commission.

The commission's status of LCP review includes:

- 92 LCP certified segments.
- 79 of 92 certified LCP segments (86 percent) were certified more than 20 years ago.
- 24 of 92 certified LCP segments have been comprehensively updated.

## COASTAL COMMISSION ROLE IN SEA LEVEL RISE PLANNING

**Updating Local Coastal Plans.** The CCC has maintained a steady budget over the past several years but has struggled to make progress in updating LCPs. There are many reasons for this, including: (1) funding has not been available to assist local jurisdictions in updating their coastal plans; (2) some locals are reluctant to take back coastal permitting and prefer to have the state provide this service; and, (3) recent local funding issues have, as with other areas of government, reduced their ability to do forward-thinking planning.

Sea level rise has added urgency to the issue of outdated, incomplete, and uncertified LCPs. Local planning and preparation are critical if the state is to maintain its coastal development zones and prepare for possible inundations. Creating a local plan is part of every coastal jurisdiction's responsibility, in order to determine how to preserve life and property along the California coast.

In the current year budget, the CCC received \$3 million (General Fund) to update and improve LCPs relative to sea level rise. Given the number of outdated and inadequate LCPs (again, relative to sea level rise), the CCC was charged with providing locals with the funding necessary (within budget constraints) to begin to shift the CCC's role away from providing direct permitting for 36 local jurisdictions, to its intended role of an appellate function for coastal land use decisions. At the same time, the CCC was asked to provide local assistance (\$1 million of the \$3 million), to provide locals with funding to update their LCPs, mainly for sea level rise and climate adaptation.

## REVENUE OPTIONS FOR FUNDING COASTAL CLIMATE ADAPTATION

**Tidelands Oil Revenue.** As previously discussed, the SLC receives royalty revenues from oil extraction activities on state tidelands. SB 271 (Ducheny and Thompson), Chapter 293, Statutes of 1997, established the principle that royalty revenues received by SLC from oil extraction activities should be dedicated, in large part, to various coastal and natural resources protections that benefit the entire state. Through subsequent legislation and budget actions, the Legislature funded various programs through the Resources Trust Fund (RTF) including marine management, natural resources infrastructure, and State Parks deferred maintenance. In 2002, the budget proposed eliminating the current statutory requirements for distributing tidelands oil revenues to various special funds to fund resource activities.

As a separate issue, a lawsuit between the state and the City of Long Beach required the city to direct funds to a Tidelands-related fund, the Oil Trust Fund, per Public Resources Code §6217.8. This fund is intended to be an abandonment reserve fund, for use when the oil production comes to an end. The maximum amount to be deposited into the fund was established at \$300 million, with continued funding to be deposited as Tidelands Oil revenue and (per current law), deposited into the General Fund. The Trust Fund has reached its maximum and therefore up to \$2 million per month is now being deposited into Tidelands Revenue that had not been available prior to 2013.

**SB 461—An Opportunity for Improved Funding.** The Legislature, in 2013, considered SB 461 (Leno), a bill to redirect SLC Tidelands Revenue to sea level rise adaptation activities. According to the committee analyses, this bill would begin to restore the principle that tidelands revenues should be used to fund activities that benefit the environment. As an example, the bill would help state agencies encourage local governments and other entities, responsible for planning under the Coastal Act; to develop and adopt updated plans that conserve and protect coastal resources from future impacts from sea-level rise and related climate change impacts such as extreme weather events. The bill was held in Assembly Appropriations.

### GOVERNOR’S PROPOSAL:

**Coastal Commission Funding Missing.** The Governor’s budget does not renew the \$3 million (General Fund) funding for the CCC’s local coastal plan updates. While funding was included on a one-time bases in the current year, the expectation was for this proposal to carry forward, should the need continue. With that in mind, the CCC both administered the \$1 million in grants to local agencies and conducted permanent hires to the Commission’s staff to keep up with workload associated with the increased turnover of LCPs.

**Fourth Climate Change Assessment Proposed, No Funding for Adaptation.** As discussed on March 6 in this subcommittee, the Governors’ budget requests \$5 million (one-time, Environmental License Plate Fund) and one position at the CNRA, to carry out a fourth climate change assessment. The Governor does not have an additional proposal dedicated to climate adaptation.

### ISSUES FOR LEGISLATIVE CONSIDERATION:

**Why Cease Funding for Sea Level Adaptation?** During budget hearings in 2013, and in review of the many efforts of the Administration related to climate adaptation, it became clear that the local coastal areas are not only the most vulnerable to sea level rise, but many are woefully behind in their Coastal Act-mandated local coastal plan updates. No one is more appropriate to address sea level rise than the locals themselves, as established in the Coastal Act. The statewide impact of these plans is necessarily subject to CCC review.

The Administration’s efforts, to date, have focused attention on the impacts of sea level rise and the economic impacts of loss of infrastructure in coastal areas. Science has already established the trend toward sea level rise, and the impacts of recent king tides have documented the cost of such a change on local infrastructure. The lack of continued funding for the update of LCPs seems shortsighted given that \$5 million would be directed to conduct further scientific studies of climate change.

The Legislature should consider re-establishing funding for the CCC, for a specific period of time, to provide locals with the funding necessary to create or update their LCPs. This funding should be temporary and fit the current model for grants to locals as established by the commission, with an emphasis on adaptation to sea level rise.

The Legislature should also consider ongoing funding to the CCC for review and update of these plans. The CCC holds a special expertise in the development of local coastal plans and works in conjunction with local agencies to ensure that their plans meet state law and standards. Without the necessary funding for this effort, LCPs will not be updated in a timely manner.

**Is it Time to Revisit Tidelands Oil Revenue Allocations?** In 1997, when the Legislature first established the principle that Tidelands Oil revenues should be allocated to natural resource and coastal activities, the royalties totaled a little over \$50 million. Today, due mostly to the price of oil, these funds bring between \$250 and \$350 million to the General Fund annually. Since 2006, all of the Tidelands royalties have been directed to the General Fund, in part for budget balancing. The addition of funds that have been directed to the Oil Trust Fund (related to the City of Long Beach abandonment reserve fund, now capped), are now included in the Administration's revenue estimates for Tidelands Oil.

Given the need for dedicated funding for sea level rise and adaptation, the Legislature should consider appropriating funding from Tidelands Oil to natural resource and coastal-related needs. Consistent with the Administration's Climate Action Strategy, it would seem that providing a dedicated funding source for coastal preparedness would be an appropriate state strategy to deal with sea level rise. A portion could be dedicated to local infrastructure, but a second subset should be directed to protect state-owned and managed assets such as roads, highways, state parks, water systems, ports, and other critical infrastructure.

**Staff Recommendation:**

1. Recommend approval of \$10 million directly from Tidelands Oil Revenue to the State Coastal Conservancy as a baseline adjustment to augment the existing Climate-Ready grant program.

