Senate Budget and Fiscal Review

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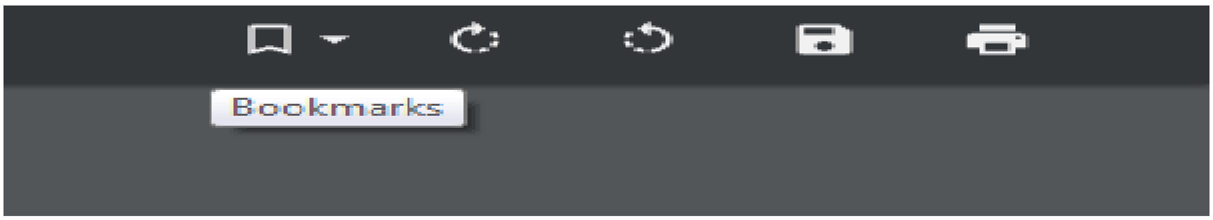

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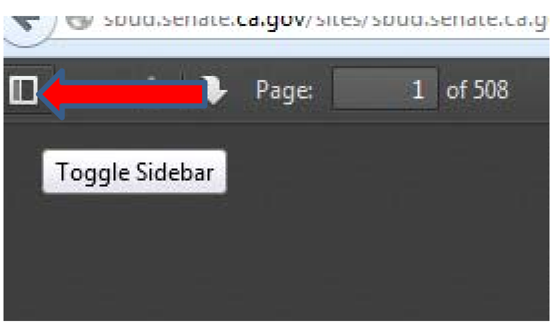

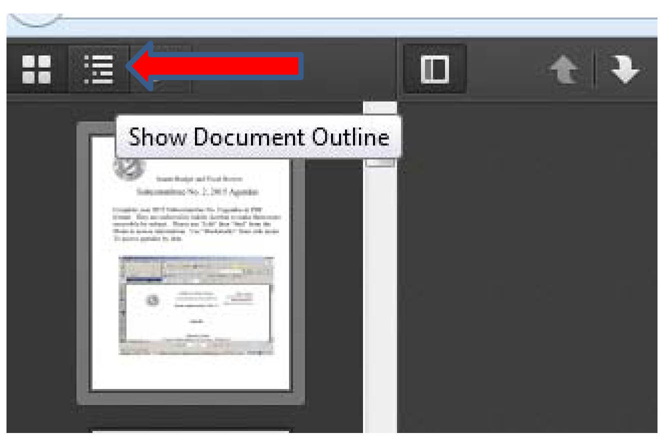

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, March 3, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman

Presentations:

Overview of the Governor's Budget

- Brian Brown, Legislative Analyst's Office

Agency Secretaries

- John Laird, Secretary for Natural Resources
- Matt Rodriquez, Secretary for California Environmental Protection Agency
- Karen Ross, Secretary for Food and Agriculture

Issues Proposed for Discussion

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3210 Environmental Protection Program (Environmental License Plate Program)

Background—Environmental License Plate Fund

Personalized License Plates. The Legislature created the personalized license plate through the enactment of statute in 1970. Revenues from personalized license plates, purchased by individuals, are collected by the Department of Motor Vehicles (DMV), and, deposited into the Environmental License Plate Fund (ELPF). State law requires that for certain plates, such as the Yosemite Conservancy Plate and the California Coastal License Plate (Whale Tail), the DMV collect additional revenues that are deposited directly into separate funds (the Yosemite Fund and California Beach and Coastal Enhancement Account, respectively). The remaining funding supports the Environmental Protection Program (EPP), which addresses the preservation and protection of California's environment, as prescribed by law.

In 2011-12, over 82,000 plates were purchased. Half of these were purchased for special programs (such as the Whale Tail and Yosemite plates), and half were generic environmental personalized license plates. Over one million plates have been purchased and are renewed annually. Revenues from the plates average $41 to $42 million per year from new purchases and renewals.

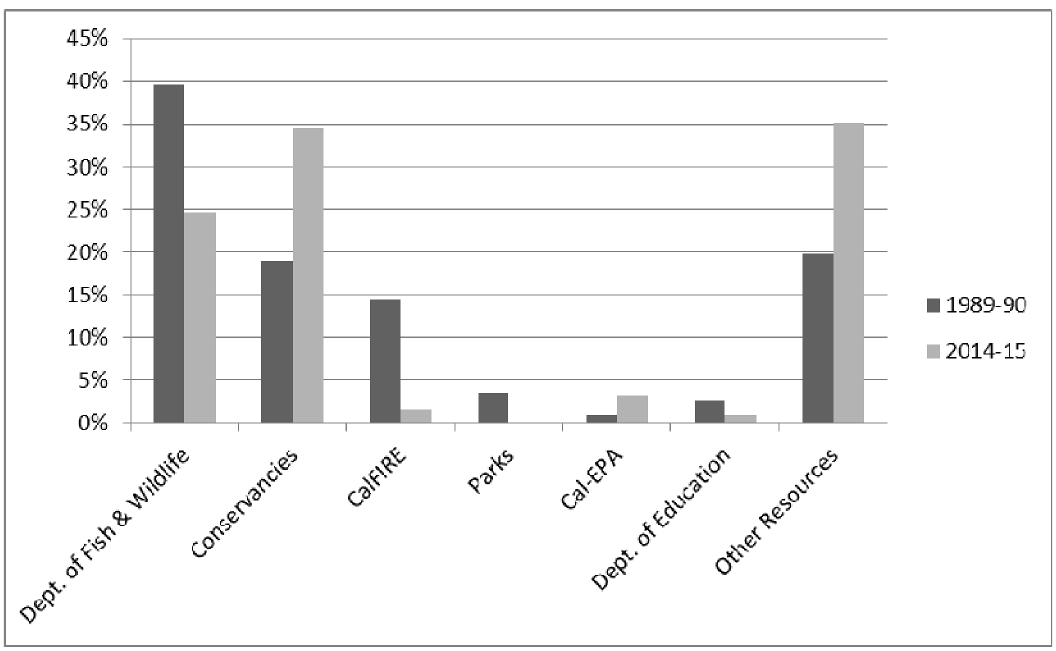
Environmental License Plate Fund. The ELPF was established to provide funding to various environmental programs through the EPP at the state and local level. The amount of funding available is dependent upon the number of certain specialty license plates sold and maintained in the state. Traditionally, the fund has been allocated to natural resource programs. The main priorities of the ELPF, as designated by Public Resources Code 21190, include:

1. The control and abatement of air pollution.
2. Acquisition, preservation, and restoration of ecological reserves.
3. Environmental education, including formal school programs and informal public education programs.
4. Protection of nongame species and threatened and endangered plants and animals.
5. Protection, enhancement, and restoration of fish and wildlife habitat.
6. Purchase of real property for state and local parks.
7. Reduction or minimization of soil erosion and sediment discharge into Lake Tahoe.
8. In addition to these, SB 861 (Committee on Budget), Chapter 35, Statutes of 2014, added climate assessment to the eligible list of priorities.

Allocation of Funds. The allocation of funds within the program is subjective. The Administration reviews revenues and provides the Legislature with a proposed funding package each January. As discussed in a 2012 audit of the program by the State Auditor, the California Natural Resources Agency (CNRA) is required to provide reports and programs recommended for funding, together with a statement of their purposes, the benefits to be realized, and the Secretary for Natural Resource's commitment for inclusion in the Governor's budget. This report is required to be submitted annually to the Governor with the request for funding. According to the 2012 audit, this information had not been provided; the agency argues that the report is duplicative of the budget change proposal process already occurring.

Shifting Priorities and New Programs. As shown in the figure below, shifting priorities have altered how ELPF funding been allocated. For example, in 1990, the Department of Fish and Wildlife (DFW) accounted for 40 percent of ELPF expenditures. The budget display reflected numerous ongoing and capital programs. Conservancies made up a relatively small proportion of the budget in 1990, but jumped to 35 percent in the 2015-16 budget. Over the years, new programs have been added to the ELPF budget. In 2015-16, the CNRA proposed to spend $6.7 million of the overall allocation primarily for two relatively new programs—the Ocean Protection Council (formerly housed at the State Coastal Conservancy), and the Fourth Climate Assessment (first proposed in 2014-15).

Environmental License Plate Fund
Expenditures (by percentage)
1989-90 versus 2014-15



Stable Revenues. The ELPF revenues have hovered between $39 and $41 million for over eight years. However, in multiple years, the Governor's budget has forecast higher revenues (as much as $45 million). When a final reconciliation of the budget has been made, these higher forecasts have never been realized. In 2014-15, the budget forecast revenues of $44 million, and realized revenues of only $41.8 million. A similar pattern has occurred over multiple years.

2015-16 ELPF Shortfall. In 2015-16, the Administration sought to address a shortfall in the ELPF. Revenues in the ELPF were not likely to meet budgeted projects by as much as $3 million in both the previous year (2014-15) and in 2015-16. The shortfall occurred mainly because the Administration over-estimated revenues to the program. As discussed previously, revenues to the program historically averaged between $39 to $41 million per year. The Administration raised the revenue estimate in 2014 to $45 million. Additional cost pressures to the program included salary adjustments required by the "like-pay for like-work" initiative.

2015 Budget Directs a Solution Be Made. The 2015-16 budget proposed by the Governor was largely adopted, with the exception of a proposal to increase the license plate fee. The budget directed the Administration to convene working group, comprised of both Administration and legislative staff, to work on a permanent solution. The implication was that, should the Administration address legislative concerns adequately, and only after concerns about the program funding were addressed, the Legislature would consider an increase to the license plate fee. The Administration convened the working group in fall and committed to working with staff and the Legislative Analyst's Office (LAO) through the fall as it came up with solutions to the funding shortfall.

Governor's Budget Proposal

The Governor's budget proposes $38.8 million in expenditures and $42 million in revenues. After required transfers to the Motor Vehicle Account ($2.4 million), the amount available for expenditure is $39 million. The figure below outlines ELPF expenditure proposals for the current year and budget year.

Environmental License Plate Fund Shortfall Solution
2016-17 Proposed Expenditures
(Dollars in Thousands)

Function	2014-15 (Final)	2015-16 (Estimated)	2016-17 (Estimated)
Department of Fish and Wildlife	$15,511	$9,762	$15,652
Conservancies	$9,556	$11,492	$10,720
Secretary for Natural Resources	$3,419	$3,788	$4,299
Natural Resource Agency Departments	$4,651	$5,429	$4,396
Tahoe Regional Planning Agency	$3,998	$3,998	$0
Department of Parks and Recreation	$2,713	$0	$0
Cal-EPA boards and Departments	$1,242	$1,479	$1,471
Department of Education	$403	$410	$410
Total	**$41,493**	**$36,358**	**$36,948**

Education and the Environment Initiative. In 2015-16, the subcommittee discussed concerns that Resources Code 21190, which guides the distribution of the ELPF, and clearly identifies environmental education as a priority, was not being met to the fullest extent. The education priorities received less than one percent of the funding allocated from the ELPF. At the same time, the state continues an initiative to bring environmental education into the core curriculum of all classrooms in the state through the Education and the Environment Initiative (EEI).

The Governor's budget addresses the Legislature's priorities by adding $700,000 ($350,000 from the California Used Oil Recycling Fund and $350,000 from the Tire Recycling Management Fund) in one-time funding to develop a sustainable funding strategy for the EEI program and address increased demand for the EEI curriculum. This proposal also includes budget bill language providing additional flexibility to the Environmental Education Account. Teacher demand for the state-created EEI curriculum has expanded and this proposal would help CalRecycle fulfill its mission.

Trailer Bill Proposals. Similar to last year, the Administration proposes trailer bill language to increase the ELPF fee by $5 from $38 to $43 for the renewal, retention, transfer or duplication of an environmental license plate. This fee increase is intended, over a two year period, to increase revenues by $1.5 million in the budget year, and $2.5 million ongoing. In addition, the Governor proposes trailer bill language to require the department to collect a permit application fee for processing permits under the California Endangered Species Act (CESA). The proposal includes a graduated fee schedule based on the cost of the project. Fund would be deposited into a new account at the department, the "Endangered Species Permitting Account," to be used upon appropriation for the cost of processing the permit or to implement CESA.

LAO Recommendation. The LAO has reviewed the ELPF proposal and offers the following comments: "The Governor's budget provides one reasonable package of options to address the ELPF structural deficit, but the Legislature has other available options. We recommend that it approve a funding package based on its priorities for how spending reductions and/or fee increases should be borne." The LAO further discusses the available options of reducing expenditure authority in any of the programs, increasing the license plate fee, and shifting funding to other programs.

Staff Comments. The Natural Resources Agency was deliberative in how it undertook the reformation of the ELPF fund and the resulting product shows this effort. In particular, removing the regulatory agency, the Tahoe Regional Planning Agency, from ELPF funding went a long ways towards addressing the critical shortfall. While the Legislature may wish to address the competing priorities in statute in a future discussion, such as the future of outdoor education or the EEI, the Administration has met the letter of the law.

Staff Recommendation. Hold Open. Staff supports the Administration's proposal in concept. Staff recommends holding off final action on the budget and trailer bills for further review.

Vote:

Proposition 1: Statewide Obligations

Background

This measure provides a total of $7.5 billion in general obligation bonds for various water-related programs. First, the measure allows the state to sell $7.1 billion in additional bonds. Second, the measure redirects $425 million in unsold bonds that voters previously approved for water and other environmental uses. The state repays these bonds, with interest, using the state's General Fund.

The bond measure provides funding to (1) increase water supplies, (2) protect and restore watersheds, (3) improve water quality, and (4) increase flood protection. The bond money would be available to state agencies for various projects and programs, as well as for loans and grants to local governments, private water companies, mutual water companies (where water users own the company), Indian tribes, and nonprofit organizations.

The bond specifically provides $475 million to the Natural Resources Agency (CNRA) for a "Statewide Obligations and Agreements" pot to support projects that fulfill state obligations in state-federal partnerships. Specifically, the bond identifies the following projects, programs and priorities:

- Central Valley Project Improvement Act;
- Tahoe Regional Compact;
- San Joaquin River Restoration Agreement;
- Salton Sea Restoration Act; and,
- Any intrastate or multiparty settlement agreement related to water acted upon or before December 31, 2013. Priority shall be given to projects that meet one or more of the following criteria: (1) the project is of statewide significance; (2) the project restores natural aquatic or riparian functions, or wetlands habitat for birds and aquatic species; the project protects or promotes the restoration of endangered or threatened species; (4) the project enhances the reliability of water supplies on a regional or interregional basis; and, (5) the project provides significant regional or statewide economic benefits.

Governor's Budget Proposal

The Governor's budget proposes to allocate all of the Statewide Obligations pot in the budget. As shown in the following figure, the budget includes funding for four priority areas that cover the breadth of the state from the Klamath River at the Oregon border to the Salton Sea. The allocations total $466 million, with the remaining $9 million available for bond and administrative costs. Proposition 1 separately allocated $15 million to the California Tahoe

Conservancy and $24 million to the Lahontan Regional Water Board for broad activities within the region (of which about $2 million would be allocated to Lake Tahoe).

Governor's New Proposition 1 Proposals
2016-17 (Dollars in Millions)

Activity	Amount
Klamath River Hydroelectric Settlement	$250
Central Valley Project Improvement Act	90
Salton Sea Restoration Act	80
San Joaquin River Restoration Agreement	45
Total	**$465**

Klamath Hydroelectric Settlement Agreement. The state has, over three decades, participated in negotiations with Oregon, the federal government, the owner of hydroelectric dams (PacificCorp), tribal delegations, and local farmers, and conservationists. The river basin includes four main dams—JC Boyle, Copco 1, Copco 2, and Iron Gate—all owned and operated by PacifiCorp. In recent year, both siltation and other challenges have reduced the hydroelectric output of the dams over time. The Klamath River basin faces unresolved problems resulting from over-drafted water supplies and significant water quality degradation. Problems in the basin have included:

- 2001 federal announcement of no water deliveries to address severe drought and the Federal Endangered Species Act.
- 2002 die-off of the adult fall-run Chinook salmon of at least 30,000 and up to 60,000 fish due to low water.
- 2005 toxic algae in the reservoirs behind the upper dams.
- 2006 severe restrictions enacted due to low abundance of Klamath basin chinook.
- 2010 reduction in water deliveries due to dry hydrologic conditions.
- 92 years without tribal access to salmon and 25 years of limited harvest of sucker fish.

The parties along the river agreed to a settlement to improve conditions basin-wide, that includes the removal of the four dams and restores the river below the dam. The agreement is a multi-party settlement signed by the two states, the federal government, and the owner of the dams. The agreement restoration goals are:

- Restore and sustain natural fish production and provide for full participation in ocean and river harvest opportunities of fish species throughout the basin;
- Establish reliable water and power supplies to sustain agricultural uses, communities and National Wildlife refuges; and,
- Contribute to the public welfare and the sustainability of all Klamath basin communities.

In order to move expeditiously, the parties requested congressional action to move forward. This attempt was not successful, however the agreement remains in place and will be implemented through the Federal Energy Regulatory Commission (FERC) process which deals with the removal of the four dams (which the private owner supports), and the associated restoration costs. The ratepayers of the dams have contributed at least $200 million for the dam removal. The settlement allocates costs of up to $250 million to California for restoration as many of the benefits are located in the state. The owner, PacifiCorp, has stated that it supports removal of the dams under the customer protections provided by the Klamath Hydroelectric Settlement Agreement.

On February 2, 2016, the Administration reported that the States of Oregon and California, PacifiCorp and the federal government, through the U.S. Departments of the Interior and Commerce, reached an agreement-in-principle to move forward with amending the Klamath Hydroelectric Settlement Agreement (KHSA) after a meet and confer process with the parties to that agreement. Under the agreement-in-principle, the signatories propose that the parties to the KHSA will pursue its implementation through the administrative process governed by the Federal Energy Regulatory Commission (FERC), using existing funding and on the same timeline. Members of the California and Oregon delegations introduced legislation in the past two congressional sessions to advance the hard-fought KHSA and two related Klamath agreements; however, the U.S. Congress adjourned last year without acting on legislation to authorize them.

Central Valley Project Improvement Act (CVPIA). The CVPIA is an ongoing state-federal-local program intended to provide a dedicated quantity and quality of water to support and enhance ten state, federal, and privately managed wetlands. The program includes three major components: (1) water acquisition; (2) water conveyance; and, (3) facilities construction. The overarching intent of the act is to provide habitat for wildlife, both fish and bird, for long-term conservation. The budget includes $90 million for projects that meet the three main goals. A coalition of state, federal and private nonprofits maintain a list of project that will meet species needs. Funds will be allocated by a grant process similar to previous years.

San Joaquin River Restoration Settlement. Friant Dam is located on the San Joaquin River in Fresno County and is used to store water—primarily for agriculture. In 1988 the Natural Resources Defense Council sued the federal Bureau of Reclamation (the operator of Friant Dam) and the Friant Water Users Association (FUWA), alleging that the operation of Friant Dam violates the state's Fish and Game Code with respect to historic fish populations in the river. In August 2006, the parties reached a settlement agreement, the goal of which is to "restore and maintain fish populations" in the San Joaquin River below Friant Dam. The settlement specifies actions that will be taken to restore the San Joaquin River over the next 20 years. Under the agreement, the federal government will provide funds to restore the river, while FUWA agreed to actions that will increase flows in the river. While the total cost of the restoration is unknown, early estimates indicate that the total cost could be over $700 million over the next 20 years. The settlement agreement recognizes that congressional action is necessary to authorize the federal funding contribution.

Proposition 84, passed by the voters in November 2006, includes $100 million allocated to the Secretary for Resources for the restoration of the San Joaquin River, for the purpose of implementing a court settlement to restore flows and the salmon population to the river. While the state is not a party to the lawsuit, the Department of Fish and Game (DFG), the Department of Water Resources (DWR), the Resources Agency, and the California Environmental Protection Agency have entered into a memorandum of understanding (MOU) with the settling parties regarding the state's role in the restoration. The MOU has been incorporated into the settlement agreement.

The budget includes $45 million, for the next three years, to provide a match for federal funds. The settlement agreement provides a framework for construction of a hatchery, flood risk evaluations, fish passage designs, fish introductions, and ongoing research and monitoring.

Salton Sea. The Salton Sea (the sea) is a large inland lake in southeastern California. In the coming decades, a transfer of Colorado River water from Imperial Valley to San Diego County will reduce the amount of agricultural runoff that currently flows into the sea. Primarily due to this change in water use, the sea will begin to dry up—impairing air quality, reducing the availability of wildlife habitat, and increasing the salinity of the remaining sea, thereby killing off most aquatic life in the sea. Due to a series of statutes and contractual agreements regarding the use of Colorado River water in Southern California, the state has an obligation to restore the sea. The Administration completed a feasibility study to guide future investment in the sea in 2015.

The budget proposes $80 million for the DWR to support development and permitting of a Salton Sea plan and the associated individual restoration projects to meet the short term goals of 9,000 to 12,000 acres of restoration. The Natural Resources Agency will maintain its oversight role and requests $150,000 in reimbursement authority, and $50,000 (General Fund) to continue to fund the Assistant Secretary for Salton Sea Policy. The Department of Fish and Wildlife proposes to continue its joint work with DWR and requests $300,000 (General Fund) to continue three existing positions. Finally, the State Water Resources Control Board, whose mission includes water rights and water quality, requests $138,000 (General Fund) and one position to provide legal counsel throughout the restoration process.

LAO Recommendation. The LAO analyzed the Governor's proposals and agreed that the alternative provided by the Administration is one of many alternatives available to the Legislature. They acknowledge the urgency of certain projects (Salton Sea and Klamath), and the relative role of the state versus the federal government. In the case of the CVPIA and San Joaquin River settlements, the federal government is the lead. In the case of Salton Sea and Klamath, the state is the lead. Tahoe is a shared responsibility between Nevada, California and the Federal Government. The bottom line suggested by the LAO is that the Legislature should determine its priorities and fund accordingly.

Staff Comments. The proposal before the subcommittee meets the requirements of the Proposition 1 bond law. Concerns have been raised that not all program areas listed in the bond, specifically the Tahoe region, were funded in the final selection process. The Administration should address this in their commentary.

Staff Recommendation. Hold open.

Marijuana Cultivation: Environmental and Agricultural Protection Implementation

Background

Legislative and Voter-Authorized Medical Marijuana Use. The statutorily authorized use of medical marijuana in California dates back to November 1996, when California voters passed Proposition 215, the Compassionate Use Act of 1996 (CUA). The CUA provides Californians deemed "serious ill" the right to obtain and use marijuana for medical purposes, as recommended by a physician, and prohibits criminal prosecution or sanction against physicians who make medical marijuana recommendations. In 2003, Senate Bill 420 (Vasconcellos) Chapter 875, Statutes of 2003, established the Medical Marijuana Program under the California Department of Public Health, and created a medical marijuana identification card and registry database to verify qualified patients and primary caregivers. Participation in this identification program is voluntary.

Production of Marijuana in California. California produces more marijuana from outdoor "grows" (crops planted) than any other state. There are two basic ways marijuana is grown outside in the state. The first is the legal cultivation of marijuana on private lands pursuant to Proposition 215 (1996). The second is illegal cartel use of public lands to grow marijuana. The The environmental impacts of growing marijuana on both public and private lands are well-documented. The Administration estimates that private land marijuana cultivation has expanded so much on the North Coast that Coho salmon, a state and federally-listed species, may go extinct in the near future if the problem is not immediately addressed. The State Water Resources Control Board (State Water Board) has observed significant land clearing activities resulting in sediment discharges to many high-value surface waters in the north state, nutrient loading from fertilizers, and stream diversions that result in dangerously low water levels.

Whether on public or private land, the impact from marijuana cultivation is substantial. By 2014, the Department of Fish and Wildlife (DFW) had conducted approximately 249 marijuana eradication and reclamation missions. These missions led to the arrest of 228 illegal marijuana growers, seizure of 72 firearms and over 5,000 pounds of marijuana. The state has collected approximately 66,000 pounds of trash, 332,000 feet of poly pipe, 14,000 pounds of fertilizer, 113 containers of common pesticides, herbicides, and rodenticides, 15 hazmat containers, and removed 105 man-made dams from waterways feeding illegal grows. Costs to reclaim damaged lands and remediate impacts range from $2,000 to $14,000 per acre on public land and as high as $30,000 to $50,000 per acre on private land.

During a period of eight months in 2014, marijuana seized had consumed over two million gallons of stolen water per day for in-ground plants. After thirty days, plants could have consumed over 64 million gallons of water, and with a typical growing period of 120-150 days, total consumption is likely to be significantly greater.

Previous Budget Committee Actions and Oversight. In 2014, the Senate Budget Subcommittee No. 2 began a series of oversight hearings on the environmental impacts of the production of marijuana in California, both legal (pursuant to Proposition 215) and illegal. In 2014, the Legislature approved trailer bill language to allow civil penalties to be used for marijuana enforcement by both the State Water Board and Department of Fish and Wildlife (DFW). The 2014 budget included $1.5 million ($500,000 General Fund, $500,000 Timber Regulation and Forest Restoration Fund, and $500,000 Waste Discharge Permit Fund) and seven positions to implement a task force and priority-driven approach to address natural resources damages from marijuana cultivation. The budget also included $500,000 for the DFW from the general enforcement budget to the marijuana task force (activities that would have been funded by this money were backfilled by the Fish and Game Preservation Fund).

In 2015, the budget subcommittee continued its oversight role as well as addressed the increasingly critical statewide drought. Urgency actions in March authorized $4 million (General Fund) for the State Water Board and DFW to enhance instream flows in at least five stream systems that support critical habitat for anadromous fish. While this action was not intended to solely address marijuana cultivation, the infusion of funding improved the board's ability to assess these streams.

The 2015 budget also included $1.5 million (General Fund) and eleven, two-year limited-term positions to continue implementation of the task force and the priority-driven approach to address the natural resources damages from marijuana cultivation, primarily on private lands in northern California, but also through targeted in-partnerships with DFW on high conservation value state public lands.

2015 Legislative Package. Since 2003, advocates, patients, and local governments have recognized some deficiencies in oversight and called for additional safety regulations. In June 2015, Governor Brown signed the Medical Marijuana Regulation and Safety Act, comprised of three bills to address the multi-faceted regulatory and enforcement necessitated by the growth of this industry. These measures consist of:

- **Watershed Task Force.** AB 243 (Wood), Chapter 688, Statutes of 2015, provides for the permanent establishment of a multiagency task force to address the environmental impacts of marijuana cultivation in the watershed. The bill establishes guidelines and regulations for medical pot cultivators, but takes an environmental approach. It gives the State Water Board the explicit authority to regulate the discharge of water, chemicals and sediment into the environment.

- **AB 266 (Bonta), Chapter 689, Statutes of 2015.** AB 266 establishes a new agency within the Department of Consumer Affairs, the Bureau of Medical Marijuana Regulation, to oversee the licensing rules for medical pot growers, the makers of the products and retailers. The agency will be assisted by the California Department of Food and Agriculture, the Department of Public Health and other state agencies.

- **SB 643 (McGuire), Chapter 719, Statutes of 2015.** SB 643 focuses on clinics that capitalized on the lack of regulation by issuing medical marijuana prescriptions to patients who lacked valid health needs. It also creates licensing and other regulations to oversee the industry.

GOVERNOR'S PROPOSAL

The budget provides four major proposals in the resources, environmental protection and agricultural areas. While the proposals directly implement the legislation referenced in the 2015 medical marijuana legislative package, the heart of the package is to bring marijuana, both legal and illegal, under the umbrella of current state statutes. So, for example, where pesticides are used on medical marijuana, the Department of Pesticide Regulation has a duty to protect both consumers and cultivators from the impacts of pesticide use on the crop. So, too, the State Water Board and DFW must protect the state's waterways, fish and wildlife from the impacts of both legal and illegal cultivation. Perhaps the true new program to be developed under this package is the California Department of Food and Agriculture (CDFA) proposals to establish management and tracking of marijuana as a new, and legal, crop—with greater reporting than other, established crops, due to its high profile.

In general, the proposals to protect fish and wildlife and instream flows constitute a slight change in the way the state has approached environmental protections. In keeping with legislative and executive changes over the previous years, and in particular related to ongoing drought and weather fluctuations, the approach focuses on maintaining clear and clean water in rivers and streams, at a level to sustain fish and wildlife and to meet other legal diverters' needs. While this is the basis for water law in California, the Administration's new approach focuses more intensely on the relationship between water rights and water diversions.

Medical Marijuana
Governor's Environmental Protection and Agriculture Proposals
(Dollars in Millions)

Purpose	2016-17 (Proposed)	2016-17 (Proposed)	Fund Source
Department of Fish and Wildlife	$7.6	$5.8	General Fund
State Water Resources Control Board	5.2 0.5	6.0 0.7	General Fund WDPF[1]
Department of Pesticide Regulation	0.7	0.7	DPR Fund[2]
Department of Food and Agriculture	3.3	3.3	MM Fund[3]
Total	**$17.3**	**$16.5**	

[1] Waste Discharge Permit fund
[2] Department of Pesticide Regulation Fund
[3] Medical Marijuana Regulation and Safety Act Fund

Department of Fish and Wildlife. The budget requests $7.7 million (General Fund) and 31 positions to address two specific aspects of AB 243 (Wood). Specifically, the requests include:

- **Multi-Agency Task Force.** Fish and Game Code 12029(c) requires the department to establish a permanent multi-agency task force to address the general environmental impacts of marijuana cultivation. The requested funds will be used to expand enforcement efforts on a statewide level to ensure the reduction of adverse impacts on fish and wildlife and their habitats.

- **Water Diversions.** In coordination with the State Water Board, the department proposes to use resources to ensure that individual and cumulative effects of water diversion and discharge associated with cultivation do not affect the instream flows needed for fish spawning, migration, and rearing, and the flows needed to maintain natural flow variability.

State Water Resources Control Board. The budget has two distinct water quality requests:

- **Water Quality.** The State Water Board requests $1.8 million ($1.3 million General Fund and $472,000 Waste Discharge Permit Fund) for 13 positions to extend the north-state focused marijuana regulation task force pilot project statewide. The pilot project is a task force directed by the Legislature to address the natural resources damages from marijuana cultivation, primarily on private lands in northern California as well as targeted state-managed lands. This request is in addition to the $1.4 million the Legislature previously appropriated, including 11 limited term positions that are schedule to end this in the budget year. The funding level proposed will allow the State Water Board to implement a more credible water quality protection and enforcement program in the three priority regions of the state where marijuana cultivation has the most adverse environmental impacts.

  As with other major State Water Board actions, the joint water quality project will focus on the core functions mandated under general water quality laws including: (1) permitting; (2) enforcement; (3) education and outreach; and, (4) comprehensive planning. A significant amount of marijuana cultivation is occurring either illegally or quasi-illegally (non-permitted), and the board cannot charge WDPF fees until a legitimate, legal operation is identified. Thus, the General Fund has been proposed as the funding source at this time.

- **Water Rights and Instream Flow Request**. The budget requests $3.9 million (General Fund) and 22 positions to comply with legislatively-mandated instream flow requirements so that individual and cumulative impacts of water diversion and discharge necessary for fish spawning, migration, rearing are addressed.

  As with other water-rights mandates, the State Water Board will focus on: (1) establishment of interim flow requirements to provide immediate and minimal protection of fishery resources; (2) tailored regional policies for appropriation of water to limit further degradation of impacted streams; and, (3) permitting and registration of water diversions associated with legal and illegal marijuana cultivation activities. As with the previous request, the board cannot charge the Water Rights Fund fees until a legitimate, legal operation is identified. Thus, the General Fund has been proposed as the funding source at this time.

Department of Pesticide Regulation. The budget requests three positions and $700,000 from the Department of Pesticide Regulation Fund to implement AB 243. AB 243 requires the department to develop new types of assessments for the risks associated with inhalation of pesticide use on marijuana, as well as the dietary (ingestion) risk associated with marijuana pesticide use. The department proposes to use contract funds to work with an external research program to assist with analyzing current marijuana cultivation and cultural practices, pests of concern, and treatments, including pesticide use. The department is also charged with developing guidelines and outreach to protect the cultivators of medical marijuana from pesticide exposure.

Department of Food and Agriculture. The budget requests $3.3 million reimbursement authority and 18 positions to be funded by the Medical Marijuana Regulation and Safety Act Fund (MMF), ongoing. The series of bills passed in 2015 mandate that CDFA (1) establish a Medical Marijuana Cultivation Program (MCCP) to license the cultivation of indoor and outdoor medical marijuana, with consideration given to size and location of the operation; (2) establish a track and trace program that uniquely identifies medical marijuana plants; (3) work in consultation with other state agencies to adopt environmental remediation regulations, and consider and implement best practices, and to establish pesticide use standards; and (4) establish an electronic database that can be accessed by the Bureau of Medical Marijuana Regulation housed under the Department of Consumer Affairs (DCA). Under the recent legislative package, the department is given authority to conduct verification inspections, enforcement language, provisions to promulgate regulations, and is required to submit a report to the Legislature annually beginning in 2023.

Issues for Consideration

How will the Department of Food and Agriculture (CDFA) regulate the marijuana industry with respect to legal cultivation standards? As a basis for moving forward, it should be acknowledged that marijuana is one of the first crops to be moved from illegal to legal status, for the purposes of agricultural production. The CDFA budget proposal acknowledges that, until this point, mainly local regulations were focused on the cultivation of marijuana (mainly indoor). How will CDFA approach the licensing of the cultivation of both indoor and outdoor marijuana crops and coordinate with the Department of Pesticide Regulation, Local Agricultural Commissioners, and Department of Public Health, to ensure both the safe production and harvest of this product?

How should the state approach instream flows? The environmental and natural resources proposals focus on an instream flow approach. How will the Department of Fish and Wildlife and State Water Board coordinate water rights, fish needs and flow regimes? This is in keeping with the Legislature and Administration’s more intense focus on water in recent years due to drought. The body of law protecting instream flows is robust, however it may be necessary to clarify statute, as has been done in the past with certain drought-related laws, in order to achieve a high degree of success with the instream flow approach. The Legislature may wish to consider whether: (1) the instream flow approach would take longer to implement than a more direct regulatory approach; and (2) legislation is necessary to improve the efficiency of the instream flow approach.

Do the departments anticipate shifting funding to the new medical marijuana fees, and should the Legislature consider a sales tax on marijuana? During the interim period as marijuana production is brought under the regulatory umbrella, the state is providing significant General Fund to manage the environmental and natural resources damages from legal and illegal cultivation. So, too, General Fund is necessary to continue the multi-agency task force. The Legislature should consider: (1) how and when should the state shift programs and activities to medical marijuana fees; and, (2) should fees not be appropriate, if a sales tax on marijuana would be appropriate to cover other program expenditures that are not eligible for fees?

How will the Department of Consumer Affairs (DCA) coordinate with the multitude of diverse departments regulating marijuana? A new bureau, established under the Department of Consumer Affairs, oversees the state's efforts on marijuana cultivation and manages the funding stream established by the 2015 legislative package. DCA has very little experience with environmental or natural resources activities, and health and food safety mandates. How will the departments coordinate with this new bureau and will the departments have access at appropriate times to the funding available through DCA?

How will the Administration continue to protect permitting personnel as they move toward registering more growers legally? As has been established by DFW wardens in their investigation of both legal and illegal growing operations, the permitting and enforcement of marijuana cultivation is a dangerous business. State permitting personnel are not law enforcement officers and their protection is critical to moving forward with the establishment of a normal and legal process for monitoring marijuana cultivation. How does, and will, the Administration continue to provide adequate protection to those monitoring marijuana cultivation and is the funding provided in the budget sufficient to the task?

Pesticide regulations and risk assessments can take multiple years. Can the departments develop emergency or interim regulations to maintain the public and environment's safety through the transition period? The budget provides funding to the Department of Pesticide Regulation through the DPR Fund for risk assessment on legal medical marijuana production. How will the department: (1) assess the fees on production of the product; (2) provide enforcement and testing for products that are sold in dispensaries that may have illegal pesticide residues; and (3) move in an expedited manner to establish clear risk assessments for production of this product given high number of consumers in the state?

Staff Recommendation: Hold Open

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, March 3, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman

OUTCOMES: ALL ITEMS HELD OPEN

Presentations:

Overview of the Governor's Budget

- Brian Brown, Legislative Analyst's Office

Agency Secretaries

- John Laird, Secretary for Natural Resources
- Matt Rodriquez, Secretary for California Environmental Protection Agency
- Karen Ross, Secretary for Food and Agriculture

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Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, March 10, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman and Farra Bracht

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Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

3360 California Energy Commission

The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission or CEC) is responsible for forecasting energy supply and demand; developing and implementing energy conservation measures; conducting energy-related research and development programs; and siting major power plants.

Governor's Budget: The Governor's budget includes $539 million for support of the CEC, a decrease of approximately $95 million, due primarily to the phasing down of the Public Interest Energy Research (PIER) Program and the Renewable Resources Trust Fund (RRTF), and the one-time allocation of funds to the Electric Program Investment Charge.

EXPENDITURES BY FUND (in millions)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
General Fund	$ -	$ -	$ 15,000
State Energy Conservation Assistance Account	37,388	2,715	2,505
Motor Vehicle Account, State Transportation Fund	140	141	142
Public Interest Research, Development, and Demonstration Fund	3,047	1,658	-
Renewable Resource Trust Fund	40,333	34,810	34,311
Energy Resources Programs Account	68,342	86,446	88,528
Local Government Geothermal Resources Revolving Subaccount, Geothermal Resources Development Account	6,111	5,607	1,511
Petroleum Violation Escrow Account	2,102	1,985	183
Federal Trust Fund	4,039	10,961	23,978
Reimbursements	13	3,700	3,700
Energy Facility License and Compliance Fund	3,446	3,505	3,518
Natural Gas Subaccount, Public Interest Research, Development, and Demonstration Fund	25,580	43,439	27,600
Alternative and Renewable Fuel and Vehicle Technology Fund	148,962	153,001	109,634
Electric Program Investment Charge Fund	183,463	290,456	144,789
Greenhouse Gas Reduction Fund	-	-	85,000
Cost of Implementation Account, Air Pollution Control Fund	-	-	7,646
Clean and Renewable Energy Business Financing Revolving Loan Fund	- 1,893	- 3,094	- 3,094
Energy Efficient State Property Revolving Fund	-	-	- 5,000
Total Expenditures (All Funds)	**$521,073**	**$635,330**	**$539,951**

Ongoing Program Adjustments

The CEC budget includes several budget proposals that continue existing programs, convert limited-term positions to permanent, or implement legislation from previous years. These items are listed below for reference.

1. **Continued Support of Energy Infrastructure to Meet 21st Century Policy and Planning Objectives.** The Governor's budget requests the conversion of six limited-term positions to permanent to continue supporting the revival of energy data collection activities and the development of disaggregated energy demand forecasts needed to implement and support statewide energy decisions at the CEC. Total funding request for this proposal is $724,000 from the Energy Resources Program Account (ERPA).

2. **Convert Limited-Term Positions to Permanent.** The Governor’s budget requests the conversion of one limited-term position to permanent to continue ongoing implementation of the Acceptance Test Technician Certification Providers (ATTCP), at a cost of $107,000 (ERPA). The budget requests conversion of one position (International Relations Senior Advisor) to permanent to continue coordination with other nations as it relates to greenhouse gas emission reductions, at a cost of $120,000 (ERPA).

3. **Adjustments to Electric Program Investment Charge (EPIC).** The Governor’s budget requests an increase of $11.2 million (EPIC) for program and administration funds, as well as $4.5 million in one-time technical assistance for technical support activities, as directed by the California Public Utilities Commission (CPUC).

4. **One-Time Expenditure Authority for Unspent Public Interest Energy Research (PIER) Natural Gas Funds.** The Governor's budget requests approval of unspent funds from the PIER Natural Gas Fund as directed by the CPUC. The CPUC directs the CEC to submit a research plan to utilize $3.6 million in unspent funds, resulting from completed projects that came in under-budget.

5. **Public Goods Charge Ramp-Down.** The Governor’s budget identifies the reduction of nine positions and $1.3 million from the Public Interest Research Development and Demonstration Fund, consistent with the sunset of the authority to collect the Public Goods Charge on January 1, 2012.

6. **Legislative Implementation.** The budget requests eight permanent positions and $500,000 in baseline technical support, for a total request of $1.6 million (ERPA), to support the implementation of AB 802 (Williams), Chapter 590, Statutes of 2015, which accelerates energy efficiency through benchmarking and customer data analysis. The budget also requests one permanent position and $135,000 (ERPA) to implement AB 865 (Alejo), Chapter 583, Statutes of 2015, which charges CEC with developing a diversity outreach program to qualified businesses.

Staff Recommendation: Hold open for further review of funding availability.