Recommend trailer bill language in concept to ensure that funding is prioritized for projects that have long-term adaptation benefits.

2. Recommend restoration of General Fund to the Coastal Commission of \$3 million per year for 5 years, with \$1 million per year dedicated to local assistance.



**ITEMS PROPOSED FOR VOTE ONLY—Coastal Agencies****3720 California Coastal Commission**

1. **Coastal and Marine Education Whale Tail License Plate Program.** The Governor's budget requests a one-time augmentation of \$295,000 (California Beach and Coastal Enhancement Account and Whale Tail License Plate Account) to increase the funding for grants for coastal and marine education. This proposal is consistent with previous years where one-time funding has been available from the sale of the license plates.

**3560 State Lands Commission (SLC)**

2. **Human Resources Staffing.** The Governor's budget requests two positions to augment its current human resources department to accommodate both internal staff, as well as activities for departments who contract with SLC for administration (due to their small size). This would bring the total human resources staffing to 7.5 personnel years for 260 staff positions.
3. **Removal of Dennett Dam, A River Hazard.** The Governor's budget proposes \$133,000 (Environmental License Plate Fund) to remove Dennett Dam on the Tuolumne River in Stanislaus County. The dam poses a threat to public safety and is a barrier to recreational navigation and migrating salmon. Funding is contingent upon an equal match from local participants.

**Staff Recommendation:** Approve Items 1-3.

*ITEMS PROPOSED FOR DISCUSSION—Coastal Agencies***3760 State Coastal Conservancy****1. Office Move and Increased Rent**

**Background.** The State Coastal Conservancy (SCC) has occupied space at 1330 Broadway in Oakland for over 30 years. Past year facilities operations expenditures were \$433,000, for the approximately 16,000 square feet it occupies on the 11<sup>th</sup> and 13<sup>th</sup> floors of the current office space, at \$2.09 per square foot. The SCC's lease is up for renewal on November 30, 2014 at \$2.41 per square foot. The building at 1330 Broadway is also occupied by coastal-related nonprofits including Save the Bay, the Ocean Science Trust, The National Oceanic and Atmospheric Administration (NOAA) and the Coastal Services Center (Center).

The Elihu Harris State Building, located at 1515 Clay Street in Oakland has a vacancy on its 10<sup>th</sup> floor after the California Department of Corrections moved from this location. The lease is calculated at \$3.00 per square foot. As the building is managed by Department of General Services [DGS]), this creates a gap in the state's overall lease revenues. The Coastal Conservancy, over the past three years, has worked with the Legislature and its board to develop a very streamlined financial operating strategy given the reduction of bond funds in recent years. This strategy has included careful monitoring of operating expenses and consistency in minimizing costs.

**Budget Proposal.** The DGS has made a formal request for the SCC to move into the Elihu Harris State Building. In order to accommodate this move, the SCC would require "significant and unavoidable one-time costs associated with the DGS architectural design, engineering, and construction project, as well as furniture and moving costs." Even with modest and least cost items, the physical move is estimated at \$979,000 with an ongoing expense of \$140,000 per year for increased rent costs. Because the SCC does not have renewable funding sources available, this move and increased rent is proposed to be funded from the General Fund. Additional increases in costs would likely need to be absorbed by the conservancy.

**Staff Comments.** The move to the Elihu Harris building may solve a problem for DGS, however, the move does not necessarily make sense for the SCC. Co-location with other federal and state ocean-related agencies is important to the mission of the SCC. Additionally, providing for increased rent does not make fiscal sense to the SCC. The state should consider other tenants more closely related to the agencies already occupying the Elihu Harris building.

It has also come to the attention of staff that SCC is not alone in its move to a state building away from long-standing collaborative and beneficial relationships. The Bay Conservation Development Commission (BCDC) was also required by DGS to move to a state building rather than to a new building with its regional planning partners.

**Staff Recommendation:** Reject Proposal. Require SCC to renew lease at 1330 Broadway. Require the administration to report on programmatic impacts of BCDC move.

## 3480 Department of Conservation

The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of: geology, seismology, and mineral resources; oil, gas, and geothermal resources; and agricultural and open-space land.

**Governor's Budget.** The Governor's budget includes \$93.5 million and 541 positions for support of the department. This is a decrease of \$31 million from previous year expenditures due mostly to reductions in bond expenditures. The budget includes an increase of \$11 million in the Oil, Gas and Geothermal Administrative Fund due to the implementation of fracking legislation.

### *Items Proposed for Vote-Only*

- 1. California Farmland Conservancy Program Reimbursements—High-Speed Rail.** The budget requests a four-year limited-term increase in reimbursement authority of about \$5 million per year (High-Speed Rail funds), to assist the High-Speed Rail Authority by providing services to meet environmental commitments and mitigation with agricultural land conservation.
- 2. Alquist-Priolo Fault Zone Funding.** The budget requests \$1.4 million (Strong-Motion Instrumentation and Seismic Hazards Mapping Fund) to reinvigorate the Alquist-Priolo Earthquake Fault Zoning Act. This is a proposal to evaluate, over the next six years, the faults in California believed to be active that have not been included in previous evaluations. Trailer bill language is proposed to increase fees for this proposal from building permits at a rate of \$10 to \$13 per \$100,000 for residential permits and \$21 to \$28 for non-residential permits.

### **Staff Recommendation:**

**Item 1:** Consistent with previous legislative actions on High-Speed Rail proposals, Hold Open item one until a final decision has been made regarding funding for the overall program.

**Item 2:** Approve.

*Items Proposed for Discussion***1. Implementation of SB 4 (Pavley)—Hydraulic Fracturing**

**Background (Legislative Analyst’s Office [LAO]).** Hydraulic fracturing and acid matrix stimulation are two types of well stimulation techniques used to increase the production of oil and gas. Typically, hydraulic fracturing relies on injecting a mixture of high-pressure water, sand, and chemicals deep into underground geologic formations. Acid matrix stimulation utilizes the injection of one or more acid mixtures into an underground geologic formation. Of the roughly 42,000 active wells in California, it is estimated that on average between 1,000 and 2,000 wells will likely undergo one or more of these types of well stimulation activities each year.

SB 4 (Pavley), Chapter 313, Statutes of 2013, commonly referred to as SB 4, requires the regulation of oil and gas well stimulation treatments such as hydraulic fracturing. The legislation requires, among other things, the development of regulations (which we discuss in more detail below), a permitting process, and public notification and disclosure of wells that will undergo hydraulic fracturing and acid matrix stimulation and the types of chemicals used for these processes. The legislation also states that workload associated with its implementation can be funded by the Oil, Gas, and Geothermal Administrative Fund (OGGAF). The OGGAF is funded through a fee administered by the Division of Oil, Gas, and Geothermal Resources (DOGGR) within the Department of Conservation. The fee is designed to recover the division’s costs to regulate oil and gas extraction in the state. The fee is currently assessed at \$0.14 per barrel of oil produced or 10,000 cubic feet of natural gas produced in the state.