Issue 1: SB 350 and AB 802 Implementation

Background: SB 350 (de Léon), Chapter 547, Statutes of 2015, requires the CEC to establish annual targets for statewide energy efficiency savings and demand reductions to achieve a cumulative doubling of energy efficiency savings in electricity and natural gas, final end uses of retail customers by January 1, 2030. The bill requires the CEC to prepare an assessment of the effects of these savings on electricity demand statewide, in local service areas, and on an hourly and seasonal basis by 2019. The CEC is charged with increasing the Renewables Portfolio Standard (RPS) to 50 percent by 2030 for publicly-owned utilities (POUs) and to produce guidelines or review integrated resource plans from the 16 largest POUs starting in 2019. By January 1, 2017, the commission must conduct studies on barriers to renewable energy, energy efficiency, and zero -and near-zero emission transportation options for low-income and disadvantaged communities.

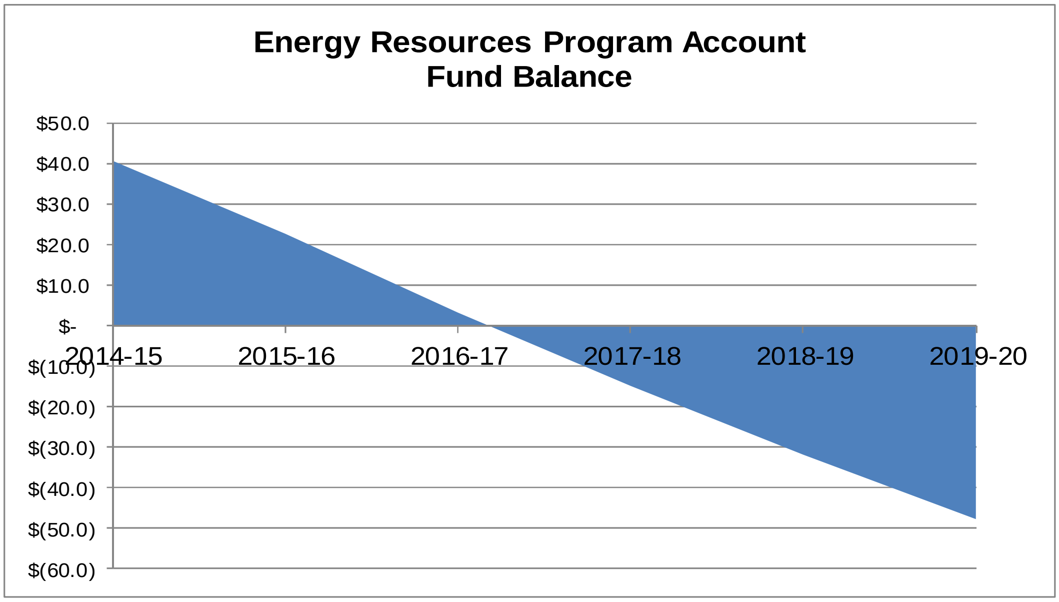
AB 802 (Williams), Chapter 590, Statutes of 2015, establishes a building energy use benchmarking and public disclosure program for nonresidential and multifamily buildings. The bill requires the CEC, in collaboration with the California Public Utilities Commission (CPUC), to implement a statewide public energy efficiency benchmarking program, establish statewide benchmarking and information technology reporting, conduct education and outreach, and assess progress toward efficiency goals and future energy consumption needs.

Governor's Proposal: The Governor's budget requests 29.5 permanent positions, and ongoing contract funds of $3.5 million, for a total request of $7.6 million from the Cost of Implementation Account, Air Pollution Control Fund, to implement SB 350. The budget separately requests eight permanent positions, and $500,000 in baseline technical support, for a total request of $1.6 million from the Energy Resources Programs Account (ERPA), to implement AB 802.

Fund Sources: The Cost of Implementation (COI) fee was established by SB 1018 (Committee on Budget), Chapter 39, Statutes of 2012, as a mechanism to collect and track fees paid by sources of greenhouse gas emissions. The purpose of the fund is to: achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions from sources or categories of sources of greenhouse gases by 2020; and, identify and make recommendations on direct emission reduction measures, alternative compliance mechanisms, market-based compliance mechanisms, and potential monetary and nonmonetary incentives for sources and categories of sources that the state board finds are necessary or desirable to facilitate the achievement of the maximum feasible and cost-effective reductions of greenhouse gas emissions.

The ERPA was established by statute in 1975 to provide for the support of the CEC generally. Revenue is derived from a one-tenth of a mil ($0.0001) surcharge per kilowatt hour. The ERPA surcharge rate is currently at $0.00029 per kilowatt-hour with a cap at $0.0003 per kilowatt-hour. Increasing the surcharge to the cap will generate approximately $2.5 million in additional revenue per year.

As reported in the Governor's budget, ERPA is in a structural deficit of approximately $15-19 million per year resulting in a dramatic reduction in the fund balance in out-years, as seen in the chart below. This may be somewhat offset by annual transfers from EPIC, authorized by the CPUC and transferred to the CEC for administration and other research.



*Revenues and expenditures estimated for 2016-17 and out-years.

Staff Comments: The Governor's budget requests are adequate to implement both statutes, and conform to the specific mandates of each law. Positions and workload justifications were submitted with both proposals that outline how each position will be used to implement the law, and how the Administration intends to meet the statutory deadlines imposed by the laws.

It is unclear, however, why the Administration chose to fund AB 802 with ERPA funds, which supports CEC's general activities, and chose COI to fund SB 350. Both activities are similar, and will likely result in the reduction of emissions, including greenhouse gas emissions, before the 2030 deadline. It is unclear how much greenhouse gas emissions will be reduced before the AB 32 emission deadline of 2020.

The Subcommittee may wish to ask:

- Why did the CEC choose COI for SB 350 and ERPA for AB 802? Is there a plan to increase the ERPA surcharge to the maximum in this calendar year?
- How is the Administration planning to reduce the structural deficit?
- Should the COI be used for this purpose, what precedent does this set for activities not generally associated with the implementation of AB 32?

Staff Recommendation: Hold open.

Issue 2: American Recovery and Reinvestment Act (ARRA) Investments

Background: On February 17th, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA), otherwise known as the Stimulus Package, to restart the economy. The package contains extensive funding for science, engineering research and infrastructure, and more limited funding for education, social sciences and the arts. States received discretionary funding through the ARRA for a variety of programs, and certain programs received funding through block grants. Through 2013, the CEC administered $314 million in energy efficiency and renewable energy pilot programs under ARRA. These pilot programs influenced the administration of current and ongoing programs, and budget proposals under other funding sources, such as the Greenhouse Gas Reduction Fund (GGRF).

When ARRA ended in 2013, over $30 million of funds remained with sub-recipients who administer the programs, mainly in revolving loan funds. The CEC, as part of its evaluation of these programs, determined that certain programs were under-performing and is now proposing to use the funds for a different purpose.

Governor's Proposal: The CEC is requesting $8 million in federal fund authority in the budget year, and $2.5 million through 2026-27, to implement both voluntary and mandatory programs to increase energy efficiency in existing buildings, and to conduct a competitive grant program to facilitate more effective use of local government knowledge and authority to promote and conduct energy efficiency improvements in existing buildings. The proposal also requests federal fund transfer authority to shift $5 million (ARRA funds) to the Department of General Services for the Energy Efficiency State Property Revolving Fund loan program.

Staff Comments: The need to promote energy efficiency at the local level is critical to making the state more energy efficient. The CEC has multiple programs that address this need, and the Legislature has weighed in on many through statute. Over the past year, several ideas have arisen including the idea that this type of program should be directed toward education of public and private entities, and with the idea of lasting benefits to a broad spectrum of the state's energy users. To that end, the Legislature should consider whether or not the CEC should create a new program to allocate the funding, or rather establish a legislatively-directed program that may be more cross-cutting across all aspects of the local jurisdictions, small and medium businesses, and state agencies.

Staff Recommendation: Staff recommends holding open the item for further discussion.

Issue 3: Greenhouse Gas Emission Reduction Investments

Background: The goal of the state's climate plan is to reduce greenhouse gas (GHG) emissions to 1990 levels by the end of this decade. The Cap-and-Trade program, a key element in the Administration's plan to achieve these goals, sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. The Cap-and-Trade program places a "cap" on aggregate GHG emissions from entities responsible for roughly 85 percent of the state's GHG emissions. To implement the Cap-and-Trade program, the Air Resources Board (ARB) allocates a certain number of carbon allowances equal to the cap. Each allowance equals one ton of carbon dioxide equivalent. The ARB provides some allowances for free, while making others available for purchase at auctions. Once the allowances have been allocated, entities can then "trade" (buy and sell on the open market), in order to obtain enough allowances to cover their total emissions for a given period of time or unload allowances they do not need. As part of its program, the ARB will give free allowances to the state's large industrial emitters, as well as the state's electric utilities, in order to reduce the economic impact of the Cap-and-Trade program. Proceeds of the sale of state auctioned allowances (cap-and-trade auction "revenues" or "proceeds") are appropriated by the Legislature in the annual budget process or continuously appropriated by statute.

Subsequent to the passage of AB 32, (Núñez and Pavley), Chapter 488, Statutes of 2006, the Legislature passed several bills related to the reduction of GHGs. These bills have provided guidance to the Administration as it continues to develop expenditure plans for auction proceeds. In addition, the Administration has issued several executive orders that, though not law, have also provided input into the development of the expenditure plan.

Implementing Benefits to Disadvantaged Communities. All auction revenues are subject to the provisions of SB 535 (de Léon), Chapter 830, Statutes of 2012. SB 535 requires 10 percent of cap-and-trade proceeds be invested within the most impacted and disadvantaged communities, and 25 percent of auction proceeds to benefit impacted and disadvantaged communities. The Secretary for Environmental Protection (Cal-EPA) and the Air Resources Board (ARB) are charged with overseeing the implementation of this chapter, including identification of disadvantaged communities and reporting on the implementation as funding is distributed.

SB 535 directs the Secretary for Cal-EPA to identify disadvantaged communities. Identification must be based on geographic, socioeconomic, public health, and environmental hazard criteria. The criteria may include, but are not limited to: (1) areas disproportionally affected by environmental pollution and other hazards that can lead to negative public health effects, exposure, or environmental degradation; and, (2) are characterized by low-income, high unemployment, low levels of homeownership, high rent burden, sensitive populations, or low levels of educational attainment.

Governor's Proposal: The Governor's budget proposes to spend \$3.1 billion from cap-and-trade auction revenue in 2016-17. Sixty percent of these funds are based on percentage allocations that are continuously appropriated, pursuant to Senate Bill 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014. The CEC proposes to use \$85 million (GGRF) for three programs, and \$15 million (General Fund) for a fourth, as follows:

- **Water and Energy Technology Program.** The budget proposes $30 million (GGRF) to the Energy Commission to begin implementation of a program to provide funding for innovative technologies that reduce GHG emissions by: (1) achieving significant energy and water savings; (2) demonstrate actual operation beyond the research and development state; and, (3) document readiness for rapid, large-scale deployment.

- **Consumer Rebate Program.** The budget proposes $30 million (GGRF) to implement a consumer rebate program for the replacement of energy-inefficient, water-consuming appliances, such as dishwashers and washing machines.

- **BioFuel Facility Investments.** The budget proposes $25 million (GGRF) to the Energy Commission's Alternative and Renewable Fuel and Vehicle Program to provide incentives for in-state biofuel production through the expansion of existing facilities or the construction of new facilities.

- **Climate Change Research, Development and Demonstration for the Transportation Sector.** The budget proposes $15 million (one-time, General Fund) to support research projects that inform near-term adoption and implementation of low carbon fuels. The proposal states that the final research topics will be developed through engagement with other state agencies, the research community, and the public. Funding will be awarded via competitive solicitations and will support research and pre-commercial development of low-carbon alternative fuels, including light-duty vehicles and sustainable freight.

Legislative Analyst's Office (LAO) Comments: The LAO conducted an extensive analysis of the cap-and-trade program, as well as review of individual proposals. The LAO bottom line analysis concludes that the Administration's budget proposals provide limited information that can be used to prioritize among the various options for spending. The LAO recommends establishing an expert committee to provide guidance that would help ensure the Legislature has better information in future years about how to target funds most efficiently. The LAO expressed concern about program interactions and "free-riders," as follows:

> **No Accounting for Interactions with Existing Regulations or Programs.** As described above, some of these programs likely interact with other regulations, such as the cap–and–trade program and the Low Carbon Fuel Standard (LCFS). For example, ARB's biofuel production subsidies and CEC's funding for capital investments for biofuel facilities might not change the overall amount of biofuel consumed in California. Rather, these programs might simply reduce the costs of biofuel production that would have occurred under the incentives provided by the LCFS. While the Legislature might consider reducing companies' compliance costs a valuable use of cap–and–trade revenue, the Administration fails to mention or account for this likely interaction when estimating and describing GHG reductions and net benefits. Thus, the GHG reductions associated with these proposals are likely overstated.
>
> **No Accounting for "Free–Riders."** It is likely that some portion of the grants or rebates funded under the Governor's plan would go toward activities that would have occurred anyway. In economic terms, households or businesses that access government rebates or subsidies for activities they would have undertaken anyways are sometimes referred to

> as free–riders. The Administration's estimates of benefits do not account for free–riders and, consequently, likely overestimate GHG reductions and co–benefits. For example, the CEC estimates of water savings and GHG reductions from the clothes washer rebate program assume that every household that receives a rebate would have purchased a less efficient model without the rebate. However, a recent study evaluating a similar appliance rebate program several years ago found that over 90 percent of the rebates went to households that would have purchased the more efficient clothes washer anyway. By ignoring free–riders, the Administration likely overstates GHG reductions and water saving benefits. Furthermore, ignoring potential free–riders could lead to missed opportunities to target the funds in a way that are more likely to encourage changes in behavior.

Staff Comments: Staff agrees with the LAO that, even when the characteristics of the Administration's proposals are relatively clear, the expected outcomes often are either unclear or subject to considerable uncertainty. Specific to the CEC proposals, it is unclear why rebates are prioritized, rather than programs that would provide incentives to the broader business and residential community by influencing purchasing choices at multiple levels.

Staff Recommendation: Hold open.

8660 California Public Utilities Commission

The California Public Utilities Commission (CPUC) is responsible for the regulation of privately-owned telecommunications, electric, natural gas, and water companies, in addition to overseeing railroad/rail transit and moving and transportation companies. The CPUC's primary objective is to ensure safe facilities and services for the public at equitable and reasonable rates. The CPUC also promotes energy conservation through its various regulatory decisions.

Budget Overview: The Governor's budget proposes $1.8 billion and 1,039 positions to support the CPUC in the budget year, as shown in the figure below. This is a decrease of 81 positions and an increase of $260.5 million, mainly due to an increased appropriation for the increasing California LifeLine Program's wireless subscriber caseload.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2014-15	2015-16	2016-17	2014-15*	2015-16*	2016-17*
6680	Regulation of Utilities	434.3	478.2	450.1	$677,798	$759,681	$737,748
6685	Universal Service Telephone Programs	28.7	36.1	35.1	517,694	723,618	1,003,903
6690	Regulation of Transportation	168.1	168.4	156.4	27,406	30,513	30,508
6695	Office of Ratepayer Advocates	145.0	168.0	167.0	26,559	30,745	32,901
9900100	Administration	222.4	269.3	230.3	44,055	45,829	51,888
9900200	Administration - Distributed	-	-	-	-44,053	-45,829	-51,888
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**998.5**	**1,119.9**	**1,038.9**	**$1,249,459**	**$1,544,557**	**$1,805,060**

FUNDING		**2014-15***	**2015-16***	**2016-17***
0042	State Highway Account, State Transportation Fund	$4,220	$4,479	$4,897
0046	Public Transportation Account, State Transportation Fund	6,303	6,150	6,539
0412	Transportation Rate Fund	2,965	2,134	2,437
0461	Public Utilities Commission Transportation Reimbursement Account	13,918	14,770	16,210
0462	Public Utilities Commission Utilities Reimbursement Account	96,961	95,878	111,723
0464	California High-Cost Fund-A Administrative Committee Fund	35,195	43,455	43,054
0470	California High-Cost Fund-B Administrative Committee Fund	16,065	22,536	22,281
0471	Universal Lifeline Telephone Service Trust Administrative Committee Fund	295,780	345,702	625,505
0483	Deaf and Disabled Telecommunications Program Administrative Committee Fund	42,092	64,652	67,915
0493	California Teleconnect Fund Administrative Committee Fund	102,083	148,766	147,514
0890	Federal Trust Fund	5,095	8,097	5,549
0995	Reimbursements	44,491	61,444	61,844
3015	Gas Consumption Surcharge Fund	531,530	600,242	562,057
3089	Public Utilities Commission Ratepayer Advocate Account	26,282	27,745	29,901
3141	California Advanced Services Fund	26,479	98,507	97,634
TOTALS, EXPENDITURES, ALL FUNDS		**$1,249,459**	**$1,544,557**	**$1,805,060**

Enacted Legislation

Issue 1: AB 693 – Multifamily Affordable Housing Solar Roofs Program

The budget proposes $262,000 from the Public Utilities Commission Reimbursement Account (PUCURA) and 1.75 permanent positions, annually through fiscal year 2030, to administer and evaluate the Multifamily Affordable Solar Roofs Program, as required by AB 693 (Eggman), Chapter 582, Statutes of 2015. AB 693 creates the new Multifamily Affordable Solar Roofs Program which would provide monetary incentives (annually, $100 million or 10 percent, whichever is less, of the investor-owned utilities cap-and-trade allowance revenues) for the installation of qualified solar energy systems on multifamily affordable housing properties. AB 693 requires the CPUC to decide the most appropriate program administration structure for the Multifamily Affordable Solar Roofs Program and to complete assessments of the program every third year, so that the CPUC can evaluate and adjust the program so that the goals are being met. The proposed staff would provide analysis and support for a commission rulemaking, and manage program implementation and administration.

Issue 2: SB 793 – Green Tariff Renewables

The budget proposes $160,000 from PUCURA for three years to fund limited-term staff to administer the Green Tariff Shared Renewables (GTSR) program, as modified by SB 793 (Wolk), Chapter 587, Statutes of 2015. SB 43 (Wolk), Chapter 413, Statutes of 2013, established GTSR and the CPUC recently finalized the first stage of implementation. The first GTSR customers for each utility should begin enrolling in the first quarter of 2016. SB 793 requires the CPUC to create a nonbinding estimate of reasonably anticipated GTSR bill credits and bill charges for a period of up to 20 years. The requested budget authority will facilitate the administration of this program, and help to provide transparency and predictability of charges and credits and associated with the provision of green tariff and enhanced community renewable options.

Issue 3: SB 541 – For-Hire Transportation Carriers: CPUC Enforcement

The budget proposes $372,000 from the Public Utilities Commission Transportation Reimbursement Fund for two years for a $250,000 contract and limited-term staffing to implement SB 541 (Hill), Chapter 718, Statutes of 2015. CPUC has authority over 11,000 non-rail passenger carriers and 1,000 household goods movers, and is required to license carriers, and investigate and enforce safety and consumer protection laws for passenger stage corporations, transportation charter-party carriers, private carriers of passengers, and household goods carriers. A 2014 State Auditor report found that the CPUC's transportation enforcement branch does not adequately ensure that passenger carriers comply with state law. SB 541 requires the CPUC to hire an independent entity to assess the agency's capabilities, in consultation with carrier trade associations, related to specific goals and to report its findings to the Legislature. The additional staff resources are intended to administer the contract, develop outreach, and address the report's findings.

Staff Recommendation: Hold these items open.

Issues Proposed for Discussion/Vote

Issue 4: eFiling Administration Support (eFast) Platform Creation and Business Configuration Projects

Governor's Proposal: The budget proposes $5.35 million in 2016-17 from various CPUC funds for a one-time software customization (for a total IT contract of $7.1 million over 2016-17 and 2017-18) and 6.3 permanent positions in 2016-17, and an additional 3.7 positions in 2017-18 for a total of 10 positions on an on-going basis. The proposed funding will be distributed across 10 funds.

Background: The CPUC regulates privately-owned public utilities operating in California, and performs regulatory work, such as maintaining official judicial records; implementing regulation of electric, natural gas, water, telecommunications, railroad, rail transit, and passenger transportation entities; and providing for timely processing of payments associated with CPUC regulations. This work involves filing documents (such as reports, advice letters, applications, or program claims) and submitting financial payments by regulated entities. For the most part, these functions are currently conducted using manual processes and, in many cases, using non-electronic documents.