Among its regulatory requirements, SB 4 requires DOGGR to adopt rules and regulations by January 2015, regarding the construction of wells and well casings, as well as the disclosure of the composition and disposal of well stimulation fluids. As part of the regulations, DOGGR must require well operators to apply for a permit prior to performing well stimulation activities, which must be posted on a publicly accessible portion of DOGGR’s website. The regulations must also include provisions for random inspections by DOGGR during well stimulation activities. In addition, SB 4 requires DOGGR to provide a progress report to the Legislature by April 1, 2014.

Senate Bill 4 also requires that groundwater monitoring be performed in areas that have well stimulation activity, in order to detect if groundwater is contaminated. Specifically, the legislation requires the State Water Resources Control Board (SWRCB) to (1) provide guidance to DOGGR on the development of regulations for wells where groundwater could be affected, (2) develop criteria specifying requirements for groundwater monitoring in areas with well stimulation activities and a plan for monitoring groundwater based on those criteria by July 1, 2015, and (3) begin monitoring groundwater by January 1, 2016. Senate Bill 4 also requires well owners and operators to develop groundwater monitoring plans if they are in an area which is not monitored by SWRCB. In addition, SB 4 requires DOGGR to enter into formal agreements with multiple departments (including the Air Resources Board [ARB] and Department of Toxic Substances Control [DTSC]), in order to delineate roles and responsibilities related to its implementation.

**Budget Proposal.** The Governor’s budget includes proposals in three departments for workload related to the regulation of hydraulic and acid matrix fracturing. In total, the Administration requests \$20.5 million from the OGGAF and 85 positions in 2014-15. Of this total, \$19.9 million and 80 positions are proposed to be ongoing. The Governor’s budget reflects an increase of \$23 million in OGGAF revenue, based on an assumed increase in the regulatory fee administered by DOGGR, to pay for these additional costs. At the time of this analysis, it is uncertain how such a fee increase will be assessed. Specifically, the Administration proposes adjustments for the following departments.

- **DOGGR.** The Governor’s budget requests 60 permanent positions, 5 limited-term positions, and \$13 million in 2014-15 (\$9.2 million ongoing) for DOGGR to regulate well stimulation techniques. The bulk of these positions would be used for engineering and geological workload, such as monitoring compliance with state regulations at extraction sites.
- **SWRCB.** The Governor’s budget requests \$6.2 million and 14 positions in 2014-15 for SWRCB to develop the groundwater monitoring criteria and plan, as well as to evaluate compliance by well owners and operators who develop their own groundwater monitoring plans. It also includes funding for contracts to perform groundwater monitoring. The request for SWRCB would increase to \$9.4 million in 2015–16, which is primarily due to additional costs related to groundwater monitoring contracts.
- **ARB.** The Governor’s budget requests six positions and \$1.3 million for ARB to develop regulations to control and mitigate GHG emissions, “criteria pollutants,” and toxic air contaminants resulting from well stimulation.

The Governor also proposes budget trailer legislation to address what the Administration describes as an inconsistency in SB 4 related to groundwater monitoring. Specifically, sections of SB 4 varied in whether it required SWRCB to “review” or “approve” groundwater monitoring plans developed by well owners and operators. The proposed legislation would specifically require SWRCB to review—rather than approve—monitoring plans. According to the Administration, this change is necessary in order to clarify DOGGR’s role as the lead state agency responsible for preparing environmental impact reports. Finally, the Administration states that it may also propose budget trailer legislation to clarify how the fee increase will be assessed in order to generate the additional revenue reflected in the proposed budget to fund the requested proposals.

**LAO Analysis and Recommendation (DOGGR).** The Governor’s proposals raise several issues for legislative consideration. First, as indicated above, while SB 4 states that monies from the OGGAF can be used for costs associated with the implementation of the bill, the Administration has not yet determined how the fee increase will be assessed. The Administration is currently considering two options, either (1) increasing the per barrel fee on all production in the state, or (2) assessing a fee increase just on those wells that undergo well stimulation. This is a policy choice on which SB 4 was silent, and there are trade-offs with each option. On the one hand, assessing the fee on all in-state production would spread the costs over many more parties, thus reducing the fee burden associated with regulating any single well. However, this would mean charging some oil producers for the costs associated with the regulation of an activity in which they are not engaged. On the other hand, if the fee increase were levied solely on those entities that are using well stimulation, it would be more

expensive for those producers. Based on the cost proposals from the Administration, we estimate that if the fee were only charged to those entities performing well stimulation each year, the average cost would be around \$10,000 to \$20,000 per well, though the exact amount paid by any individual driller or operator might vary depending on the number of wells which undergo well stimulation.

**“Approve DOGGR Request.”** The Governor’s request for additional positions for DOGGR to implement SB 4 is justified on a workload basis. We therefore recommend that the Legislature approve 60 permanent positions, 5 limited-term positions, and \$13 million in 2014-15 (\$9.2 million ongoing) to regulate well stimulation techniques.

**Staff Comments.** Staff concurs with the need to approve position authority for the evaluation and enforcement of well stimulation practices. The department has determined that a per-barrel fee is the most effective method of funding for SB 4. The department should be prepared to discuss how it came to this conclusion and how the fee will be implemented. The department should also be prepared to discuss the trailer bill and any changes that have been proposed either by legislative staff or the Administration.

**Staff Recommendation:**

1. Approve DOGGR request for positions and baseline appropriation.
2. Hold open SWRCB and ARB proposals to be heard under their respective departments.
3. Hold open the trailer bill language until a final draft is complete with input from policy staff.

## 3540 Department of Forestry and Fire Protection (CalFIRE)

The California Department of Forestry and Fire Protection's (CalFIRE) mission is to serve and safeguard the people and protect the property and resources of California. CalFIRE provides all hazard emergency - fire, medical, rescue and disaster - response to the public. The Department provides resources management and wild land fire protection services covering over 31 million acres of the state. It operates 228 fire stations and, on average, responds to over 5,600 wildfires annually. The department also performs the functions of a local fire department through reimbursement agreements with local governments. The state contracts to provide fire protection and prevention services in six local areas.

**Governor's Budget.** The Governor's budget includes \$1.4 billion (\$777 million General Fund) and 6,962 positions for support of the department. This is an increase of \$158 million from previous year expenditures. The budget includes an increase of \$63 million (General Fund) mainly for adjustments in the state versus federal responsibility areas as well as personnel and workers compensation package amendments.