With this proposal the CPUC intends to implement a standard, enterprise-wide technology platform, known as eFiling Administration Support (eFAST) which will serve as the hub for customer interaction. This platform will provide the foundation for and automate:

- Maintaining customer accounts and contacts.
- Receipt, processing, and disposition of documents and data.
- Submittal of inquiries and follow up responses.
- Receipt of payments for various fees and programs.
- Scaling, configuring and deploying for future business applications.

The eFAST project is made up of three components:

1) **Transportation Carrier Portal.** CPUC regulates four types of transportation carriers and the current intake processing of applications, renewals, updates, payments, and reports is highly manual. Some of this clerical work can be automated.

2) **Informal Submissions Portal.** CPUC receives over 5,000 advice letters (informal filings) about desired changes to rates and services for public utilities and transportation companies via paper, email or CD. This would allow for electronic submission of advice letters and other informal submissions.

3) **Program Claims Management System.** This would provide a single centralized system for claims processing, program tracking, and reporting systems for CPUC Public Purpose Programs that help to provide universal access to telecommunication services.

Staff Questions:

1) Will the proposed IT solution be an off-the-shelf product that is modified, or will this proposal develop a completely new IT system? How will CPUC work with the California Department of Technology to deliver a successful project?

2) How will the implementation of eFAST give Commissioners better access to the records of proceedings?

Staff Comment: CPUC uses many manual processes to perform its work. These processes can be time consuming, costly, and can impede transparency and result in delays. Automating some of these processes would be an improvement at CPUC.

Staff Recommendation: Hold open.

Issue 5: Human Resources Workforce Planning and Development

Governor's Proposal: The budget proposes $672,000 annually for workforce and succession planning and training to fund two permanent positions and four two-year limited term positions from PUCURA funding sources distributed across CPUC special funds.

Background: According to CPUC, its human resources workload has increased since the 2012 restructure and the addition of responsibilities related to critical areas of performance management and training. This increased workload is a result of the CPUC's shift from a former reactive mode to a proactive strategy. In addition, in the past five fiscal years, the CPUC has hired 397 external employees, in addition to 486 internal promotions and transfers. These numbers indicate that over 85 percent of the CPUC's current workforce is new to their position in the past five years. Three hundred and fifty-eight separations over the same interval mandated a concentrated progression of hiring.

The chart below shows the number of separations by type, for each of the last three years. As shown below, retirements are the primary reason for staff turnover followed by voluntary departures. The highest percentage of turnovers in the last three years occurred in the following divisions: Administrative Law Judge, Water, and Consumer Services and Information Division. The average turnover for each of the last three years is five percent in 2013, eight percent in 2014, and 10 percent in 2015.

Reasons for Staff Separation at CPUC

Type of separation	2013	2014	2015	Total by Type
Retirement	23	36	56	115
Voluntary	24	37	36	97
Adverse/Death/Transfer	7	10	16	33
Total by Year	**54**	**83**	**108**	**NA**

This request for two additional full-time permanent positions and funding for limited-term resources emerged from analysis of past training needs assessment reports from 2005 and 2011, and an analysis of the work output over the 2014-2015 year. Further, the CPUC's overall training needs assessment identified, through internal and external reports, the number of staff necessary to effectively execute the critical training/employee development needs in support of the CPUC's mission. CPUC asserts that in order to mitigate workforce performance issues and to continue building an effective and efficient CPUC, a strong and specialized learning and development unit is necessary. This unit is focused on recruitment, development, and retention of employees.

Deliverables from this proposal include a strategic workforce and succession plan; training modules and pop-up learning events; a leadership program; recruitment efforts to bring on and train entry-level employees; reduced dependence on retired annuitants; and the development of a library of core training. In addition, CPUC will conduct an "engagement survey" to assess its progress in this area.

Staff Questions:

1) Please describe the retention issues at the CPUC.

2) What performance measures does CPUC intend to use to assess the value added by the addition of the proposed staff?

Staff Comment: Turnover has increased in the last couple of years at CPUC and most of this is due to an increase in the number of retirements. Many state agencies are experiencing increased retirements due to the aging baby boomers and having to make additional investments in training and succession planning. This proposal does not include any performance metrics that could be tracked over time to show how these additional resources result in specific outcomes and improvements.

Staff Recommendation: Hold open and have CPUC report back at budget hearings on performance metrics that could be reported on annually to assess the value of the additional human resources staff.

Issue 6: California LifeLine Program Increased Appropriation

Governor's Proposal: The Governor's budget proposes to increase the appropriation for the Universal LifeLine Telephone Service Trust Administrative Committee Fund by $281.6 million ($267.4 million for local assistance and $14.2 million for state operations.

Background: The Moore Universal Telephone Service Act, in 1984, set the goal of providing high quality telephone service at affordable rates to eligible low-income households. The act requires the PUC to annually designate a class of lifeline service necessary to meet minimum residential communications needs, develop eligibility criteria (currently 150 percent of the federal poverty level), and set rates for the lifeline services, which are required to be not more than 50 percent of the rate for basic telephone service. Over the years, the definition of a "basic service," that has included only traditional wireline (landline), has been considered in a broader context of new technologies and trends towards voice, video, and data services.

Under federal and state LifeLine program rules, multiple participants are permitted at a single residential if the participants are separate households. A household includes adults and children who are living together at the same address as one economic unit. An economic unit consists of all adults (persons at least 18 years old unless emancipated) contributing to and sharing the household's income and expenses. Only one discount is provided per household.

For each household enrolled in the program, CPUC provides telephone companies (carriers) a maximum monthly state subsidy that is based on 55 percent of the most expensive basic landline service from the four largest carriers. The subsidy is meant to offset the lower rate charged to the consumer. In 2016, the maximum state subsidy is about $13 a month. The federal government also administers the federal Lifeline program that provides a monthly discount of about $9. In addition, the state provides (1) a per enrollee monthly payment to cover carriers' administrative costs, (2) a one-time connection subsidy for new enrollees or enrollees that switch plans, and (3) a subsidy to cover other telephone taxes and surcharges for LifeLine enrollees.

The revenues to fund the program are collected from a surcharge on telephone bills for non-LifeLine customers. The CPUC adjusts the level of the surcharge based on its projections of the amount of revenue needed to cover the costs of the program.

Program Participation Dramatically Increased Since Expansion to Wireless Service. In January, 2014, the CPUC issued a decision authorizing voluntary participation in the program by wireless service providers to offer discounted wireless service plans to low-income households that include wireless voice, text, and data services. Since this change, there has been substantial growth in the program and the number of subscribers doubled from fiscal year 2013-14 to 2014-15—with all of the growth in the number of wireless subscribers and a reduction in the number of wireline subscribers. The table below shows the year –over-year growth in the number of subscribers since 2006-07. Program costs also have increased substantially over the same time period and the surcharge to fund the program was recently increased to 5.5 percent.

Changes in the LifeLine Program Since 2006-07

TABLE 1

	A	B	C	D	E	F	G	H	I	J	K
1	FY	Surchage	State Operations including TPA	TPA	Carrier claims	# of Applications	Wireline subscribers	Wireless subscribers	Total subsrcribers	Eligible Households (150% FPL)	Participation Rate
2	FY 06/07	1.29%	$41,599,002	$ 31,789,749.00	$ 252,426,883	7,152,297	3,012,892	-	3,012,892.00	2,522,407.00	119%
3	FY 07/08	1.15%	$39,466,669	$ 34,868,887.00	$ 224,944,358	9,497,381	2,371,842	-	2,371,842.00	2,468,051.00	96%
4	FY 08/09	1.15%	$55,059,418	$ 34,081,996.00	$ 205,737,424	10,237,685	2,037,062	-	2,037,062.00	2,542,795.00	80%
5	FY 09/10	1.15%	$38,954,760	$ 28,661,742.25	$ 203,572,985	6,909,963	1,846,711	-	1,846,711.00	2,649,959.00	70%
6	FY 10/11	1.15%	$30,970,208	$ 17,036,031.53	$ 219,352,498	5,964,323	1,691,348	-	1,691,348.00	2,897,943.00	58%
7	FY 11/12	1.15%	$23,940,469	$ 16,160,291.00	$ 231,848,942	6,886,264	1,518,763	-	1,518,763.00	3,063,944.00	50%
8	FY 12/13	1.15%	$22,149,437	$ 16,012,453.00	$ 199,706,702	3,170,943	1,173,692	-	1,173,692.00	3,059,176.00	38%
9	FY 13/14	1.15%	$20,896,962	$ 13,780,816.00	$ 172,014,995	2,740,319	947,959	90,656	1,038,615.00	3,085,547.00	34%
10	FY 14/15	2.40%	$18,327,290	$ 14,006,955.00	$ 277,400,000	4,755,441	727,526	1,439,796	2,167,322.00	3,066,894.00	71%
11	FY 15/16 (Jul - Nov 15)	3.80%	$32,822,252	$ 31,684,607.00	$ 82,238,170	1,033,561	664,365	1,552,303	2,216,668.00	3,066,894.00	72%
		5.50%									

Below letters corresponds to the letters above

B 1.15% effective April 1, 2007
2.40% effective January 1, 2015
3.80% effective August 1, 2015
5.50% effective October 1, 2015

C State Operation increased in FY 08/09 due to increased in Marketing expenses.

Wireless Plans Are Diverse, but Many Plans Are Free to Enrollees. A diverse set of wireless plans are available for LifeLine customers. Although all plans currently include at least 1,000 monthly voice minutes, plans offer different monthly rates, additional voice minutes, text messaging, and data. As of August 2015, there were 34 LifeLine wireless plans available and 21 of the available plans (62 percent) were offered at no cost to customers. Of the 21 plans that were offered for no cost:

- 14 plans included unlimited voice minutes.
- 14 plans included unlimited text messages.
- 7 plans included some data.

Ensuring Eligibility and Minimizing Fraud. Prior to 2007, participants self-certified their eligibility and carriers enrolled participants. The very high participation rate in 2006 triggered the CPUC and Federal Communications Commission to require a third-party administrator (TPA) to determine eligibility and manage the consumer participation in the program. Shortly after the introduction of a TPA, participation decreased sharply in 2007 and 2008. Today, participants establish eligibility either through evidence of participation in other federal public assistance programs (i.e. CalFresh, Medicare, Section 8 housing) or by submitting evidence of income. Applications to determine both initial eligibility and annual renewals; however program eligibility does not require an annual verification of income eligibility. Applicants provide supporting documentation and information under penalty of perjury.

In addition to the automated, upfront fraud checks performed by the TPA, periodic detailed queries are conducted to detect and eliminate fraudulent behavior. As an example, the TPA, at the CPUC's request, examined all addresses where more than one participant receives discounts. The CPUC is working with Federal Communications Commission to investigate the results of this analysis. Another example is an annual manual fraud analysis performed jointly by the TPA and the commission. Participants with duplicative information (some variant of shared social security numbers, date of birth, name, or address) are grouped into four-tiers. A detailed manual comparison of all information submitted by consumers, including qualifying program documentation, is used along with results of identity verification to detect fraud. This process takes about three to four months to complete. The program removes activity determined to be fraudulent immediately. In addition, potential duplicates that are identified are removed. Participants identified either as fraudulent or duplicative are provided with an opportunity to appeal.

In addition to automated and manual fraud preventions measures, carrier claims are periodically audited. The CPUC is currently in a procurement process to select auditors who will audit the wireless carriers claims submitted in 2014.

As a result of the automated anti-fraud mechanisms, applications are identified and rejected as being duplicative. These potential participants never receive discounts. Since September 2014, approximately 2,920 of the 2.4 million California LifeLine participants have been identified and removed for fraudulent behavior. Very few of these participants have appealed.

LAO Analysis:

Enrollment Estimates Subject to Substantial Uncertainty. The relatively recent addition of wireless service to the LifeLine program creates uncertainty about future enrollment and expenditures. The Administration's enrollment projections were based on the following key assumptions: (1) about 4.2 million households are eligible for the program and (2) 90 percent of the eligible households will enroll in the program by the end of 2016-17. There is significant uncertainty about both of these assumptions. For example, it's unclear how many eligible households will ultimately enroll in the program by the end of the budget year. In addition, recent enrollment data provided by CPUC indicates that actual enrollment in recent months has been less than the enrollment projections used to develop the budget request. Specifically, the Administration's projection assumed that there would be 2.7 million subscribers by January 2016, but actual enrollment was only 2.2 million, 20 percent less than projected. The lower enrollment might have been affected by the commission's decision to suspend the connection subsidy for wireless service in July 2015, which could have resulted in higher costs for consumers. The connection subsidy was reinstated in December 2015.

May Revision Generally Used to Update Enrollment Estimates for Other Programs. Generally, the Governor's May Revision provides updated expenditure estimates for caseload-driven programs, such as Medi-Cal and other health and human services programs. These updated estimates help the Legislature make budget allocations that are based on the most up-to-date information available. However, historically, enrollment and cost estimates for the LifeLine program are not updated at the time of the May Revision. The Administration indicates that it does not currently plan to provide updated enrollment and cost information for the LifeLine program with this year's May Revision. By relying on the best possible estimates for program expenditures, the Legislature can be more confident that it is providing an amount of funding that is adequate to cover program costs, while also preventing higher-than-necessary costs for non-LifeLine customers.

Direct Administration to Provide Updated Caseload and Cost Estimates With May Revision. The LAO recommends the Legislature withhold action on the proposal at this time and direct the Administration to provide updated caseload and cost estimates for the LifeLine program with the Governor's May Revision. There is significant uncertainty regarding future enrollment in the program, and the updated information would help the Legislature make budget allocations that best reflect the likely costs of the program. In addition, this approach would be consistent with general practice for other programs with budgets that are substantially affected by program enrollment. The LAO raises no concerns with the proposed budget bill language to provide DOF with flexibility to increase the appropriation for this program during the budget year.

Additional Issues for Legislative Consideration. The LifeLine program is intended to help ensure low-income households have access to affordable basic telephone services. To achieve this goal, state law gives CPUC authority to establish the major characteristics of the program. The commission's decision to include wireless service appears to be consistent with legislative direction and goals. However, there are inherent trade-offs in the way CPUC has developed the program, such as how it has determined the amount of the wireless subsidies. These decisions affect the overall level of service provided, the discounts available to wireless LifeLine customers, and the overall costs of the program paid by non-LifeLine telephone customers. Through a formal proceeding, CPUC is continuing to evaluate the structure of the program, including developing standards for assessing affordability and analyzing whether current discounts align with program goals.

As the Legislature considers the Administration's request for additional funding for the LifeLine program, it might want to assess the degree to which the current structure of the program is consistent with its priorities and the intent of the program. In particular, as a result of recent changes, a wide variety of free wireless plans are available to LifeLine enrollees, including ones that contain features—such as text messaging and data—that exceed the minimum standards established by CPUC. The availability of such plans can provide substantial benefits to low-income households enrolled in the program. However, the recent changes have also contributed to a substantial increase in the surcharges paid by non-LifeLine customers.

Staff Questions for the Commission:

1) Is the LifeLine program structured in a way that is consistent with the Legislature's view of what constitutes (1) basic communication needs and (2) affordability for low-income households?

2) Does the program appropriately balance the goal of making telephone service affordable for LifeLine customers while limiting the financial burden on non-LifeLine telephone customers? Is the pace of growth sustainable? Should strategies be considered to help moderate growth?

Staff Comment: LifeLine program participation is growing rapidly, resulting in CPUC needing to increase the surcharge that non-LifeLine telephone customers pay. In addition, the cost of the service is resulting in some of those that are eligible for the program receiving free telephone services. The Legislature may wish to consider ways to more equitably distribute the rising costs of this program and take steps to ensure that only eligible low-income persons participate in the program. Moreover, to better ensure that the appropriate level of funding is budgeted for the program, the Legislature should direct the Administration to provide updated caseload and cost estimates for the LifeLine program with the Governor's May Revision.

Staff Recommendation: Hold open and direct the Administration to provide updated caseload and cost estimates for the LifeLine program with the Governor's May Revision.

Issue 7: Funding for Network Engineering Consultants (Service Quality)

Governor's Proposal: The budget proposes $1 million in reimbursable authority for a one-time contract for network engineering consultants. It is expected that the total contract cost would be $1.5 million, with $1 million to be spent in 2016-17 and $500,000 in 2017-18.

Background: Currently, there are about 1.7 million wirelines, or landlines, in California, 7.4 percent of all telephone lines. CPUC's service quality program contains five service quality measures and related standards for assessing the quality of telephone service. The out-of-service (OOS) metric is to repair 90 percent of outages of landlines within 24 hours. The results for this metric are collected monthly and reported quarterly. AT&T and Verizon, which have between 85 percent and 88 percent of the residential and small business wireline customers in the state, have consistently failed to meet this metric. Specifically, during the years 2010 through 2014, AT&T's average annual OOS repair results within 24 hours were: 50 percent, 67 percent, 71 percent, 67 percent, and 60 percent, respectively. For the same period, Verizon's average annual OOS repair results within 24 hours were: 76 percent, 73 percent, 72 percent, 70 percent, and 68 percent respectively.

Pursuant to a CPUC decision, CPUC staff is directed to retain a consulting firm with communications network experience to examine AT&T's and Verizon's network facilities, review company policies and procedures for network maintenance, repair and replacement; advise Communications Division management and CPUC decision makers' on technical telephone and communications network issues; prepare a report on the results of the examination and testify before the CPUC should hearings be held.

The purpose of the examination is to gauge the condition of both companies' network infrastructure and facilities used in the provision of telecommunications services within California to ensure that the facilities and practices support a level of service consistent with public safety and customer needs. The results of the examination are intended to provide the CPUC with information that may be used to change service quality policies, rules, measures, and standards.

CPUC is also considering the need to establish penalty provisions for missed service quality standards in a current rulemaking proceeding.

Staff Questions:

1) How will an examination of AT&T and Verizon's networks improve the quality of wireline telephone service and the reliability of 911 emergency services? What would be the next steps after analyzing the results of this examination?

Staff Comment: The proposed examination could provide CPUC with useful information that could help it to better ensure the reliability of the state's wireline telephone service.

Staff Recommendation: Hold open.

Issue 8: SB 350 – Clean Energy and Pollution Reduction Act and AB 802 – Energy Efficiency

Governor's Proposal: The budget proposes $3.35 million annually from the PUCURA for 23 permanent positions to implement SB 350 (de León) Chapter 547, Statutes of 2015 and AB 802 (Williams), Chapter 590, Statutes of 2015.

Background: Last year, the Legislature passed SB 350 and AB 802 which will result in new areas of work including the development of an integrated resources planning (IRP) process and modeling capabilities and electrification of the entire transportation sector; and work in the areas of energy efficiency (EE) and renewable portfolio standard (RPS). Some of the key changes of these two pieces of legislation are:

- Encouraging widespread transportation electrification such as funding electric vehicle charging infrastructure.
- Requiring doubling of EE savings from electricity and natural gas end users by 2030 and expands California's definition of energy efficiency.
- Increasing target to obtain 40 percent of total retail electricity sales from renewable resources by December 31, 2024; 45 percent by December 31, 2027; and 50 percent by December 31, 2030 (from 33 percent by 2020).
- Requiring resource optimization and for CPUC to adopt processes for investor-owned utilities and publically-owned utilities to file integrated resource plans to ensure utilities are meeting RPS requirements, helping the state meet its greenhouse gas (GHG) targets, and minimizing costs for ratepayers, and ensuring system reliability.
- Expressing intent for regional expansion of the California Independent System Operator (CAISO).
- Considering disadvantaged communities in the CPUC decision-making process.

These changes will result in new workload for CPUC that includes the expansion of renewable procurement and energy efficiency targets; creating a new integrated resource planning structure; establishing new policies and procedures for transportation electrification; managing the regionalization of the CAISO; considering impacts on disadvantaged communities; providing oversight, as well as legal, technical and policy support, for a minimum of five new and four amended rulemaking proceedings, as well as for an expected 5-10 new utility applications annually; and facilitating the processing of a minimum of 350 advice letters.

The budget proposes 23 additional staff in the following areas to implement SB 350 and AB 802:

Section/ Division	**Number of Positions**
Program and Project Supervisors	2
Renewable Portfolio Standard	2
Energy Efficiency	7
Integrated Resource Planning	2
Procurement Plan Review and Implementation	1
Transportation Electrification	1
Disadvantaged Communities	1
Legal Division	1
Administrative Law Judge Division	4
Information Technology	2
Total	**23**

Staff Questions:

1) In what areas is the CPUC most vulnerable in its ability to effectively implement the provisions of SB 350 and AB 802?