### *Items Proposed for Vote-Only*

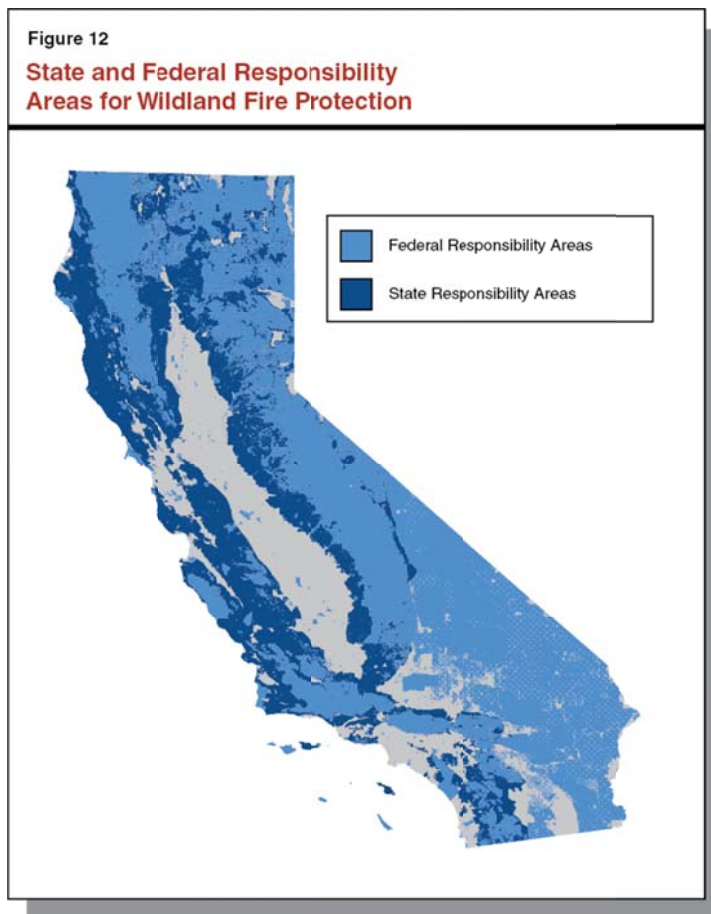
- 1. Public Records Act Request Compliance.** The budget requests \$416,000 in permanent funding and two positions (SRA Fund) for additional finance and legal staff to coordinate and respond to a significant increase in the number of Public Records Act requests.
- 2. Fire Safety, Fire Retardants, and Building Insulation (Implementation of AB 127 [Skinner]).** The budget requests \$253,000 (Building Standards Administration Special Revolving Fund) in one-time funding to implement AB 127 (Skinner), Chapter 579, Statutes of 2013, related to flammability standards for building insulation materials, including whether the standards for some materials require the use of chemical retardants.
- 3. Capital Outlay: Badger Forest Fire Station—Replace Facility.** The budget requests a supplemental appropriation of \$1.2 million (Public Buildings Construction Fund) to replace the one-engine Badger Forest Fire Station.
- 4. Capital Outlay: South Operations Area Headquarters—Relocate Facility.** The budget requests \$4 million (Public Buildings Operation Fund) to relocate the South Operations Headquarters to the March Air Reserve Base.

**Staff Recommendation:** Approve Items 1-4.

*Items Proposed for Discussion*

**1. State Responsibility Area (SRA) Protection Area Adjustment**

**Background (Legislative Analyst’s Office [LAO]).** Fire protection efforts in California’s wild lands involve firefighting resources at the state, federal, and local levels. The responsibilities for each level of government are set forth in law and policy directives. However, these responsibilities and the geographic areas of protection often overlap among governments. In order to reduce overlap and maximize the use of resources across jurisdictions, firefighting agencies generally rely on a complex series of agreements that result in a multiagency wildland fire protection system. As shown in Figure 12, state or federal agencies have primary responsibility for providing wildland fire protection for 79 million acres—almost 80 percent of all land—in California. Specifically, the state is currently responsible for wildland fire protection on approximately 31 million acres of wild lands (generally privately owned). Federal Responsibility Areas (FRA) are comprised of 48 million acres of land owned and administered by various federal agencies including the United States Forest Service (USFS), the Bureau of Land Management, the National Park Service, the Fish and Wildlife Service, and the Bureau of Indian Affairs.



Source: LAO, 2013



Since the 1930s, state and federal agencies have entered into agreements that provide for interagency cooperation between these two levels of government. As part of this agreement, CalFIRE and its federal counterparts have determined in which areas it is most efficient for the state and federal governments to have resource protection responsibility. This includes, in some areas, CalFIRE having fire protection responsibilities of FRAs, while in other areas, the federal government has fire protection responsibilities in SRAs. Approximately four million acres of SRA are protected by the USFS for wildland fire prevention and suppression, and CalFIRE protects a similar amount of federal land. Once responsibility for protecting lands is determined, the agency accepting responsibility for the protection of that land assumes full financial responsibility for any firefighting costs associated with it. In addition, the agreement provides that each agency, to the extent possible, will fight fires consistent with the approach of the other agency had it been the one responsible.

Following the 2007 Angora Fire near Lake Tahoe, the agreement between CalFIRE and its federal counterparts was reexamined, and a statewide review by CalFIRE and USFS determined that the USFS could no longer adequately protect some SRAs it had previously covered. This determination was based on the following factors: (1) a large number of homes in wildland areas, (2) the likelihood of high-intensity wildfires, and (3) high property and resource values. In particular, the review identified areas around the Lake Tahoe basin, Idyllwild (Riverside County), and Big Bear Lake (San Bernardino County) as areas in which USFS could no longer offer adequate protection. CalFIRE and USFS reached a new agreement in 2013 that transfers primary fire protection responsibility in these SRAs to CalFIRE. Consequently, the state resumed primary protection responsibility for 92,000 acres of high-risk, high-value SRA in 2013. For the past year, CalFIRE has utilized existing resources from other areas in order to cover these additional areas of responsibility.

**Budget Proposal.** The Governor's budget proposes ongoing funding of \$14.2 million to support 62.5 permanent positions, in order to expand CalFIRE's fire protection in the areas around Lake Tahoe, Idyllwild, and Big Bear Lake. This includes (1) \$13.6 million from the General Fund to support 59.5 positions for fire suppression, and (2) \$670,000 from the SRA Fire Prevention Fund to support three positions for fire prevention activities within the SRAs. These resources will provide staffing for seven fire stations and one helitack base in these areas.

**LAO Analysis and Recommendation.** The LAO has analyzed this proposal and provides the following analysis and recommendations:

**Proposed Expansions Likely to Have Additional Costs.** The Administration's budget request is for the additional positions and operating costs necessary to provide fire prevention and protection services in these areas. The request, however, does not identify CalFIRE's long-term facility needs in these areas or the potential costs for purchase or construction of new facilities.