2) How will the CPUC work with the Energy Commission and the Air Resources Board to implement these two bills?

Staff Comment: Without additional resources, the ability of CPUC to manage the increase in proceedings and oversight will be hampered and other workload may suffer as well. The Legislative Analyst's Office has not raised any concerns with this request for funding and positions.

Staff Recommendation: Hold open.

Issue 9: AB 1266 – Electric and Gas Corporations—Excess Compensation

Governor's Proposal: The budget proposes $160,000 annually from the PUCURA for two new permanent half-time positions for proceedings and reviews of excess compensation as required by AB 1266 (Gonzalez), Chapter 599, Statutes of 2015.

Background: Every three years, all utilities regulated by the CPUC are required to undergo a general rate case to request funding for distribution and generation costs associated with their service. CPUC reviews executive compensation as part of this process. AB 1266 prohibits an electrical or gas corporation from recovering from taxpayers' expenses for excess compensation (greater than $1 million) paid to an officer of the utility for five years following a "triggering event" occurring after January 1, 2013, unless approved by the CPUC. A triggering event is defined as when an electrical corporation or gas corporation violates a federal or state safety regulation with respect to the plant and facility of the utility and, as a proximate cause of that violation ratepayers incur a financial responsibility in excess of $5 million. The bill requires an electrical or gas corporation to file an application to the CPUC prior to paying or seeking recovery of excess compensation. CPUC is required to open a proceeding to evaluate the application and issue a written determination whether excess compensation should be recovered in rates or if previously authorized in rates should be refunded to taxpayers.

Staff Questions:

1) How often does CPUC anticipate needing to evaluate executive compensation as a result of a triggering event (especially after the definition of a "triggering event" was narrowed)?

2) How was it determined that the proposed process was the most efficient means to implement AB 1266?

3) Has CPUC considered conducting an evaluation of its process to assess if this approach is an efficient means of limiting excess compensation when there is a triggering event?

Staff Comment: AB 1266 did not contain a sunset, or a review, to assess if the procedure put in place to limit excess compensation when there is a triggering event is effective. The Legislature may want to consider adopting trailer bill language to put a sunset review in place for 2021.

Staff Recommendation: Hold open.

Issue 10: Trailer Bill Language: Biogas Study

Governor's Proposal: The budget proposes trailer bill language that would request the California Council on Science and Technology undertake and complete a study analyzing the regional and gas corporation specific issues relating to the minimum heating value specifications adopted by the CPUC for biomethane before it can be injected into common carrier gas pipelines.

Background: The California Renewables Portfolio Standard Program requires the CPUC to adopt policies and programs that promote the in-state production and distribution of biomethane and that facilitate the development of a variety of sources of in-state biomethane. Existing law requires the CPUC to adopt 1) standards for biomethane that specify the concentrations of constituents of concern that are reasonably necessary to protect public health and ensure pipeline integrity and safety, as specified, and 2) requirements for monitoring, testing, reporting, and recordkeeping, as specified. Existing law requires a gas corporation to comply with those standards and requirements and requires the CPUC to require gas corporation tariffs to condition access to common carrier pipelines on the applicable customer meeting those standards and requirements.

If the California Council on Science and Technology agrees to undertake and complete the study, the bill would require each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the study with the cost recoverable in rates, but would authorizes the CPUC to modify a specified decision to allocate money that would be made available for certain incentives to instead be made available to pay for costs of the study so as to not further burden ratepayers with additional expense.

If the study is completed, the bill would require the CPUC to reevaluate requirements adopted by the CPUC for injection of biomethane into common carrier pipelines and, if appropriate, change those requirements or adopt new requirements, giving due deference to the conclusions and recommendations made in the study.

Staff Comment: There is currently legislation moving through the policy process on this topic.

Staff Recommendation: Reject without prejudice and move this item to the policy committees for discussion.

Vote:

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analyses. OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, groundwater sustainability and drought response, and resource protection. OPR maintains and updates the General Plan Guidelines, the California Environmental Quality Act (CEQA) Guidelines, and operates the CEQA Clearinghouse. OPR also houses and supports the Strategic Growth Council (SGC).

Budget Overview: The Governor's budget proposes $546.3 million and 40.4 positions to support OPR in the budget year, as shown in the figure below. This is an increase of two positions and an increase of $24.6 million, mainly due to increased funding from the Greenhouse Gas Reduction Fund for the new Transformational Climate Communities Program.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2014-15	2015-16	2016-17	2014-15*	2015-16*	2016-17*
0360	State Planning & Policy Development	17.9	10.7	12.5	$13,981	$9,507	$14,410
0365	California Volunteers	15.2	21.7	21.9	25,397	32,141	31,730
0370	Strategic Growth Council	5.6	6.0	6.0	795	480,000	500,141
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**38.7**	**38.4**	**40.4**	**$40,173**	**$521,648**	**$546,281**

FUNDING		2014-15*	2015-16*	2016-17*
0001	General Fund	$10,507	$8,861	$13,979
0890	Federal Trust Fund	27,570	28,471	27,980
0995	Reimbursements	1,008	4,019	4,022
3228	Greenhouse Gas Reduction Fund	795	480,000	500,000
9740	Central Service Cost Recovery Fund	293	297	300
TOTALS, EXPENDITURES, ALL FUNDS		**$40,173**	**$521,648**	**$546,281**

Items Proposed for Vote-Only

Issue 1: CEQANet 2.0 Database Transfer, Upgrade, Hosting, and Maintenance

The budget proposes in 2016-17, $200,000 one-time funding from the General Fund and on-going annual funding of $57,600 General Fund beginning in 2017-18, to upgrade the state's CEQA database. Statute requires the State Clearinghouse at the OPR to coordinate state agency review and comment of CEQA environmental documents and notices. In that capacity, OPR receives approximately 10,000 notices and environmental documents per year from both state and local public agencies. This proposal would transfer the CEQANet database which was developed in the early 1990's from the University of California, Davis to the Department of Technology to upgrade, host, and maintain. This database is no longer maintained by UC Davis. The upgraded database would allow on-line submission, posting, transmittal, and comment on all CEQA notices and environmental documents, as opposed to the current paper process. The funding also would provide for upgrades that allow for better GIS functionality, mapping, and project impact analyses. The on-going costs are for the long-term operational needs of the upgraded CEQANet 2.0. An electronic document management system for CEQA documents could result in cost-savings across the state.

Issue 2: SB 246 – Integrated Climate Adaptation and Resiliency Program (Enacted Legislation)

The budget proposes $300,000 General Fund in 2016-17, and on-going annual funding of $283,000 General Fund, for two permanent positions to develop and support a clearinghouse website for local and regional climate adaptation information. OPR will contract with the Department of Technology for the development of the website, long-term hosting, and maintenance. SB 246 (Wieckowski), Chapter 606, Statutes of 2015, establishes the Integrated Climate Adaptation and Resiliency Program (ICARP) and an advisory council to support ICARP; requires OPR to coordinate an effort to update the California Adaptation Planning Guide; and, establish an information clearinghouse for local and regional plans. ICARP should allow for greater coordination with external research organizations and support consistency in work related to understanding local and regional climate change vulnerability and adaptation.

Issues Proposed for Discussion/Vote

Issue 3: Affordable Housing and Sustainable Communities Program (Oversight)

Governor's Proposal: The Governor's budget proposal is consistent with Senate Bill 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014, which continuously appropriates 20 percent of all cap-and-trade auction revenues to the Affordable Housing and Sustainable Communities (AHSC) program. This amount is estimated to be $400 million in 2016-17.

Background: The Cap-and-Trade program, a key element in the Administration's plan to reduce greenhouse gas (GHG) emissions to 1990 levels by the end of this decade, sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. Subsequent to the passage of AB 32, (Núñez and Pavley), Chapter 488, Statutes of 2006, the Legislature passed several bills related to the reduction of GHGs. These bills have provided guidance to the Administration as it develops expenditure plans for auction proceeds. In addition, the Administration has issued several executive orders that, though not law, have also provided input into the development of the expenditure plan. All auction revenues are subject to the provisions of SB 535 (de Léon), Chapter 830, Statutes of 2012. SB 535 requires 10 percent of cap-and-trade proceeds be invested within the most impacted and disadvantaged communities, and 25 percent of auction proceeds to benefit impacted and disadvantaged communities.

The AHSC program at SGC was established to further the purposes of AB 32 and SB 375 (Steinberg), Chapter 728, Statutes of 2008, by investing in projects that reduce greenhouse gas emissions (GHG) emissions by supporting more compact, infill development patterns, encouraging active transportation and transit usage, and protecting agricultural land from sprawl development. This is achieved through two distinct programs: AHSC and the Sustainable Lands Conservation (SALC) program.

Affordable Housing and Sustainable Communities. AHSC projects are designed to integrate land use and transportation to reduce GHG emissions, benefit disadvantaged communities, link key destinations, and provide affordable housing. Three types of projects are funded:

1. Transportation oriented development that provides affordable housing near transit stations;

2. Integrated connectivity projects that encourage mode shifts, such as to transit, walking, or biking and complete streets that support all modes of transportation; and,

3. Rural innovation project areas that encourage transportation mode shifts in rural areas.

Funding is available as grants to entities including local governments, public housing authorities, redevelopment successor agencies, transit operators, school districts, joint powers authorities, for- and non-profit developers, and others. In addition, affordable housing developments are also eligible for loans. In 2015 there were two funding rounds (in June and December) and 36 projects were awarded totaling $154.4 million. Concept applications for the next round of funding ($320 million) are due in March 2016, and projects are expected to be awarded in September 2016.

Sustainable Agricultural Lands Conservation. SALC projects are intended to protect at-risk agricultural lands from conversion to more GHG-intensive land uses, such as urban or residential development, in order to promote growth within existing jurisdictions, ensure open space remains available, and support a healthy agricultural economy, and resulting food security. Two project categories are available: 1) strategy and outcome grants that support cities and counties with developing local and regional land use policies, and strategies that protect critical agricultural land; and 2) agricultural conservation easements grants to permanently protect the cropland and rangelands of willing landowners that are at risk of conversion. In 2015-16, $2.5 million was provided for strategy grants and $35.7 million for easement grants. SGC anticipates that awards for these funds will be made in July 2016.

AHSC Technical Assistance. SB 101 (Committee on Budget and Fiscal Review), Chapter 321, Statutes of 2015, appropriated $500,000 from the Greenhouse Gas Reduction Fund for SGC to provide technical assistance to disadvantaged communities and required SGC to report on the use of these funds at legislative budget hearings. SGC has identified three third-party technical assistance providers to help with the 2015-16 AHSC funding round. Assistance is available to applicants with projects located in disadvantaged communities that applied for AHSC funding in 2014-15, but were unsuccessful.

Questions:

1) Please provide an overview of the AHSC projects that have been awarded. What types of projects have these been? How many units of housing are they intended to result in building? What are the estimated GHG emission reductions when the projects are completed? Have non-housing projects been awarded funds?

2) What are the primary challenges this program faces and how will these be addressed in the future?

3) What have you learned from the $500,000 that was appropriated for the purposes of providing technical assistance to disadvantaged communities?

4) How will SGC and/or ARB hold awardees of funds accountable for achieving the estimated GHG emission reductions proposed in the project application? Is SGC or ARB planning to independently assess, evaluate, and quantify the GHG emission reductions that completed projects yield, or will the results be self-reported?

Staff Recommendation: Informational only.

Issue 4: Transformational Climate Communities Program at the Strategic Growth Council

Governor's Proposal: The budget proposes one-time funding of $100 million Greenhouse Gas Reduction Fund (GGRF) for the Transformational Climate Communities Program to support local climate action in the state's top five percent disadvantaged communities through projects that integrate multiple, cross-cutting approaches to reduce greenhouse gas (GHG) emissions. The program would combine climate investments within a local area, including investments in energy, transportation, active transportation, housing, urban greening, land use, water and waste efficiency, and other areas, while also increasing job training, economic, health and environmental benefits. Of the $100 million requested, $5 million will be available to the SGC for support costs associated with the program.

Background: The Global Warming Solutions Act of 2006, AB 32 (Nunez and Pavley), Chapter 488, Statutes of 2006, requires California to reduce statewide GHG emissions to 1990 levels by 2020 and to maintain and continue reductions beyond 2020. The Air Resources Board (ARB) has developed a market-based cap-and-trade program as a key element of its overall GHG reduction strategy. The program establishes a statewide emissions limit on the sources responsible for 85 percent of GHGs and creates a financial incentive for investment in clean and efficient technologies. Strategic investment of the auction proceeds is intended to further the goals of AB 32.

This proposal supports the 2016 Cap-and-Trade Auction Proceeds Investment Plan's goal of improved integration and collaboration between agencies and governments. The SGC will work with local and regional governments on the implementation of the program. The target for these funds is the top five percent of disadvantaged communities, and therefore SGC will be coordinating with the local stakeholders to implement funded projects in these disadvantaged communities. SGC will also collaborate with regional governments to ensure that funded projects meet the region's Sustainable Communities Strategies goals.

Program funding will be coordinated by the council to leverage and support the collective goals of ongoing state efforts, as well as to support greater efficiencies of local assistance funding to those who may be eligible to receive funding within these programs. According to the request for funding, "the program projects are envisioned as larger in scale and impact than existing, individual state climate programs, and link investments to maximize GHG reduction and community benefits at the district, neighborhood or larger scale. The program shall support a holistic, collaborative approach to project development and implementation at the local level, and projects may be multi-phase or multiyear."

Staff Questions:

1) What are the Administration's plans for moving this proposal from a concept to a more specific program? Does the Administration intend to propose trailer bill language?

2) How will SGC coordinate this program with the Affordable Housing and Sustainable Communities program (the item previously discussed) and the Transportation Agency's Active Transportation Program? How has the Administration determined that there is a greater demand for funding for these types of programs?

Staff Comment: According to SGC, this proposal is intended to be a high-level placeholder to promote discussions that are to come about the structure of the program. There is no timeline for when the structure will be developed and trailer bill language has not been made available yet. This concept has merit and should be considered as part of the larger cap-and-trade spending package.

Staff Recommendation: Hold open.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, March 10, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman and Farra Bracht

OUTCOMES

Item	Department
3360	**California Energy Commission**
Issue 1	SB 350 and AB 802 Implementation—HELD OPEN.
Issue 2	American Recovery and Reinvestment Act (ARRA) Investments—HELD OPEN.
Issue 3	Greenhouse Gas Emission Reduction Investments—HELD OPEN.
8660	**California Public Utilities Commission**
Issue 1	AB 693 – Multifamily Affordable Housing Solar Roofs Program—HELD OPEN.
Issue 2	SB 793 – Green Tariff Renewables—HELD OPEN.
Issue 3	SB 541 – For-Hire Transportation Carriers: CPUC Enforcement—HELD OPEN.
Issue 4	eFiling Administration Support (eFAST) —HELD OPEN.
Issue 5	Human Resources Workforce Planning and Development—HELD OPEN.
Issue 6	California LifeLine Program Increased Appropriation—HELD OPEN.
Issue 7	Funding for Network Engineering Consultants (Service Quality) —HELD OPEN.
Issue 8	SB 350 – Clean Energy and Pollution Reduction Act & AB 802 Energy Efficiency—HELD OPEN.
Issue 9	AB 1266 – Electric and Gas Corporation—Excess Compensation—HELD OPEN.
Issue 10	Biogas Study-Trailer Bill Language—HELD OPEN.

0650 **Office of Planning and Research**

Vote-Only

Issue 1 CEQANet 2.0 Database, Transfer, Upgrade, Hosting, and Maintenance—Approved as Budgeted 3-0.

Issue 2 SB 246 – Integrated Climate Adaptation and Resiliency Program—Approved as Budgeted 2-1.

Discussion

Issue 3 Affordable Housing and Sustainable Communities Program (Oversight)—NO ACTION NECESSARY.

Issue 4 Transformational Climate Communities Program—HELD OPEN.

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate *services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, March 17, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman

OVERSIGHT

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Managing Forest Health
Presentations by the Department of Forestry and Fire Protection, Wildlife Conservation Board and California Natural Resources Agency..................... 2

ISSUES PROPOSED FOR DISCUSSION

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3540	**Department of Forestry and Fire Protection**	**8**
Issue 1	Helicopters and Aviation Contracts	10
Issue 2	Emergency Command Center Staffing and Situational Command Awareness Data Acquisition	12
Issue 3	Professional Standards Program	14
3340	**California Conservation Corps**	**16**
Issue 1	Residential Facilities Expansion	17

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Beyond Fire Protection: Managing Wildlands for Watershed Protection and Forest Health

BACKGROUND

Defining Forest Health. Forest health is a loosely-defined term for the broad array of services provided by the forest environment, including ecological health, economic value, social benefit and watershed value, among others. California had struggled with the management of the state's forest health over the years, in particular balancing the needs of homeowners in the forested area with the management of the greater forest ecosystem. The Department of Forestry and Fire Protection (CalFIRE), is the state's lead agency managing this balance, in conjunction with the Board of Forestry, Natural Resources Agency, Department of Fish and Wildlife, State Water Resources Control Board, and other state agencies, including state conservancies.

CalFIRE is charged with the management and protection of the forests and wildlands, and in particular the specific management of the State Responsibility Area (SRA) as part of a multi-agency and government program to manage forest and timberlands, including for wildfire protection. Of the 85 million acres classified as wildlands in the state, 33 million acres are forest lands, with 38 percent privately-owned and 62 percent government-owned or tribal. The state's 20 million acres of commercial forest lands grows 8.3 billion board feet yearly. The five-year average timber harvest volume and value is approximately 1.3 billion board feet and $326 million.

Forest Science Focuses on Ecosystem Services and Watershed Protection. In order to understand the value of wildlands, and in particular forest health, it is important to identify the benefits of a healthy forest. A healthy forest particularly in California, reduces flooding (by allowing water to infiltrate the ground), improves water quality (in part by reducing sediment from roads, development or wildfire debris), increases groundwater recharge, improves air quality, and adds value of aesthetics and increases property values, including timber values. One of California's primary goals of forest health is watershed protection, as much of the state's water is derived from the mountain and forest environment from snowpack to groundwater that feeds into streams and rivers downstream.

According to the US Environmental Protection Agency (US EPA), in its report 841-N-12-004, "Healthy intact watersheds provide many ecosystem services that are necessary for our social and economic well-being. These services include water filtration and storage, air filtration, carbon storage, nutrient cycling, soil formation, recreation, food and timber. Many of these services have not been monetized and therefore the economic contributions of healthy intact ecosystems are often under-valued when making land use decisions. Ecosystem services provided by healthy watersheds are difficult to replace and most often expensive to engineer. An engineered ecosystem service replacement may only provide a fraction of the services provided by highly functioning natural systems."

The US EPA goes a step further and defines some of the greater economic values of an intact forest ecosystem and protected watershed including: (1) lower drinking water treatment costs; (2) avoidance of expensive restoration activities; (3) sustained revenue-generating recreational and tourism opportunities; (4) reduced vulnerability and damage from natural disasters; and, (5) provision of a long-term economic foundation for future generations.

The US EPA's focus on forest and watershed health is in keeping with the broad array of economic and ecological scientific work on forest health. However, the encroachment of development, previous timber practices, and land management in the forest environment has made the realization of these values challenging. So, too, both the increasing risks from climate change and wildfire suppression tactics over the years have taken a toll on broader forest health. State agencies have, in some cases, become simply reactive to these immediate threats.

How do Other Entities Pay for Forest Ecosystem Services, Particularly Watershed Protection? Using the premise that watersheds provide an economic value to downstream water users, several states and local jurisdictions have implemented watershed fees to promote non-wildfire suppression costs. In order to make the case for the costs to downstream users, these states had to focus on watershed health as a priority. The State of New York, in a 2007 agreement for filtration avoidance, committed to promoting natural resources security by funding watershed protection programs rather than construction of water filtration facilities. The state demonstrated the potential for significant cost savings ($5 to $7 billion) between construction of new filtration plants and restoring the integrity of the largest unfiltered water supply system in the U.S.

Closer to home, both the Tualatin River Basin in Oregon State and the San Francisco Public Utilities Commission have instituted broad watershed health programs to avoid downstream costs. In all cases, the approach started with valuing the watershed as an intact system, and then focusing on cost reduction to downstream users.