**More Changes to Interagency Agreement Likely.** Since the interagency agreement between CalFIRE and federal agencies was first established in the 1930s, the nature of the SRA and FRA have changed significantly. For instance, housing development has increased in many areas of SRA. Additionally, the responsibilities of CalFIRE and federal agencies have shifted. For example, CalFIRE is now required to provide certain fire prevention services to all inhabitants in SRA since those residents pay the SRA fee.

The USFS, on the other hand, does not have the authority to conduct the same level of fire prevention activities as CalFIRE. In addition, the USFS and CalFIRE have different fire suppression and fire fuel management policies. The current interagency agreement with the federal government is set to expire in 2018. Based on our conversations with CalFIRE, as SRA land continues to be developed and fire suppression costs rise, federal agencies will want to shift more SRA fire protection responsibility to the state. This would result in additional costs to the state.

**LAO Recommendations.** It is consistent with CalFIRE's mission to protect these three areas to California's fire protection standards, and the proposal would provide the level of resources necessary for sufficient staffing according to the department's methodology. Therefore, we recommend that the Legislature approve the Governor's proposal. However, the Legislature should request additional information to understand the full magnitude regarding the fiscal impact of these changes, as well as potential changes in the future. Specifically, we further recommend that the Legislature require CalFIRE to report at budget hearings on the expected capital outlay costs associated with the proposal. In addition, we recommend that the Legislature adopt budget trailer legislation requiring CalFIRE to report on other areas of SRA currently protected by federal agencies that are most likely to be transferred back to CalFIRE responsibility in the future. This report to the Legislature should be completed prior to renewing the interagency agreement. The report should identify the reasons why those areas are most likely to be shifted back to CalFIRE, the operational and capital costs associated with CalFIRE management of those areas, and any policy alternatives the state could consider other than taking back full responsibility (such as sharing of resources and facilities or different reimbursement policies).

**Staff Comments.** Staff concurs with the LAO analysis. The department should address the LAO concerns in its opening statement including future costs of the proposal and capital outlay estimates.

**Staff Recommendation:**

1. Approve Governor's Proposal.
2. Adopt supplemental reporting language requiring the department to report to the Legislature prior to negotiation of future state versus federal responsibility area adjustments in order to determine if budget legislative representation is advisable at these meetings. Request the LAO draft this language in conjunction with the department.

*Items Proposed for Discussion***2. Fireworks Disposal and Management**

**Background (Legislative Analyst’s Office [LAO]).** Under state law, the Office of the State Fire Marshal (OSFM) within CalFIRE is responsible for the management and disposal of seized illegal fireworks. Fireworks may be declared illegal by federal, state, or local governments. Federal regulations designate some types of fireworks as illegal to be sold in the U.S. State law allows only certain fireworks legal under federal law—those designated as “safe and sane” by the OSFM—to be sold in California. Many local jurisdictions in California choose to ban the sale or use of any fireworks within their borders. Consequently, illegal fireworks seized by law enforcement agencies include those that are illegally made in or transported into the U.S., as well as fireworks that are legally purchased in one jurisdiction (including parts of California, in some cases) and brought into another jurisdiction where they are illegal.

Possession of illegal fireworks in California is usually a misdemeanor and is punishable by penalties ranging from \$500 to \$50,000, as well as possible incarceration, with the size of the penalty depending on the quantity of fireworks. Law enforcement agencies, such as the California Highway Patrol and local police, are authorized to seize illegal fireworks. Local fire departments may also accept drop-offs of illegal fireworks. Once the fireworks are seized, state statute requires the OSFM to properly dispose of them. Because seized fireworks are considered hazardous waste and are explosive, proper disposal can be dangerous, labor intensive, and costly. Many of the fireworks must be shipped to an out-of-state disposal site, at a cost of roughly \$10 per pound. Fireworks that cannot be shipped because they are unpackaged or unstable are incinerated at a cost of about \$30,000 annually. The OSFM estimates that around 100,000 pounds of illegal fireworks are collected annually, and that it would cost approximately \$600,000 if the state were to dispose of all collected fireworks in the state each year.

Chapter 563, Statutes of 2007 (SB 839, Calderon), increased the penalty amounts to the levels described above in order to fund the disposal of seized fireworks. However, the revenue generated from these penalties has never been sufficient to cover more than a small fraction of the program’s costs. The most penalty revenue collected in any given year was around \$30,000, and in some years, it has been as little as a few thousand dollars. It is unclear why the penalty revenue collected is so low. According to OSFM, the lack of ongoing funding for proper disposal has caused a backlog of illegal fireworks needing proper disposal. The OSFM estimated that there was a backlog of 250,000 pounds of fireworks as of August 2013. In 2012, a working group made up of various stakeholders was convened to address the issues surrounding seized illegal fireworks, including funding for disposal. However, the group did not issue a formal proposal. The Legislature approved one-time funding of \$500,000 from the General Fund in the current year to help address the backlog.

**Budget Proposal.** The Governor’s budget proposes \$1.5 million in one-time funding from the Toxic Substances Control Account (TSCA) to properly dispose of the current backlog of seized fireworks. (The TSCA is used primarily by the Department of Toxic Substances Control [DTSC] for responses to hazardous waste releases and is funded mostly by a tax on businesses in industries that use, generate, or store hazardous materials or that use products manufactured with those materials.) The Governor also proposes to establish a 1.5 percent assessment on legal safe and sane fireworks sold

in California to cover the ongoing costs of fireworks disposal. The Administration estimates that the proposed assessment will generate \$1.2 million annually when fully implemented. Assessment revenues will be deposited into the existing Fire Marshall's Fireworks Enforcement and Disposal Fund to cover staffing and operation costs of the program.

**LAO Analysis and Recommendation.** The LAO has analyzed this proposal and provides the following:

**New Assessment Has Trade-offs.** We find that the new assessment proposed by the Administration should raise more than a sufficient amount of revenue to address the ongoing costs of the program. In addition, the proposed assessment avoids the need to use other state resources—such as the General Fund or another special fund—on an ongoing basis. However, the structure of the assessment means that people purchasing fireworks legally would be required to pay the costs associated with the actions of those who break the law by purchasing or transporting illegal fireworks. Moreover, the assessment does not impose a cost on those who break the law and whose actions drive state costs. In addition, we note that the administration's proposed assessment is estimated to generate much more revenue—\$1.2 million—than estimated annual program costs—about \$600,000. While there is some uncertainty surrounding the revenue estimates because of limited data, this assessment could result in twice as much revenue as the program costs on an annual basis.

**Other Funding Options Also Have Trade-Offs.** In reviewing this proposal, we identified several alternative options for funding fireworks disposal.

- **TSCA.** The Legislature could consider providing ongoing funding from TSCA. The Governor proposes using TSCA for one-time funding to address the existing backlog of seized fireworks, and we find it to be an appropriate use of this fund. Additionally, TSCA currently has a large reserve, projected at \$37 million—or 82 percent of revenues and transfers—in 2014-15. This financing mechanism avoids imposing an assessment on legal fireworks sales, and does not use money from the General Fund. However, creating additional ongoing commitments from TSCA would compete with current activities paid for by the fund. For example, TSCA is currently used to fund many other activities whose costs are projected to increase in the future, such as the cleanup of hazardous waste sites and the Safer Consumer Products program. Committing ongoing TSCA funding for fireworks disposal may reduce the state's ability to perform these other activities in the future.
- **General Fund.** To the extent that the Legislature determines that fireworks disposal has a benefit to the entire state, the General Fund is an appropriate funding option. This financing mechanism avoids an assessment on legal fireworks sales and does not place a financial burden on any special funds. However, it does divert resources from the General Fund on an ongoing basis, an option that the Legislature rejected in 2013-14. Notably, the General Fund is used to fund some costs associated with illegal activities, such as illegal drug lab cleanups.

- **Local Governments—Share in Disposal Costs.** Local law enforcement agencies and residents benefit from the OSFM’s disposal of fireworks through reduced fire and safety risk. Moreover, local decisions—such as a county fireworks ban that increases the number of fireworks considered to be illegal—drive some of the OSFM’s costs. Therefore, a cost-sharing arrangement between state and local governments may be appropriate. This could be achieved, for example, by (1) requiring local governments to pay OSFM for a share of disposal costs, or (2) removing the statutory requirement that OSFM be responsible for the disposal of all seized fireworks, thereby leaving the responsibility and cost with local governments. Both options avoid an assessment on legal fireworks and do not divert state resources from special funds. However, they may both be considered state-reimbursable mandates. When the state mandates that a local government provide a new program or higher level of service, the California Constitution often requires the state to reimburse the local government. Since the state currently provides seized fireworks disposal, shifting the responsibilities or costs back to local governments could require a higher level of local service and therefore be a state-reimbursable mandate. Reimbursable mandates are paid from the General Fund. Therefore, if these actions were determined to be reimbursable mandates, this option could be costly to the General Fund. Moreover, the Legislature would have less oversight of the program and control of the costs than if the program was operated by the state.
- **Selling or Returning Fireworks to Manufacturers.** One option the working group convened in 2012 considered was to allow enforcement agencies to sell or give fireworks that are illegal in California but legal in other parts of the U.S. back to manufacturers and retailers. Under this type of approach, fireworks companies would remove the fireworks from California and cover their costs by reselling the fireworks where they are legal. The benefit of this approach would be to reduce the cost of disposal, as well as generate some revenue that could be used, for example, to cover costs of disposing of fireworks illegal in the U.S. On the other hand, this approach would put government agencies in the position of selling illegal materials, and once resold, much of this material could end up back in California.

**LAO Recommendation.** We find that the Administration’s effort to develop a permanent funding source for fireworks disposal is a reasonable one. The Governor’s proposed approach provides one option, and there are others—as we discussed above—that could be considered. Each option, however, has trade-offs. In determining which financing mechanism is most consistent with current legislative priorities, the Legislature will need to make a policy decision about where it wants the costs of disposal to be borne. If the Legislature chooses to adopt the Governor’s proposal, we recommend lowering the assessment rate to one percent. This is enough to cover the estimated costs of the program and account for the uncertainty in this new revenue stream.

**Staff Comments.** Staff concurs with the LAO analysis.

**Staff Recommendation:**

1. Approve Governor's proposal.
2. Reduce assessment to one percent.
3. Adopt supplemental reporting language requiring the department to report back bi-annually on the implementation of this fee, the amount of fireworks reduced, and the need for further assessment reductions. Request the LAO draft this language.

## 3790 Department of Parks and Recreation

The Department of Parks and Recreation (Parks) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state.

The state park system consists of 277 units, including 31 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,800 miles of trails, 300 miles of coastline, 800 miles of lake and river frontage, and about 14,800 campsites. Over 80 million visitors travel to state parks each year.

**Governor's Budget.** The Governor's budget includes \$544 million for state operations and bond expenditures, a decrease of \$110 million from the 2013-14 budget. The decreases are mainly related to a reduction in bond expenditures.

### *Items Proposed for Vote-Only*

- 1. Proposition 84 Support Programs.** Consistent with previous years, the budget requests various reversions of appropriation authority, and new appropriations from Proposition 84 bond funds to provide continued project support for the department's Proposition 84 Multi-Year Plan.

**Staff Recommendation:** Approve Item 1.

**Items Proposed for Discussion****1. Empire Mine State Historic Park—Ongoing Park Remediation**

**Background.** The Empire Mine State Park was a gold mine for 100 years until it closed in 1956. The state acquired the property in Grass Valley, with more than 850 acres of forested land, mine buildings, and historic properties in 1975. The state park was the subject of a series of lawsuits and cleanup and abatement orders related to the park’s 367 miles of abandoned and flooded mine shafts and toxic legacy from gold mining. The rulings required the state to clean up toxic runoff from the gold mining legacy. The state has been in negotiations with the former owner over the cleanup since the orders were issued; however, according to the latest budget proposal, mediation has stalled while cleanup is still required. The park has cost the state \$36 million over the past six years due to toxic runoff from the mining operation conducted there over 50 years ago. This year’s budget includes another significant General Fund allocation to this park.

**Empire Mine State Park Funding 2007-08 to 2014-15**

(dollars in millions)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
General Fund, Bond Funds and Special Funds	\$5.2	\$5.8	\$4.1	\$11.6	\$4.6	\$5.2	\$4.9
<b>Total (all funds)</b>	<b>\$42 million</b>						

**Budget Proposal.** The Governor’s budget requests \$4.95 million (General Fund) for continued evaluation, analysis, and implementation of remedial actions at Empire Mine State Historic Park critical to protect both public health and safety, as well as protection of natural and cultural resources at the park.

**Staff Comments.** The case of Empire Mine is cause for continued frustration over the state of the State Parks budget. In terms of the annual budget, little progress has been made in efforts to reduce the cost of this state park. The arguments that the department is “close to a settlement” or “close to an agreement” with the responsible parties have been made consistently and yearly since 2009. Staff can only anticipate that the state now has the ongoing obligation of about \$5 million per year in perpetuity to run this state park. Staffing and administration alone cost the state \$2.2 million.

**Staff Recommendation:** Staff recommends approval of the proposal in order to comply with permits and orders by regulatory agencies. Staff also recommends the department explore options to transfer or sell the property to a willing seller with the proviso that the park remain in public hands.



## 2. Deferred Maintenance Proposal (State Parks and CalFIRE)

**Background (LAO).** Many state departments own and operate their own facilities and other types of infrastructure. Within the resources and environmental protection program area, Department of Parks and Recreation (DPR) and CalFIRE have large amounts of property and physical assets. As shown in the figure below, this includes thousands of miles of trails and tens of thousands of campsites and other facilities spread over 1.6 million acres of park land, as well as nearly 300 fire stations, camps, and bases used to combat forest fires.