How Does California Pay for Broader Forest Health Ecosystem Services? California has a piecemeal approach to forest ecosystem health. Three state conservancies (Tahoe, Sierra Nevada and Coastal) provide grants and projects for opportunity forest health projects. These are dependent on voter-approved bonds and annual appropriation by the Legislature. Similarly, the Wildlife Conservation Board provides land acquisition and conservation easements, again subject to voter-approved bonds and one-time appropriations. AB 1492 (Blumenfield), Chapter 289, Statutes of 2012, was passed to implement forest restoration components of a timber regulation and forest restoration program reform. A portion of funding derived from the tax on lumber is intended to provide funding for forest health projects. This, too, is subject to one-time appropriation. In the 2015 Budget Act, $5.2 million was appropriated from the AB 1492 funds to CalFIRE for forest restoration grants within the California Forest Improvement Program. Other programs at CalFIRE focus mainly on fire prevention, rather than the broader focus outlined by the US EPA.

State and Federal Focus on Fire Prevention and Suppression of Wildfires. Over the past few decades, the state and federal government have focused much of their efforts on suppression of wildfires. In a commentary led by UC Davis scientists published in the Journal Science, the investigators report that annual funding for forest management consists mainly of wildfire suppression funding. This is consistent with the state's approach to forest management. In part, this can be explained by the high economic and social values lost when major wildfires take place. The report states that 98 percent of wildfires are suppressed before reaching 300 acres, yet the two percent that escape containment account for 97 percent of fire-fighting costs and total burned areas. State and federal funding for fuels reduction, prescribed burns and intact forest health are not provided annually and regularly, leading to further imbalance. The cost to individuals and communities goes beyond economic cost, and losses are often not replaceable.

Shift to Wildfire Suppression Increases Costs to CalFIRE. Consistent with the national focus on wildfire suppression, CalFIRE has shifted to a more aggressive wildfire suppression method. As evidenced by the number of firefighting activities funded in the budget, the state's main foresters have a primary focus on life and property protection, in part due to public expectations for fire and emergency rescue. The department, as part of its mutual aid approach, responds to numerous life emergencies, including health calls, and manages the growing number of calls for wildland fire suppression. Employees of the department are all required to train in firefighting, even if they are solely focused on forest health. When major incidents occur, it is not uncommon for "all-hands" to be assigned to a fire suppression effort. CalFIRE has a long record of managing major wildfire incidents in a professional and efficient manner, often taking on suppression activities in federal or local jurisdictions (as part of mutual aid) in order to protect the state's economic and social values associated with wildlands. Although most known for large wildfire incidents, CalFIRE is also often directed by the Governor to handle the incident command for man-made or natural disasters such as flood, earthquake, or other events.

GOVERNOR'S PROPOSAL

Governor's CalFIRE Forest Health Proposal. The budget requests $180 million (Greenhouse Gas Reduction Fund [GGRF]), one-time, with position authority and associated funding (approximately $8 million per year) through 2021-22, for a forest health program that is intended to secure forest carbon and reduce greenhouse gas (GHG) emissions. Funds will support the expansion of the Urban and Community Forestry programs, and Forest Legacy Program, and target landscape-scale forest health projects in high-priority forested upper watersheds in coordination with the Department of Fish and Wildlife (DFW), to realize the largest direct benefit for GHG reduction, forest resilience and co-benefits, such as protection of water, wildlife habitat, and rural economic stability. Of the amount proposed in the budget, $140 million is directed to the Forest Legacy Program and landscape-scale forest health projects, which directly funds projects within the forest (other programs are mainly to address urban greening and forestry issues).

The proposed funding is intended primarily to address wildfire risk. In coordination with federal counterparts and research institutions, CalFIRE has collected forest land spatial data showing a significant increase in insect (beetle bark) disease and moisture stress-related tree mortality during the current extended drought. The best available science indicates that these areas are more prone to high severity fire. In addition, the dead, decaying and dying trees emit greenhouse gases and lose carbon storage. On the other hand, addressing this situation could work against the benefits derived from allowing a certain portion of dead and decaying trees to populate the forest in order to increase water storage and biodiversity.

Forest Legacy Program. CalFIRE plans to coordinate efforts to treat forest health at a landscape scale, with both in-house and grant programs that will address reforestation, pest and disease-affected tree removal, fuel reduction and thinning, and vegetation management. The specific activities associated with this proposed program are unclear, but are outlined in broad terms focused on forest health and wildfire prevention.

Land Conservation and Easements. Funds will be used to purchase conservation easements to prevent working forests from being converted to non-forest use (vineyards, housing, marijuana cultivation), and placed under more intensive land management to effect net GHG reductions. The department proposes to work with the Wildlife Conservation Board (WCB) on real estate property acquisition processes to facilitate the sale or transfer of real property. The WCB has managed numerous programs to this effect in recent years. The budget requests two positions: a level one forester to support program administration and operational function, and a level two forester to facilitate conservation easement development, provide public outreach and education on the application process, assist in conservation easement monitoring, review and develop program reports, and make recommendations for further development implementation. The budget also requests additional forester and environmental scientist positions to function as biomass research specialists, and to provide supervision of the overall forest health program. Pursuant to internal rules, these positions will be required to attend the firefighting academy, regardless of their role in firefighting.

Budget Bill and Trailer Bill Language. Finally, the proposal includes budget bill language to allow the department to use certain funds for either support of the department, provide local assistance or fund capital outlay. Funds are requested to have an encumbrance period of six years. Trailer bill language would allow the department to enter into cooperative agreements with state, federal, Native American, or local agencies for administration of the programs.

Governor’s Tree Mortality Task Force. In response to the high wildfire risk associated with tree mortality due to drought, the Governor, through CalFIRE, instituted a Tree Mortality Task Force. CalFIRE, as lead agency, created an incident command structure to accomplish the tasks set before the task force. The task force is comprised of state and federal agencies, local governments, utilities, and various stakeholders that will coordinate emergency protective actions, and monitor ongoing conditions to address the vast tree mortality resulting from four years of unprecedented drought and the resulting bark beetle infestations across large regions of the state. The objectives of the task force are separated into two categories—management objectives and working group objectives. The activities of these two efforts are listed below and will serve to inform the department’s broader efforts for forest health and landscape-scale projects.

Task Force Management Objectives:

- Provide for public health and safety of persons and property in identified high hazard zones.
- Ensure efforts associated with implementation of the directives contained in the Governor's State of Emergency Proclamation remain coordinated.
- Ensure continuous communication among state, federal, and local governments, as well as with other non-governmental organizations assigned to the task force.
- Provide consistent and coordinated messaging between task force member agencies and the public.
- Manage projects and programs in a financially responsible and efficient manner.

Task Force Working Group Objectives:

- Identify existing efforts to mitigate tree mortality in high hazard zones.
- Identify an organizational structure and plan of action.
- Establish working groups, as appropriate, to address various aspects identified in the Governor's State of Emergency Proclamation.
- Facilitate the information flow between state, federal, tribal and local government utilities, and other non-governmental organizations on efforts towards meeting the items addressed in the Governor's State of Emergency Proclamation.
- Ensure project activities and resources are coordinated.
- Identify potential funding sources.
- Coordinate with other state-level initiatives, such as the Forest Climate Action Team and California Forest Biomass Working Group.
- Identify and evaluate the availability of wood products markets, and determine whether expanded wood products markets can be developed.
- Develop and maintain a website for the dissemination of information.

California Conservation Corps (CCC) Fuel Reduction and Forest Health Proposals. The governor's budget includes two proposals that seek to address forest health improvements using the CCC. The first is a $5 million proposal to receive GGRF funds from CalFIRE to operate a GGRF Forest Health Program. The program targets reductions by using the existing CCC structure to train young adults in forest conservation work. Projects include fuel load reduction, reforestation and fire remediation. A second proposal requests $2.7 million (State Responsibility Area Fire Prevention Fund) to continue the CCC fuel reduction program. This program allows the CCC to create mobile corpsmember camps that are able to address intensive and specific fuel reduction projects, in coordination with other state agencies, including CalFIRE.

ISSUES FOR CONSIDERATION

Are We Valuing the Ecosystem Benefits of Intact Forest Ecosystems? The US EPA makes a compelling case that there are values in forest health, in particular with intact forest ecosystems, that government and society may not be taking into account. As a result, it is hard for the state to clearly define a budget for baseline forest ecosystem health beyond wildfire prevention and suppression. The Legislature may wish to request that the Natural Resources Agency, in conjunction with the California Environmental Protection Agency, dedicate a portion of funding from AB 1492 in order to determine what baseline activities would be appropriate for ongoing funding, and to which departments these activities should be assigned.

What Should be the Role of the Various State Departments Focused on Forest Health? Although CalFIRE remains the lead on forest health for the state, the massive role of wildfire prevention and suppression takes up most of CalFIRE’s time and management. A great many of the one-time activities of the state’s major conservancies, DFW, WCB and Natural Resources Agency, are dedicated to broader forest health. Given that there may be ongoing funding from the cap-and-trade program, as well as a smaller amount from AB 1492, the Legislature should consider which departments provide the greatest value when it comes to ecosystem services and intact forest health.

What Should be the Role of the Wildlife Conservation Board? CalFIRE states that it plans to work with WCB staff on a real property acquisition process to facilitate the sale or transfer of development rights and property. This is the expertise of the WCB and having CalFIRE contract or work with WCB seems to add a step of work that is unnecessary. Would it be more efficient to give the WCB funding for this purpose and allow them to run a grant program similar to any number of acquisition and development programs they have successfully managed over time?

What Lessons Can We Learn From Other State and Local Funding Programs? As discussed, other state and local agencies have taken time to value the forest ecosystem, including the difficult decision to maintain portions of the watershed, as intact forest systems. This does not preclude other activities within the watershed but restricts the types of activities that would impact downstream users. In order to pay for these services, downstream users are charged a nominal amount to support watershed protection programs. The Legislature should consider whether a charge on water bills would be appropriate for a broader forest landscape program, and if so, who would be the beneficiaries of this program and how much is needed.

Is There a Long-Term Benefit to Diversifying Forestry Personnel? Should These Activities be Conducted Largely as Grants or by State Personnel? One benefit of one-time funding is that the state does not need to add significant ongoing personnel to staff programs, including retirement costs. However, the down-side of this is the lack of continuity and expertise associated with program management. At CalFIRE, all personnel are trained to be firefighters and thus their benefits include an earlier retirement plan (due to the challenging physical nature of active firefighting), whether or not they actually perform firefighting duties. The state should consider, as it has with the State Parks Department when it allowed a parallel professional track for non-peace officer status park superintendents, whether or not long-term savings and separate expertise would be appropriate for certain foresters and environmental scientists working on landscape-level forest health programs.

Should the Legislature Allow CalFIRE to Shift Funding Between Support, Local Assistance and Capital Outlay? Finally, the CalFIRE budget proposal requests budget and trailer bill language to allow for funding to be shifted between support, local assistance and capital outlay for the forest health program. This type of action reduces the Legislature's control and oversight of funding for specific purposes. It should be clear, prior to appropriation, whether the money will be used for grants, state operations or state capital projects. The Legislature should consider specifying these programs prior to appropriation so that the need for the budget and trailer bill language is eliminated.

Recommendation: Hold open for further consideration.

3540 Department of Forestry and Fire Protection (CalFIRE)

CalFIRE, under the policy direction of the Board of Forestry and Fire Protection, provides fire protection services, directly or through contracts, for timberlands, rangelands, and brushlands owned privately or by state or local agencies. These areas of CalFIRE responsibility are referred to as "state responsibility areas" and represent approximately one–third of the acreage of the state. In addition, CalFIRE regulates timber harvesting on forestland owned privately or by the state and provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

The Governor's budget proposes $1.6 billion from various funds for support of CalFIRE in 2016-17. This is an increase of $177 million, or 12 percent, from current–year estimated expenditures. This is primarily due to an increase of $180 million from the Greenhouse Gas Emission Reduction Fund (GGRF) for forest health and urban forestry activities that reduce greenhouse gas emissions.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
General Fund	$ 944,313	$ 1,286,760	$ 1,293,558
State Emergency Telephone Number Account	4,212	4,051	3,815
Unified Program Account	478	738	707
State Fire Marshal Licensing and Certification Fund	2,125	3,982	3,943
California Environmental License Plate Fund	432	592	577
California Fire and Arson Training Fund	2,202	3,435	3,504
California Hazardous Liquid Pipeline Safety Fund	2,702	3,693	3,592
Professional Forester Registration Fund	205	233	226
Toxic Substances Control Account	1,500	5,000	-
Federal Trust Fund	4,161	19,834	20,364
Forest Resources Improvement Fund	5,846	9,852	9,413
Reimbursements	427,057	452,694	477,289
State Responsibility Area Fire Prevention Fund	74,492	80,283	75,882
State Fire Marshal Fireworks Enforcement and Disposal Fund	206	-	-
Building Standards Administration Special Revolving Fund	135	164	306
Timber Regulation and Forest Restoration Fund	13,775	22,456	22,600
Greenhouse Gas Reduction Fund	39,291	2,753	182,371
Cost of Implementation Account, Air Pollution Control Fund	289	354	433
	$1,523,421	**$1,896,874**	**$2,098,580**

CAPITAL OUTLAY, IMPLEMENTATION OF LEGISLATION AND MINOR PROPOSALS

The CalFIRE budget includes several budget proposals that continue existing programs, convert limited-term positions to permanent, or implement legislation from previous years. These items are listed below for reference.

1. **Capital Outlay.** The Governor's budget requests funding for the following capital outlay proposals: (1) relocate the Potrero Forest Fire Station ($400,000, General Fund); (2) phase five of the statewide communications system replacement ($1.6 million, General Fund); (3) Ishi Conservation Camp domestic drinking water system replacement ($871,000, General Fund); (4) replacement of water boilers at Fenner Canyon Conservation Camp ($376,000, General Fund); and, reappropriation of funding for twenty major capital outlay projects.

2. **Information Technology and Information Security Staffing Modernization.** The budget requests $3 million ($2.8 million General fund and $228,000 Special Funds), and 14 positions, to address increasing demands of information technology systems.

3. **Public Information and Education (Drought).** The Governor's budget requests $1.6 million ($1.5 million General Fund and $127,000 Special Funds), and five positions, starting in 2016-17 to increase staffing for public information and education. This extends, in part, increased funding for drought-related public information.

4. **Drought.** The budget requests $77 million ($74 million General Fund and $3 million State Responsibility Area Fire Prevention Fund), one-time, and 454.8 temporary help positions, to address heightened fire conditions due to drought.

5. **Fire Safety, Flame Retardants and Building Insulation.** The budgets requests $125,000 (Building Standards Administrative Special Revolving Fund), on a one-time basis, for a contract to review, research test, and implement proposed building standards for fire safety of retardants in building insulation.

6. **Board of Forestry Fire Protection Effectiveness Monitoring Services.** The budget requests $425,000 (Timber Regulation and Forest Restoration Fund), for two years, to improve effectiveness monitoring assistance from academic institutions to support the evaluation of the environmental protection of the Forest Practice Act and Rules.

Staff Recommendation: Hold open for further review. The items proposed for discussion will have impacts on the availability of funds, including for capital outlay. Further, the Legislature should consider the necessity of drought-related wildfire staffing after spring rainfall totals have been determined.

Issue 1: Helicopters and Aviation Contracts

Background. When fighting wildland fires, CalFIRE uses helicopters to quickly deliver fire crews and to perform water or retardant drops that slow the fires' spread. Helicopters are also used for other firefighting and fire prevention operations, medical evacuations, cargo transport, mapping, rescues, and other missions. The department currently has 12 helicopters that were acquired in 1990 through the Federal Excess Personal Property Program at no cost to the state. They were originally owned by the U.S. Army from 1963 to 1975 for troop and cargo transport. Once acquired by CalFIRE, these helicopters were modified for wildland firefighting at a cost of about $500,000 per aircraft.

The department maintains both the rotary (helicopter) fleet and a fixed-wing (airplanes) fleet. CalFIRE operates the aircraft fleet in firefighting suppression with a goal of 95 percent of fires suppressed at 10 acres or less. CalFIRE traditionally has contracted with an outside entity over the years to provide both pilots for aircraft and maintenance service.

Governor's Proposal. The Governor's budget includes a one-line "miscellaneous adjustment" in the amount of $100 million that the Department of Finance has indicated is a placeholder for the helicopter purchase. The budget also includes a proposal to increase support for fixed-wing aviation contracted services by $3.5 million in the budget year, and increasing to $9 million in four years. This is the result of a new contract signed with DynCorp International, LLC (DynCorp) after a successful request for proposal (RFP) bid to provide fixed-wing and rotary fleet. DynCorp provides pilots to operate fixed-wing aircraft, as well as maintenance technicians for both the department's fixed-wing and rotary fleet.

LAO 2015 Assessment. In 2015, the LAO reviewed the Governor's helicopter replacement proposal and offered the following assessment:

> **Very Limited Information Provided.** The Governor's proposal includes very little information on the proposed helicopter replacement. For example, CalFIRE has not provided cost estimates, a procurement schedule, or the desired specifications for the new helicopters. In addition, CalFIRE has not identified what additional support and capital outlay costs might be incurred to support this proposal. Such costs could include increased staffing, training, and modifications to current infrastructure (such as helicopter landing pads and hangars). Depending on the specific details of the procurement, the total procurement, support, and capital outlay costs could be in the range of a couple hundred million dollars. These costs would likely be supported from the General Fund.
>
> **Difficult for Legislature to Weigh Trade–Offs.** The lack of information provided makes it difficult for the Legislature to weigh the relative trade–offs associated with the proposed helicopter replacement. While we agree that eventual replacement of CalFIRE's helicopter fleet is reasonable given its capabilities, maintenance needs, and age of the current fleet; we note that there is a wide range of factors that must be considered prior to replacing the department's fleet. Such factors include (1) the number of helicopters needed, (2) how the helicopters will be used, (3) the desired specifications of each helicopter

(such as the size and speed), (4) the need for new facilities, and (5) the timeline for replacement. The Legislature will want to weigh the benefits and costs associated with each factor. For example, night vision capabilities allow helicopters to operate 24 hours a day, which could enable CalFIRE to respond and contain fires more quickly during nighttime hours. However, without knowing the cost of this capability, it is difficult for the Legislature to determine if helicopter night vision should be funded before other competing programs that it may deem to be of higher priority.

Staff Comments. The lack of a full-scope budget request was anticipated after multiple hearings and meetings on the subject of helicopter purchase during the 2015-16 budget process. In the 2015 subcommittee agenda, staff concurred with the LAO that the need for a helicopter replacement plan is supportable, but that the Administration had not provided enough information to the Legislature on the procurement scope and process. Budget bill requiring the department to provide more information on the scope of the purchase and options for various budget-levels for helicopter purchase was ultimately not supported by the Administration and not included in the budget.

The department continued with its procurement schedule as planned, and released an Information for Bid in early 2016. The results of the bid process were made public by the Department of General Services on March 8, 2016. Four bid were received and are being reviewed by the Administration. The companies bidding have various rights to protest the final selection, including review by an Administrative Law Judge and appeal to the Superior Court.

Staff has concerns about the long-term cost of the helicopters, beyond the purchase of individual units, and the Legislature's ability to provide oversight over the costs of the aviation unit at CalFIRE. The budget includes a service contract anticipated to increase by nearly $10 million per year at the end of four years, while at the same time not providing information on what will drive a good portion of the costs of the new helicopter fleet.

The Subcommittee may wish to ask:

- Why did the Department of General Services and CalFIRE select the Information for Bid process? How did the Request for Information inform the bid process?
- How is the Legislature supposed to weigh the out-year costs of capital outlay, maintenance and operations of the model selected by CalFIRE? Why were these costs, potentially increasing the total purchase price by tens, if not hundreds, of millions of dollars, not included in the bid process?
- What are the cost estimates for helicopters, staff training, personnel, and capital outlay; and the planned procurement schedule?
- How can the Legislature evaluate the proposal to increase support and maintenance in the aviation unit, without answers to the above questions?

Staff Recommendation. Hold open for anticipated May Revision proposal.

Issue 2: Emergency Command Center Staffing and Situational Command Awareness Data Acquisition (SCADA)

Background. CalFIRE manages a total of 24 command centers, with each of the department's 21 units supported by a center. The local command centers are supported by two regional operation centers and the Sacramento headquarters. Staffing for the centers was established in 1982, when the department was primarily a wildfire activity department. Since that time, CalFIRE dispatches have increased by nearly 400 percent, including all emergency incidents. The State Responsibility Area (SRA), for which CalFIRE manages emergency response, has remained at around 31 million acres, while the population within the SRA has increased by about 64 percent. At the same time, there have been significant increases in population in the wildland-urban interface. As a full-service fire department, CalFIRE responds to wildland fires, structure fires, floods, hazardous material spills, swift water rescues, civil disturbances, earthquakes, and medical emergencies of all kinds.