### Department of Parks and Recreation and CalFIRE Key Assets Maintained

Holdings	Quantity
<b>Department of Parks and Recreation</b>	
Museum objects, archaeological specimens, and archival documents	More than 6,000,000
Acres of land	1,600,000
Campsites	14,421
Archeological sites	10,271
Picnic sites	7,647
Miles of non-motorized trails	4,456
Historic buildings	3,375
Overnight non-camping facilities	709
Park units	280
<b>Department of Forestry and Fire Protection (CalFIRE)</b>	
Fire stations	228
Communications tower and vault sites	112
Lookouts	66
Conservation camps	39
Air and helitack bases	22

It is the responsibility of departments to maintain their infrastructure. Maintenance needs are driven by the number, age, types, and uses of a department's infrastructure. The maintenance needs for DPR and CalFIRE are significant because they have a large quantity of diverse assets, and many of their facilities were built a long time ago. For example, roughly three-fourths of CalFIRE's facilities were built prior to 1950. In addition, many facilities were not designed for the amount and type of use required of them today. For example, the older park units operated by DPR were designed for far fewer visitors when they were constructed. Additionally, today's parks accommodate recreational vehicles and many more group campers than the number for which they were designed. This contributes to deterioration and damage of many park properties and facilities, thereby necessitating more frequent repairs and modifications.

Frequently, preventive and routine facility maintenance does not occur as scheduled. When this happens, it is referred to as “deferred maintenance.” This typically happens due to a lack of funding or resources, the diversion of maintenance funding to other priorities, and growth in maintenance costs. If maintenance is routinely delayed, a backlog of deferred maintenance forms and grows. Deferred maintenance is problematic because when repairs to key building and infrastructure components are delayed, facilities can eventually require more expensive investments, such as emergency repairs (when systems break down), capital improvements (such as major rehabilitation), or replacement. Some facilities that are particularly overdue for repairs can even create liabilities for the state. As a result, while deferring annual maintenance avoids expenses in the short run, it often results in substantial costs in the long run.

**Budget Proposal.** The Governor’s budget for 2014-15 proposes a total of \$43 million (one-time) from the General Fund for deferred maintenance in the natural resources program area. Specifically, the budget includes \$40 million for DPR and \$3 million for CalFIRE. By comparison, DPR estimates a \$1.2 billion backlog of deferred maintenance and CalFIRE estimates a backlog of \$27 million. (We note that the DPR estimated backlog in this report differs from that in the Governor’s infrastructure plan and reflects an updated estimate from the department.) Neither department has identified the specific deferred maintenance projects they would complete with these additional funds. Instead, the Governor proposes budget control language requiring that the Administration report to the Joint Legislative Budget Committee the list of deferred maintenance projects (DPR, CalFIRE, and other state departments) that will be funded 30 days prior to the allocation of funds. (We note that the Department of Fish and Wildlife [DFW] and the California Conservation Corps also expressed a deferred maintenance need of \$15 million and \$1 million, respectively. However, the Governor’s proposal does not include deferred maintenance funding for these departments.)

**LAO Recommendation.** The LAO offers the following recommendations:

- **Direct Department to Report on Funding Priorities.** We recommend that the Legislature adopt the Governor’s proposal, which provides some one-time funding for the most critical deferred maintenance projects. Additionally, we recommend that the Legislature require CalFIRE and DPR to report at budget subcommittee hearings this spring on the list of projects that they plan to fund and how they would prioritize competing maintenance needs. This would better enable the Legislature to ensure that the priorities identified by the departments align with legislative priorities. For example, the Legislature has sought opportunities for revenue enhancement at state parks in recent years and might prefer to prioritize DPR projects that could increase the amount of park fees collected.
- **Develop Longer-Term Approach to Fixing DPR’s Facility Maintenance Problems.** The Administration’s decision to address deferred maintenance is commendable. However, as discussed earlier, the state currently does not have a strategy for eliminating the remaining deferred maintenance backlog or a plan to resolve the underlying problem by ensuring that departments are completing necessary routine and preventive maintenance on an ongoing basis. Addressing these issues is challenging, but longer-term planning can reduce future facilities costs and protect valuable state resources. The DPR currently has one of the largest identified deferred maintenance backlogs in the state, and

it has been building for many years. Due to these factors, this department might serve as a useful “test case” in how the state can develop a long-term maintenance plan for departments. We recommend that the Legislature request that the administration report at budget hearings on what approach the state might take to develop such a plan. Ultimately, given the scale of the problem and the potential budget implications, it might make sense for there to be a collaborative approach involving not only DPR, but also the Department of Finance (DOF), our office, and other legislative staff.

In order to assist the Legislature and Administration in identifying longer-term solutions to DPR’s deferred maintenance problem, the state could analyze various factors including: DPR’s annual maintenance budget and expenditures, how it tracks maintenance and calculates maintenance need, actual maintenance performed, and the causes of the ongoing backlog. The analysis might also consider whether it makes sense to provide guidelines to the departments on how to classify and track maintenance. The approach could determine the appropriate level of ongoing maintenance funding to maintain facilities at a reasonable level, and tie the estimates to industry benchmarks to the extent possible. While it is difficult to estimate a standard maintenance cost for some park assets given the wide variety of holdings, there are industry standards available for some park infrastructure, such as average maintenance cost per mile of trail or per campsite. Based on this information, it might be possible to develop a more specific plan to address the deferred maintenance backlog for legislative review.

**Staff Comments.** Staff concurs with the LAO analysis. Given the current lack of information from the department on deferred maintenance parks proposals, and the forthcoming Parks Forward Initiative results, it is incumbent upon the Legislature to provide oversight to the department on deferred maintenance.

In addition to using Parks as a “test case” for allocation of deferred maintenance, the Legislature should require the department to produce, by April 30, 2014, the list of deferred maintenance projects it intends to pursue so that the Legislature can consider these in conjunction with other capital outlay proposals brought forth by the department.

**Staff Recommendation:** Hold Open. Require the department to submit, in writing, a prioritized list of deferred maintenance projects that are intended to be funded with this \$40 million by April 30, 2014.

### 3. State Parks and Recreation Fund Increase

**Background.** The 2011 Budget Act included a permanent \$22 million General Fund reduction to state parks. Initially, this budget reduction was anticipated to result in the closure of 70 state parks. However, excess funds were identified in the State Parks and Recreation Fund, and legislation was enacted to utilize these funds to keep parks open. The one-time funds provided in the legislation will expire at the end of 2013-14.

**Parks Forward Initiative.** Parks Forward is a public and private collaborative initiative designed to analyze and update the California State Park system. Over the course of 18 months, an independent commission made up of experts, advocates, and thought-leaders is conducting a wholesale assessment of the park system. This independent process is designed to address the financial, operational, and cultural challenges facing State Parks to ensure the system's long-term viability. In the fall of 2014, the Parks Forward Commission will adopt a long-term plan for a State Park system that meets the needs of all Californians, now and in the future.