Governor's Proposal. The Governor's budget includes two proposals related to command centers as follows:

- **Emergency Command Center Staffing.** The budget requests $17 million ($16.9 million General fund and $28,000 various special funds), and 61.6 permanent positions, along with 34.3 two-year, limited-duration temporary help positions, to increase Emergency Command Center (ECC) staffing. The positions are requested to improve intake of emergency calls and allocate and manage resources for emergencies.

- **Situational Command Awareness Data Acquisition.** The Governor's budget requests $7.6 million ($7 million General Fund and $600,000 Special Funds) and 12.8 positions beginning in the budget year, growing to $13.2 million in two years, then leveling off to $7.6 million, ongoing. The proposal includes a request for eight vehicles, including one for a battalion chief, for ongoing field level support. Additionally, the request will require the department to lease new office space in order to accommodate the additional Sacramento-based positions.

Staff Comments. As California's population within the Wildland-Urban Interface (WUI) and State Responsibility Area increase, staffing for state-level firefighting increases. So, too, as the department takes on more responsibility within its mutual-aid for federal and local emergencies, demand for emergency services increases. Add to this the public expectation, whether within a local jurisdiction (such as a city), or in the wildlands, that emergency calls are answered and dispatched in less than a minute, costs to CalFIRE will only increase. The department's submitted information includes workload and funding justifications, all of which support the notion that firefighting costs will continue to increase, regardless of efforts to reduce wildfire risk.

The Subcommittee may wish to ask the department:

- Why isn't there a corresponding reduction in the overall CalFIRE budget for the SCADA proposal given that this proposal is intended to provide significant efficiencies within the department? What is the overall reduction in budget anticipated by implementing this proposal?

- As part of mutual-aid, how have the federal firefighting units kept up with CalFIRE? Do they take as many emergency calls and maintain the same standards of response as the state—or do they remain mainly a wildfire service?

Staff Recommendation. Hold open for further review.

Issue 3: Professional Standards Program

Background. State law has various mechanisms in place intended to minimize employee misconduct and to respond to such misconduct when it occurs. The department conducts administrative investigations in response to concerns regarding employee behavior. The department also is required to conduct internal administrative investigations under specific circumstances, such as whenever a formal complaint is filed against a peace officer or when a complaint or suspicion of employee misconduct is filed via the California Whistleblower's Protection Act. In addition, CalFIRE, in compliance with statute, requires background investigations on all public safety dispatchers, peace officers, public officers, and emergency medical technicians.

Currently, CalFIRE does not have a unit dedicated specifically to these responsibilities and reports that some of these functions are performed in the field with minimal oversight and redirected staff. When investigations become too complex to pursue with existing resources, CalFIRE contracts with another department to perform the investigation. In contrast, some other departments have designated units that perform these activities. For example, within CNRA, DPR and DFW have units that conduct internal investigations.

Governor's Proposal. The Governor's budget proposes $4.4 million ($3.7 million ongoing) primarily from the General Fund, and 14 permanent positions to establish a professional standards program in headquarters, which would include a unit to provide additional oversight for internal investigations and adverse actions, as well as expand manager and supervisor training. The proposed positions would conduct administrative and background investigations, provide more training to managers and supervisors, and develop guidelines to promote consistent application of penalties.

Under the proposal, much of the workload in 2016–17 would focus on developing new disciplinary policies and processes, as well as training all department managers and supervisors on implementing these procedures. After 2016–17, the nature of the workload would shift to focusing on ongoing training, document review, routine investigations, and oversight. The program is, in part, a response to recent concerns regarding the department's hiring and promotion practices and other allegations of employee misconduct.

Legislative Analyst's Office (LAO) Assessment. The LAO assessment finds that it is reasonable for the department to standardize its policies and procedures, increase its oversight of activities in the field, and make its training program more robust. However, their assessment finds that the ongoing workload for the new program is unclear for several reasons, as outlined below.

Estimate of Future Workload Uncertain. First, the proposed program is new, and its estimated ongoing workload is a projection based on recent workload. While this serves as a reasonable starting point for estimating future workload, actual ongoing workload might change. For example, the number of investigations in recent years might be above average due to increased concerns that arose from a high–profile case and related events over the past couple of years. Basing the ongoing workload on the number of investigations in recent years could overestimate the program's needs. In addition, the number of background investigations could fluctuate based on future position authority and vacancy rates.

Impact of New Professional Standards Unit on Ongoing Workload Unclear. Second, it is unclear how the creation of a new professional standards unit will affect the ongoing workload because some of the unit's activities could influence the number of required investigations or adverse actions undertaken. For example, if the improved education and training successfully prevent misconduct in the future, the new unit might have fewer cases of employee misconduct to process in the long run.

Specific Staff Needed in Long Run Unclear. Third, because the make–up of activities is proposed to shift, the number and classifications of staff might not be appropriate for the ongoing workload. For example, it is not clear that the same classifications needed to undertake policy development and training are best suited for the ongoing investigations workload.

LAO Recommendation. Given the uncertainty about the department's ongoing workload related to the new professional standards program, we recommend that the Legislature approve the additional ongoing resources proposed on a three–year limited–term basis. This timeframe would allow the department to fully implement the program over a period of time before evaluating the program's ongoing workload needs. This would also provide an opportunity for the Legislature and administration to evaluate the effectiveness of the proposed program before committing ongoing resources.

Staff Comments. Staff concurs with the LAO suggestion for a limited-term trial program, in order to provide evaluation and ongoing oversight of the proposal. Concerns have been raised about the training aspect of the proposal, and whether or not it is sufficient within the overall department mission. The department should address this concern in its presentation.

Staff Recommendation. Hold open for discussion with the department.

3340 California Conservation Corps

The CCC provides young adults between the ages of 18 and 25 (and veterans to age 29) work experience and educational opportunities. Program participants, referred to as corpsmembers, work on projects that conserve and improve the environment. They also provide assistance during natural disasters. Work projects are sponsored by various governmental and nongovernmental agencies that reimburse CCC for the work performed by corpsmembers. Corpsmembers often live in residential facilities that serve as a hub of CCC service delivery. Typical activities include academic and technical training, as corpsmembers pursue educational and career development goals. After successfully completing a year, corpsmembers are eligible to receive a scholarship toward continuing education or training.

The Governor's 2016-17 budget proposes a total of $131 million for support of CCC. Almost half of these funds are from the General Fund with the remaining coming from a few special funds. The proposed amount reflects a net increase of $34 million, or 35 percent, compared to projected current–year expenditures. This change primarily reflects (1) a $20 million augmentation from the General Fund to renovate the kitchen, dormitory, and multipurpose room at the Auburn residential center; and (2) an increase of $15 million from the Greenhouse Gas Emission Reduction Fund (GGRF) to operate a new Energy Corps Program that would focus on reducing greenhouse gas emissions for public buildings. In addition, Control Section 6.10 includes $700,000 from the General Fund for deferred maintenance at CCC facilities.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
General Fund	$ 43,852	$ 45,342	$ 44,375
California Environmental License Plate Fund	320	322	318
Collins-Dugan Calif Conservation Corps Reimbursement Acct	35,827	36,499	41,803
Reimbursements	-	1	-
State Responsibility Area Fire Prevention Fund	1,769	7,038	4,522
Greenhouse Gas Reduction Fund	-	-	15,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	4,392	275	-
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Fund of 2006	178	-	-
Clean Energy Job Creation Fund	4,374	5,403	5,400
Total Expenditures (All Funds)	**$90,712**	**$94,880**	**$111,418**

Issue 1: Residential Facilities Expansion

Background. The CCC operates 25 facilities in urban and rural areas statewide—seven residential centers and 18 nonresidential facilities known as satellite facilities. The typical residential center includes a dormitory, dining room and kitchen, administrative offices, recreational facilities, classroom space, and warehouse space. The residential centers normally house between 80 and 100 corpsmembers. The typical satellite facility includes classroom space and administrative offices. The satellite facilities normally serve between 30 and 60 corpsmembers.

Governor's Proposal. The Governor's budget includes a five–year plan for major expansion of residential centers. The Administration's recent Five-Year Infrastructure Plan, which proposes state spending on infrastructure projects in all areas of state government through 2020-21, includes a major expansion of the CCC residential center program. Specifically, the plan proposes a combined total of $171 million over the next five years from the General Fund and lease-revenue bond funds to design and construct new CCC residential centers. There would be added costs to complete design and construction of two new residential centers that would still be in the preliminary plan phase in 2020-21. The figure on the next page summarizes the five-year plan to (1) complete construction of six new residential centers by the end of 2020-21 and (2) begin the acquisition and preliminary planning phases for two additional residential centers that would begin construction after 2020-21. Some of the proposed centers would replace current satellite facilities, while others would add capacity in new locations.

The budget also requests $2.6 million (General Fund), 12.5 positions, and 47 corpsmembers, to convert the former CalFIRE Magalia facility into a residential corpsmember facility serving Butte County.

Under the Governor's plan, the total number of corpsmembers would increase, and a greater share would reside in residential centers. By 2020-21, the number of residential corpsmembers would increase from 623 to 1,172 (88 percent), and the total number of corpsmembers would increase from 1,537 to 1,757 (14 percent). This would result in the share of corpsmembers in residential centers increasing from 41 percent to 67 percent.

Once a residential center is built, its annual average operating cost is $3.4 million. Roughly 50 percent of operating costs are paid for with General Fund, 45 percent are paid for with reimbursements from work projects, and the remaining five percent is from state special funds.

California Conservation Corps Five–Year Expansion Plan

(In Thousands)

	2016–17	2017–18	2018–19	2019–20	2020–21	Total Project Cost
Napa—new residential center	$200 [A]	$1,000 [P]	$2,000 [W]	$24,800 [C]	—	$28,000
Pomona—new residential center	100 [A]	1,000 [P]	2,000 [W]	24,920 [C]	—	28,020
Ukiah—replace existing residential center	100 [A]	200 [A]	1,000 [P]	2,000 [W]	$24,720 [C]	28,020
San Diego—new residential center	—	280 [A]	1,000 [P]	2,000 [W]	24,720 [C]	28,000
Santa Clara—new residential center	—	280 [A]	1,000 [P]	2,000 [W]	24,720 [C]	28,000
Kern—new residential center	—	—	—	3,200 [A,P,W]	24,720 [C]	27,920
Del Norte—new residential center	—	—	—	280 [A]	1,000 [P]	1,280
Inyo/Mono—new residential center	—	—	—	280 [A]	1,000 [P]	1,280
Totals	**$400**	**$2,760**	**$7,000**	**$59,480**	**$100,880**	**$170,520**[a]

[a]Does not include costs for working drawings and construction of new residential centers at Del Norte and Inyo/Mono that will be incurred after 2020–21.

Phases: A = acquisition; P = preliminary plans; W = working drawings; and C = construction

Source: Legislative Analyst's Office, 2016

Expansion Designed to Achieve Multiple Goals. The Administration believes that the proposed expansion will achieve multiple goals. First, residential centers allow access to the CCC program for young people from all parts of the state, not just those that live within commuting distance of a satellite facility. Corpsmembers must find affordable housing within commuting distance of the satellite facility. This can present a barrier in regions where the cost of living is relatively high (such as Napa). By removing the obstacle of finding affordable housing within commuting distance of a satellite facility, CCC believes it will have more participation in certain regions.

Second, the CCC states that residential centers offer a better option than some of its satellite locations by (1) providing a structured environment offering full immersion in work projects and educational programs, (2) offering stability and security, and (3) providing many opportunities for community engagement and personal development. According to CCC, residential facilities promote academic success because the residential setting provides more time for corpsmembers to dedicate to academics. They can attend class, participate in study groups, and participate in academic projects onsite. Data shows CCC corpsmembers in school at residential centers achieved greater gains in math and reading levels than their counterparts in satellite facilities. Furthermore, a higher percentage of corpsmembers from residential centers (27 percent) go on to post-corps education and training than satellite facilities (17 percent), as evidenced by the greater number of CCC graduates from residential centers who claim the scholarship earned by successfully completing a year of service. Residential center corpsmembers are also more likely to participate in community service projects than satellite facility corpsmembers.

Third, the CCC states that the proposed expansion would allow it to better meet the needs of the communities by having more corpsmembers there and offer a residential center program in additional areas of the state. The number of corpsmembers at some of CCC's satellite operations matches the needs of the communities they serve. In deciding which satellite facilities to convert to residential centers, the CCC reviewed several factors such as recruitment trends, demand for work, and existing field staffing. The CCC also considered its geographic reach and its ability to offer residential center programs throughout the state. For example, there is currently no residential center south of Camarillo, so the Governor's proposal includes two new residential centers, in Pomona and San Diego.

Governor's Budget Proposal. The Governor's budget for 2016-17, proposes $400,000 from the General Fund to begin implementation of the above expansion plan. This amount consists of funding for the acquisition phase of residential centers in Napa ($200,000), Pomona ($100,000), and Ukiah ($100,000). Acquisition phase costs can include an investigation of the condition of a property, surveys, title costs, appraisal fees, and staff time. For Napa and Pomona the administration plans to use lease-revenue bonds (generally repaid from the General Fund) for construction, which increases the total costs of the project due to the interest paid on the bonds. Ukiah is proposed to be funded entirely from the General Fund. (The Governor's budget also proposes $2.7 million from the General Fund for one–time and ongoing operational costs of a new residential center in Butte County [Magalia].)

Expansion at Initial Three Sites Would Mostly Leverage Existing State Properties. The Administration plans to build new residential centers on existing state property whenever possible. According to the Administration, utilizing existing state property is preferred and expedites site selection and acquisition. For the Pomona residential center, the former Lanterman Developmental Center (now Cal Poly Pomona) is an option. For the Napa residential center, the Napa State Hospital and the Yountville Veterans Home are both options. In Ukiah, continuing in the current leased facility is no longer feasible. This is because the Department of General Services will not renew the lease as the buildings are in disrepair and do not meet today's building standards.

LAO Assessment. The LAO provides the following assessment:

> The decision about whether to take the initial steps towards a major expansion of CCC residential centers is ultimately a policy decision for the Legislature. In large part, this determination will be based on how the Legislature weighs the potential benefits of expanding the CCC residential program against other General Fund priorities. In this section we assess (1) the costs and potential benefits of the Governor's proposed expansion, and (2) the data available on corpsmember outcomes.
>
> **Major Cost to Shift Towards Residential Center Model With Modest Increase in Corpsmembers.** The Governor's 2016-17 budget proposes funding ($400,000 General Fund) for the acquisition phase of three residential centers that will cost a total of $84 million to complete. The Governor's 2016-17 proposal is just the first step in a plan to spend a combined total of $171 million over the next five years (with additional construction costs estimated at roughly $50 million in subsequent years) to design and construct new CCC residential centers. Over the same time period, the total number of corpsmembers would increase only modestly—by 220 corpsmembers. In our view, the Governor's proposal presents the Legislature with a policy decision about whether to spend a significant amount of General Fund over the next several years to shift the CCC program from a primarily satellite facility–based program to a primarily residential

center–based program—with about two–thirds of corpsmembers living in residential centers in five years. By approving the Governor's 2016-17 proposal, the Legislature would be signaling its agreement with the Governor's long-term policy goal of shifting to greater use of residential centers.

Measureable Outcomes for Corpsmembers Currently Limited. The CCC states that it is beginning to implement a database to collect information on where corpsmembers go after they leave CCC in order to identify trends that could help them to manage the program more effectively. For example, CCC would like to have more information about the number of corpsmembers who leave CCC to begin jobs, attend college, or for other reasons. This information would help CCC administrators to more efficiently and effectively manage the program. However, CCC does not believe it will be able to identify meaningful trends in the data it is collecting for another two or three years.

Without robust data on outcomes after corpsmembers leave CCC, it is more difficult to assess whether a major expansion of residential centers is a wise investment. For example, data suggests that residential centers contribute to corpsmembers performing better than their satellite facility colleagues on some educational and community service measures. However, we do not know whether there are meaningful differences between residential center corpsmembers and their satellite facility colleagues after they leave CCC on such measurements as educational outcomes or employment status.

Ukiah Project Appears Warranted. The new Ukiah residential center will replace an existing leased residential center. The Department of General Services will not renew the lease on the existing facility due to the fire, life, safety, and building code compliance issues. We view this as a reasonable request that will allow for continued CCC services in a region where a residential center is already established.

LAO Recommendation: The LAO offers the following recommendation:

Defer Decision on Napa and Pomona Projects. We recommend the Legislature wait until there is more information on corpsmember outcomes before approving the acquisition phase for new residential centers in Napa and Pomona. We believe the proposal to construct new residential centers in Napa and Pomona is worth exploring. There may be benefits, in addition to the ones discussed earlier in this analysis, from shifting from a primarily satellite facility to a primarily residential–center model. However, we do not know for certain such a shift will better achieve program goals because there is limited data on how residential center corpsmember post–service outcomes compare to outcomes for their satellite facility colleagues. Furthermore, any such benefits would have to be weighed against the significant additional costs of providing corpsmember slots in a residential setting. Accordingly, we believe the Legislature should not signal its intent to go forward with new residential center construction in Napa and Pomona—at an estimated total cost of $28 million per new residential center—by funding the acquisition phase until more information is available regarding corpsmember outcomes.

Require CCC to Report on Outcomes to Inform Longer–Term Policy Choices. We believe the Legislature should take steps to ensure that it will have sufficient information in the future to make informed decisions about whether to go forward with the residential center expansion. We recommend the Legislature require the CCC to report at budget hearings on its progress towards developing a database to track corpsmember outcomes. This data should be complete enough to inform CCC management decisions about how to improve the efficiency and effectiveness of the CCC program. It should also be broad enough to inform legislative decisions about the benefits of expanding CCC. According to CCC, it will not be able to identify trends for another two or three years. We acknowledge that collecting this data may have a cost. We further recommend CCC report at budget hearings on whether it can develop a robust database within existing resources, or whether additional resources are necessary to create this database.

Approve Request for Ukiah Acquisition Phase. We recommend the Legislature approve the request for $100,000 General Fund to begin the acquisition phase of a project to replace the current residential center in Ukiah.

Staff Comments. The LAO assessment of the proposal is thorough and accurately portrays the expansion of the residential facilities as a major change in direction for the corps. However, the corps discussion of the benefits of residential facilities to the corpsmember should not be discounted as the Legislature considers this proposal. Staff have concerns that the size and nature of the proposal may be setting the CCC up for future budget challenges. The addition of the residential facilities will increase the CCC baseline General Fund budget, not all of which can be recouped by either contracts with local entities, or with other state funds. In past years, budget cuts left the CCC baseline budget so reduced that it was challenged to be able to meet its core mission.

The Subcommittee may wish to ask:

- What will be the cost to the General Fund for the additional staffing and corpsmembers at the residential facilities?

- How did the CCC determine where to locate various residential facilities? Was the decision based on mission (increasing energy and forest corpsmember employment pathways), or the availability of surplus property?

- How has the corpsmembers career pathways changed in the past decade—where are corpsmembers finding long term employment after their service to the state?

- Has the Administration considered fundamental changes to the corpsmember career pathway within the state? For example, should there be a longer residential residency at fire camps in order to move corpsmembers into CalFIRE positions? Are there other ways to increase the path to state employment?

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, March 17, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman

OUTCOMES—ALL ITEMS HELD OPEN

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Managing Forest Health
Presentations by the Department of Forestry and Fire Protection, Wildlife Conservation Board and California Natural Resources Agency..................... 2

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Beyond Fire Protection: Managing Wildlands for Watershed Protection and Forest Health

BACKGROUND

Defining Forest Health. Forest health is a loosely-defined term for the broad array of services provided by the forest environment, including ecological health, economic value, social benefit and watershed value, among others. California had struggled with the management of the state's forest health over the years, in particular balancing the needs of homeowners in the forested area with the management of the greater forest ecosystem. The Department of Forestry and Fire Protection (CalFIRE), is the state's lead agency managing this balance, in conjunction with the Board of Forestry, Natural Resources Agency, Department of Fish and Wildlife, State Water Resources Control Board, and other state agencies, including state conservancies.