**Budget Proposal.** The budget requests a one-time increase of \$14 million (State Parks and Recreation Fund [SPRF]) to continue the existing service levels throughout the state parks system. The department anticipates this revenue from both the legislatively-mandated revenue generation program and a fund balance in SPRF.

**Staff Comments.** Staff concurs with the necessity of this one-time proposal given that the Parks Forward Initiative has not yet completed its work. Staff anticipates that during next year's budget discussions, the department will provide a more robust and long-term plan for maintaining the system that incorporates any number of possibilities including: (1) transfer of state properties to local or other public ownership; (2) strategic reduction of deferred and ongoing maintenance costs; and, (3) plans for future modification of the system in order to maintain fiscal prudence while providing a high quality product to the public.

**Staff Recommendation:** Approve proposal.

#### 4. Parks Capital Outlay, Off-Highway, and Bond-Funded Proposals

**Background.** The DPR annually submits proposals for capital outlay, State Vehicular Area projects, and other bond-funded projects within the state system. In the past, the majority of capital and physical infrastructure projects were funded with bond funds and special funds (including Off-Highway Vehicle Trust Fund and the Harbors and Watercraft Fund). In the future, as bond funds are reduced, it is likely the Legislature will see fewer bond-funded projects.

#### Projects and Programs Proposed for Vote-Only:

Park	Proposal	Fund Source	Amount (in thousands)
<b>1. State Vehicular Recreation Areas (SVRAs)</b>			
Hungry Valley	Quail Canyon Special Event Area	OHVTF	\$612
Hungry Valley	Vehicle Wash Station	OHVTF	\$1,064
Onyx Properties	Enforcement and Conservation	OHVTF	\$1,490
Hollister Hills	Trails Project	OHVTF	\$879
Carnegie	Vehicle Wash Station	OHVTF	\$1,368
Prairie City	Barton Ranch Acquisition	OHVTF	\$3,500
Oceano Dunes	Visitor Center and Equipment Storage	OHVTF	\$6,104
Oceano Dunes	Pismo SB Sediment Track-Out	OHVTF	\$80
Various (Statewide)	OHV Minor Projects	OHVTF	\$765
<b>2. State Park Development Program and Other Bond Funds</b>			
Old Town San Diego	Building Demolition and Immediate Public Use Facilities	Prop 84	\$7,643
San Elijo State Beach	Replace Main Lifeguard Tower	Prop 12	\$5,014
El Capitan State Beach	New Lifeguard Operations Facility	Prop 84	\$723
MacKerricher	Replace Water Treatment System	Prop 84	\$541
Local Assistance	1988 Bond Settlement—Tijuana River	Other	\$2,100
Local Assistance	Ongoing Funding Programs	Various	\$56,500
<b>3. Boating and Waterways</b>			
Angel Island	East Garrison Mooring Field	HWCF	\$31
Bidwell-Sacramento River	Irvine Finch Ramp Repair and Extension	HWCF	\$78
McArthur-Burney Falls	Ramp and Boarding Float Replacement	HWCF	\$45
Various (Statewide)	Statewide Minor Capital Outlay Projects	HWCF	\$2,788

OHVTF: Off-Highway Vehicle Trust Fund

FF: Federal Funds

**Staff Recommendation:** Staff recommends approval of the vote-only items.

**Capital Outlay Proposals for Discussion**

**1. Historic Bridgeport Covered Bridge.** The budget proposes \$318,092 (federal funds) for the first phase of deferred maintenance at the South Yuba River State Park, Historic Bridgeport Covered Bridge. The bridge is the world's longest single span historic bridge and has spanned the South Yuba River at the park for over 150 years. This project is proposed to rehabilitate and restore the bridge in order to prevent it from collapsing into the river so that it can be reopened for the visiting public.

The estimated total cost of the project is \$1.3 million. Given the availability of funding, the department should be prepared to discuss: (1) why this project was not given priority over other local assistance projects, and (2) where this fits into the deferred maintenance list given that the bridge is a public safety hazard.

**2. Oceano Dunes Le Grande Acquisition.** The budget proposes \$5 million in one-time costs to purchase 584 acres of land in San Luis Obispo County (County). Currently the parcels are leased from the county by the department and operated as part of Oceano Dunes SVRA. The land is used for off-highway vehicle (OHV) recreation and other beach- and dune-related recreational uses. County-owned land represents 38 percent of the land open to motorized recreation within the park. A long-term lease expired in June 2008, and the current lease between the county and the department is month-to-month.

In 2007, the State Coastal Commission sent a letter to the county stating, among other things, the following regarding the County's local coastal plan, the land update certification (LUP) and inclusion of the property in question in that plan, and the sale of the property to the department:

“It is the Coastal Commission staff's opinion that (the property in question) was intentionally included within the certified LUP to reflect the long-term objectives shared by the County and the commission for this sensitive dune habitat area, which included phasing out of the northern access route for OHV use and restricting OHV use on County-owned land.”

“We (the Commission staff) support the conclusions of the County planning staff that the sale would result in the continuation of a use that is inconsistent with the land use designations established by the certified LCP.”

The department should be prepared to discuss whether the county LCP has been updated and certified to include the acquisition of the property with the intention to continue use of the land for OHV activities. The department should also be ready to discuss how it has worked with the county and the commission to address local concerns regarding the entrances to the park, and alternatives provided to both public agencies.

**3. Fort Ord Dunes—New Campground and Beach Access.** The budget proposes \$19.2 million (Proposition 84 bond funds) to develop initial permanent public facilities, including camping and day use beach access, at the Fort Ord Dunes State Park in Monterey County. Up to 110 new campsites, approximately one half with full utility hook-ups for recreational vehicles, will be constructed along with appurtenant improvements, operations facilities, and a beach access trail with restrooms and parking.

This project is projected to increase the support budget of the department due to the expensive nature of campgrounds which includes housekeeping, maintenance, administration, and public safety services. The department's calculations for revenue anticipate that the campground will be filled to capacity on most days year round. Annual ongoing costs for the park are anticipated at \$1.1 million per year. Annual revenues are anticipated at \$1.3 million.

Staff are concerned with the close nature of revenue and expenditure forecasts given the directive of the Legislature to produce revenue-generating activities at State Parks. With limited Proposition 84 bond funds, the department should address how it would enhance this proposal to provide a better ratio of revenue to expenditure.

**Staff Recommendation:** Staff recommends the following actions:

1. Approve Bridgeport Covered Bridge. Approve \$1 million (Prop 84) to fund estimated construction costs and to begin immediate repairs to this facility.
2. Hold Open Oceano Dunes Le Grande Acquisition and Fort Ord Dunes for further review.