CalFIRE is charged with the management and protection of the forests and wildlands, and in particular the specific management of the State Responsibility Area (SRA) as part of a multi-agency and government program to manage forest and timberlands, including for wildfire protection. Of the 85 million acres classified as wildlands in the state, 33 million acres are forest lands, with 38 percent privately-owned and 62 percent government-owned or tribal. The state's 20 million acres of commercial forest lands grows 8.3 billion board feet yearly. The five-year average timber harvest volume and value is approximately 1.3 billion board feet and $326 million.

Forest Science Focuses on Ecosystem Services and Watershed Protection. In order to understand the value of wildlands, and in particular forest health, it is important to identify the benefits of a healthy forest. A healthy forest particularly in California, reduces flooding (by allowing water to infiltrate the ground), improves water quality (in part by reducing sediment from roads, development or wildfire debris), increases groundwater recharge, improves air quality, and adds value of aesthetics and increases property values, including timber values. One of California's primary goals of forest health is watershed protection, as much of the state's water is derived from the mountain and forest environment from snowpack to groundwater that feeds into streams and rivers downstream.

According to the US Environmental Protection Agency (US EPA), in its report 841-N-12-004, "Healthy intact watersheds provide many ecosystem services that are necessary for our social and economic well-being. These services include water filtration and storage, air filtration, carbon storage, nutrient cycling, soil formation, recreation, food and timber. Many of these services have not been monetized and therefore the economic contributions of healthy intact ecosystems are often under-valued when making land use decisions. Ecosystem services provided by healthy watersheds are difficult to replace and most often expensive to engineer. An engineered ecosystem service replacement may only provide a fraction of the services provided by highly functioning natural systems."

The US EPA goes a step further and defines some of the greater economic values of an intact forest ecosystem and protected watershed including: (1) lower drinking water treatment costs; (2) avoidance of expensive restoration activities; (3) sustained revenue-generating recreational and tourism opportunities; (4) reduced vulnerability and damage from natural disasters; and, (5) provision of a long-term economic foundation for future generations.

The US EPA's focus on forest and watershed health is in keeping with the broad array of economic and ecological scientific work on forest health. However, the encroachment of development, previous timber practices, and land management in the forest environment has made the realization of these values challenging. So, too, both the increasing risks from climate change and wildfire suppression tactics over the years have taken a toll on broader forest health. State agencies have, in some cases, become simply reactive to these immediate threats.

How do Other Entities Pay for Forest Ecosystem Services, Particularly Watershed Protection? Using the premise that watersheds provide an economic value to downstream water users, several states and local jurisdictions have implemented watershed fees to promote non-wildfire suppression costs. In order to make the case for the costs to downstream users, these states had to focus on watershed health as a priority. The State of New York, in a 2007 agreement for filtration avoidance, committed to promoting natural resources security by funding watershed protection programs rather than construction of water filtration facilities. The state demonstrated the potential for significant cost savings ($5 to $7 billion) between construction of new filtration plants and restoring the integrity of the largest unfiltered water supply system in the U.S.

Closer to home, both the Tualatin River Basin in Oregon State and the San Francisco Public Utilities Commission have instituted broad watershed health programs to avoid downstream costs. In all cases, the approach started with valuing the watershed as an intact system, and then focusing on cost reduction to downstream users.

How Does California Pay for Broader Forest Health Ecosystem Services? California has a piecemeal approach to forest ecosystem health. Three state conservancies (Tahoe, Sierra Nevada and Coastal) provide grants and projects for opportunity forest health projects. These are dependent on voter-approved bonds and annual appropriation by the Legislature. Similarly, the Wildlife Conservation Board provides land acquisition and conservation easements, again subject to voter-approved bonds and one-time appropriations. AB 1492 (Blumenfield), Chapter 289, Statutes of 2012, was passed to implement forest restoration components of a timber regulation and forest restoration program reform. A portion of funding derived from the tax on lumber is intended to provide funding for forest health projects. This, too, is subject to one-time appropriation. In the 2015 Budget Act, $5.2 million was appropriated from the AB 1492 funds to CalFIRE for forest restoration grants within the California Forest Improvement Program. Other programs at CalFIRE focus mainly on fire prevention, rather than the broader focus outlined by the US EPA.

State and Federal Focus on Fire Prevention and Suppression of Wildfires. Over the past few decades, the state and federal government have focused much of their efforts on suppression of wildfires. In a commentary led by UC Davis scientists published in the Journal Science, the investigators report that annual funding for forest management consists mainly of wildfire suppression funding. This is consistent with the state's approach to forest management. In part, this can be explained by the high economic and social values lost when major wildfires take place. The report states that 98 percent of wildfires are suppressed before reaching 300 acres, yet the two percent that escape containment account for 97 percent of fire-fighting costs and total burned areas. State and federal funding for fuels reduction, prescribed burns and intact forest health are not provided annually and regularly, leading to further imbalance. The cost to individuals and communities goes beyond economic cost, and losses are often not replaceable.

Shift to Wildfire Suppression Increases Costs to CalFIRE. Consistent with the national focus on wildfire suppression, CalFIRE has shifted to a more aggressive wildfire suppression method. As evidenced by the number of firefighting activities funded in the budget, the state's main foresters have a primary focus on life and property protection, in part due to public expectations for fire and emergency rescue. The department, as part of its mutual aid approach, responds to numerous life emergencies, including health calls, and manages the growing number of calls for wildland fire suppression. Employees of the department are all required to train in firefighting, even if they are solely focused on forest health. When major incidents occur, it is not uncommon for "all-hands" to be assigned to a fire suppression effort. CalFIRE has a long record of managing major wildfire incidents in a professional and efficient manner, often taking on suppression activities in federal or local jurisdictions (as part of mutual aid) in order to protect the state's economic and social values associated with wildlands. Although most known for large wildfire incidents, CalFIRE is also often directed by the Governor to handle the incident command for man-made or natural disasters such as flood, earthquake, or other events.

GOVERNOR'S PROPOSAL

Governor's CalFIRE Forest Health Proposal. The budget requests $180 million (Greenhouse Gas Reduction Fund [GGRF]), one-time, with position authority and associated funding (approximately $8 million per year) through 2021-22, for a forest health program that is intended to secure forest carbon and reduce greenhouse gas (GHG) emissions. Funds will support the expansion of the Urban and Community Forestry programs, and Forest Legacy Program, and target landscape-scale forest health projects in high-priority forested upper watersheds in coordination with the Department of Fish and Wildlife (DFW), to realize the largest direct benefit for GHG reduction, forest resilience and co-benefits, such as protection of water, wildlife habitat, and rural economic stability. Of the amount proposed in the budget, $140 million is directed to the Forest Legacy Program and landscape-scale forest health projects, which directly funds projects within the forest (other programs are mainly to address urban greening and forestry issues).

The proposed funding is intended primarily to address wildfire risk. In coordination with federal counterparts and research institutions, CalFIRE has collected forest land spatial data showing a significant increase in insect (beetle bark) disease and moisture stress-related tree mortality during the current extended drought. The best available science indicates that these areas are more prone to high severity fire. In addition, the dead, decaying and dying trees emit greenhouse gases and lose carbon storage. On the other hand, addressing this situation could work against the benefits derived from allowing a certain portion of dead and decaying trees to populate the forest in order to increase water storage and biodiversity.

Forest Legacy Program. CalFIRE plans to coordinate efforts to treat forest health at a landscape scale, with both in-house and grant programs that will address reforestation, pest and disease-affected tree removal, fuel reduction and thinning, and vegetation management. The specific activities associated with this proposed program are unclear, but are outlined in broad terms focused on forest health and wildfire prevention.

Land Conservation and Easements. Funds will be used to purchase conservation easements to prevent working forests from being converted to non-forest use (vineyards, housing, marijuana cultivation), and placed under more intensive land management to effect net GHG reductions. The department proposes to work with the Wildlife Conservation Board (WCB) on real estate property acquisition processes to facilitate the sale or transfer of real property. The WCB has managed numerous programs to this effect in recent years. The budget requests two positions: a level one forester to support program administration and operational function, and a level two forester to facilitate conservation easement development, provide public outreach and education on the application process, assist in conservation easement monitoring, review and develop program reports, and make recommendations for further development implementation. The budget also requests additional forester and environmental scientist positions to function as biomass research specialists, and to provide supervision of the overall forest health program. Pursuant to internal rules, these positions will be required to attend the firefighting academy, regardless of their role in firefighting.

Budget Bill and Trailer Bill Language. Finally, the proposal includes budget bill language to allow the department to use certain funds for either support of the department, provide local assistance or fund capital outlay. Funds are requested to have an encumbrance period of six years. Trailer bill language would allow the department to enter into cooperative agreements with state, federal, Native American, or local agencies for administration of the programs.

Governor’s Tree Mortality Task Force. In response to the high wildfire risk associated with tree mortality due to drought, the Governor, through CalFIRE, instituted a Tree Mortality Task Force. CalFIRE, as lead agency, created an incident command structure to accomplish the tasks set before the task force. The task force is comprised of state and federal agencies, local governments, utilities, and various stakeholders that will coordinate emergency protective actions, and monitor ongoing conditions to address the vast tree mortality resulting from four years of unprecedented drought and the resulting bark beetle infestations across large regions of the state. The objectives of the task force are separated into two categories—management objectives and working group objectives. The activities of these two efforts are listed below and will serve to inform the department’s broader efforts for forest health and landscape-scale projects.

Task Force Management Objectives:

- Provide for public health and safety of persons and property in identified high hazard zones.
- Ensure efforts associated with implementation of the directives contained in the Governor's State of Emergency Proclamation remain coordinated.
- Ensure continuous communication among state, federal, and local governments, as well as with other non-governmental organizations assigned to the task force.
- Provide consistent and coordinated messaging between task force member agencies and the public.
- Manage projects and programs in a financially responsible and efficient manner.

Task Force Working Group Objectives:

- Identify existing efforts to mitigate tree mortality in high hazard zones.
- Identify an organizational structure and plan of action.
- Establish working groups, as appropriate, to address various aspects identified in the Governor’s State of Emergency Proclamation.
- Facilitate the information flow between state, federal, tribal and local government utilities, and other non-governmental organizations on efforts towards meeting the items addressed in the Governor’s State of Emergency Proclamation.
- Ensure project activities and resources are coordinated.
- Identify potential funding sources.
- Coordinate with other state-level initiatives, such as the Forest Climate Action Team and California Forest Biomass Working Group.
- Identify and evaluate the availability of wood products markets, and determine whether expanded wood products markets can be developed.
- Develop and maintain a website for the dissemination of information.

California Conservation Corps (CCC) Fuel Reduction and Forest Health Proposals. The governor’s budget includes two proposals that seek to address forest health improvements using the CCC. The first is a $5 million proposal to receive GGRF funds from CalFIRE to operate a GGRF Forest Health Program. The program targets reductions by using the existing CCC structure to train young adults in forest conservation work. Projects include fuel load reduction, reforestation and fire remediation. A second proposal requests $2.7 million (State Responsibility Area Fire Prevention Fund) to continue the CCC fuel reduction program. This program allows the CCC to create mobile corpsmember camps that are able to address intensive and specific fuel reduction projects, in coordination with other state agencies, including CalFIRE.

ISSUES FOR CONSIDERATION

Are We Valuing the Ecosystem Benefits of Intact Forest Ecosystems? The US EPA makes a compelling case that there are values in forest health, in particular with intact forest ecosystems, that government and society may not be taking into account. As a result, it is hard for the state to clearly define a budget for baseline forest ecosystem health beyond wildfire prevention and suppression. The Legislature may wish to request that the Natural Resources Agency, in conjunction with the California Environmental Protection Agency, dedicate a portion of funding from AB 1492 in order to determine what baseline activities would be appropriate for ongoing funding, and to which departments these activities should be assigned.

What Should be the Role of the Various State Departments Focused on Forest Health? Although CalFIRE remains the lead on forest health for the state, the massive role of wildfire prevention and suppression takes up most of CalFIRE's time and management. A great many of the one-time activities of the state's major conservancies, DFW, WCB and Natural Resources Agency, are dedicated to broader forest health. Given that there may be ongoing funding from the cap-and-trade program, as well as a smaller amount from AB 1492, the Legislature should consider which departments provide the greatest value when it comes to ecosystem services and intact forest health.

What Should be the Role of the Wildlife Conservation Board? CalFIRE states that it plans to work with WCB staff on a real property acquisition process to facilitate the sale or transfer of development rights and property. This is the expertise of the WCB and having CalFIRE contract or work with WCB seems to add a step of work that is unnecessary. Would it be more efficient to give the WCB funding for this purpose and allow them to run a grant program similar to any number of acquisition and development programs they have successfully managed over time?

What Lessons Can We Learn From Other State and Local Funding Programs? As discussed, other state and local agencies have taken time to value the forest ecosystem, including the difficult decision to maintain portions of the watershed, as intact forest systems. This does not preclude other activities within the watershed but restricts the types of activities that would impact downstream users. In order to pay for these services, downstream users are charged a nominal amount to support watershed protection programs. The Legislature should consider whether a charge on water bills would be appropriate for a broader forest landscape program, and if so, who would be the beneficiaries of this program and how much is needed.

Is There a Long-Term Benefit to Diversifying Forestry Personnel? Should These Activities be Conducted Largely as Grants or by State Personnel? One benefit of one-time funding is that the state does not need to add significant ongoing personnel to staff programs, including retirement costs. However, the down-side of this is the lack of continuity and expertise associated with program management. At CalFIRE, all personnel are trained to be firefighters and thus their benefits include an earlier retirement plan (due to the challenging physical nature of active firefighting), whether or not they actually perform firefighting duties. The state should consider, as it has with the State Parks Department when it allowed a parallel professional track for non-peace officer status park superintendents, whether or not long-term savings and separate expertise would be appropriate for certain foresters and environmental scientists working on landscape-level forest health programs.

Should the Legislature Allow CalFIRE to Shift Funding Between Support, Local Assistance and Capital Outlay? Finally, the CalFIRE budget proposal requests budget and trailer bill language to allow for funding to be shifted between support, local assistance and capital outlay for the forest health program. This type of action reduces the Legislature's control and oversight of funding for specific purposes. It should be clear, prior to appropriation, whether the money will be used for grants, state operations or state capital projects. The Legislature should consider specifying these programs prior to appropriation so that the need for the budget and trailer bill language is eliminated.

Recommendation: Hold open for further consideration.

3540 Department of Forestry and Fire Protection (CalFIRE)

CalFIRE, under the policy direction of the Board of Forestry and Fire Protection, provides fire protection services, directly or through contracts, for timberlands, rangelands, and brushlands owned privately or by state or local agencies. These areas of CalFIRE responsibility are referred to as "state responsibility areas" and represent approximately one–third of the acreage of the state. In addition, CalFIRE regulates timber harvesting on forestland owned privately or by the state and provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

The Governor's budget proposes $1.6 billion from various funds for support of CalFIRE in 2016-17. This is an increase of $177 million, or 12 percent, from current–year estimated expenditures. This is primarily due to an increase of $180 million from the Greenhouse Gas Emission Reduction Fund (GGRF) for forest health and urban forestry activities that reduce greenhouse gas emissions.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
General Fund	$ 944,313	$ 1,286,760	$ 1,293,558
State Emergency Telephone Number Account	4,212	4,051	3,815
Unified Program Account	478	738	707
State Fire Marshal Licensing and Certification Fund	2,125	3,982	3,943
California Environmental License Plate Fund	432	592	577
California Fire and Arson Training Fund	2,202	3,435	3,504
California Hazardous Liquid Pipeline Safety Fund	2,702	3,693	3,592
Professional Forester Registration Fund	205	233	226
Toxic Substances Control Account	1,500	5,000	-
Federal Trust Fund	4,161	19,834	20,364
Forest Resources Improvement Fund	5,846	9,852	9,413
Reimbursements	427,057	452,694	477,289
State Responsibility Area Fire Prevention Fund	74,492	80,283	75,882
State Fire Marshal Fireworks Enforcement and Disposal Fund	206	-	-
Building Standards Administration Special Revolving Fund	135	164	306
Timber Regulation and Forest Restoration Fund	13,775	22,456	22,600
Greenhouse Gas Reduction Fund	39,291	2,753	182,371
Cost of Implementation Account, Air Pollution Control Fund	289	354	433
	$1,523,421	**$1,896,874**	**$2,098,580**

CAPITAL OUTLAY, IMPLEMENTATION OF LEGISLATION AND MINOR PROPOSALS

The CalFIRE budget includes several budget proposals that continue existing programs, convert limited-term positions to permanent, or implement legislation from previous years. These items are listed below for reference.

1. **Capital Outlay.** The Governor's budget requests funding for the following capital outlay proposals: (1) relocate the Potrero Forest Fire Station ($400,000, General Fund); (2) phase five of the statewide communications system replacement ($1.6 million, General Fund); (3) Ishi Conservation Camp domestic drinking water system replacement ($871,000, General Fund); (4) replacement of water boilers at Fenner Canyon Conservation Camp ($376,000, General Fund); and, reappropriation of funding for twenty major capital outlay projects.

2. **Information Technology and Information Security Staffing Modernization.** The budget requests $3 million ($2.8 million General fund and $228,000 Special Funds), and 14 positions, to address increasing demands of information technology systems.

3. **Public Information and Education (Drought).** The Governor's budget requests $1.6 million ($1.5 million General Fund and $127,000 Special Funds), and five positions, starting in 2016-17 to increase staffing for public information and education. This extends, in part, increased funding for drought-related public information.

4. **Drought.** The budget requests $77 million ($74 million General Fund and $3 million State Responsibility Area Fire Prevention Fund), one-time, and 454.8 temporary help positions, to address heightened fire conditions due to drought.

5. **Fire Safety, Flame Retardants and Building Insulation.** The budgets requests $125,000 (Building Standards Administrative Special Revolving Fund), on a one-time basis, for a contract to review, research test, and implement proposed building standards for fire safety of retardants in building insulation.

6. **Board of Forestry Fire Protection Effectiveness Monitoring Services.** The budget requests $425,000 (Timber Regulation and Forest Restoration Fund), for two years, to improve effectiveness monitoring assistance from academic institutions to support the evaluation of the environmental protection of the Forest Practice Act and Rules.

Staff Recommendation: Hold open for further review. The items proposed for discussion will have impacts on the availability of funds, including for capital outlay. Further, the Legislature should consider the necessity of drought-related wildfire staffing after spring rainfall totals have been determined.

Issue 1: Helicopters and Aviation Contracts

Background. When fighting wildland fires, CalFIRE uses helicopters to quickly deliver fire crews and to perform water or retardant drops that slow the fires' spread. Helicopters are also used for other firefighting and fire prevention operations, medical evacuations, cargo transport, mapping, rescues, and other missions. The department currently has 12 helicopters that were acquired in 1990 through the Federal Excess Personal Property Program at no cost to the state. They were originally owned by the U.S. Army from 1963 to 1975 for troop and cargo transport. Once acquired by CalFIRE, these helicopters were modified for wildland firefighting at a cost of about $500,000 per aircraft.

The department maintains both the rotary (helicopter) fleet and a fixed-wing (airplanes) fleet. CalFIRE operates the aircraft fleet in firefighting suppression with a goal of 95 percent of fires suppressed at 10 acres or less. CalFIRE traditionally has contracted with an outside entity over the years to provide both pilots for aircraft and maintenance service.

Governor's Proposal. The Governor's budget includes a one-line "miscellaneous adjustment" in the amount of $100 million that the Department of Finance has indicated is a placeholder for the helicopter purchase. The budget also includes a proposal to increase support for fixed-wing aviation contracted services by $3.5 million in the budget year, and increasing to $9 million in four years. This is the result of a new contract signed with DynCorp International, LLC (DynCorp) after a successful request for proposal (RFP) bid to provide fixed-wing and rotary fleet. DynCorp provides pilots to operate fixed-wing aircraft, as well as maintenance technicians for both the department's fixed-wing and rotary fleet.

LAO 2015 Assessment. In 2015, the LAO reviewed the Governor's helicopter replacement proposal and offered the following assessment:

> **Very Limited Information Provided.** The Governor's proposal includes very little information on the proposed helicopter replacement. For example, CalFIRE has not provided cost estimates, a procurement schedule, or the desired specifications for the new helicopters. In addition, CalFIRE has not identified what additional support and capital outlay costs might be incurred to support this proposal. Such costs could include increased staffing, training, and modifications to current infrastructure (such as helicopter landing pads and hangars). Depending on the specific details of the procurement, the total procurement, support, and capital outlay costs could be in the range of a couple hundred million dollars. These costs would likely be supported from the General Fund.
>
> **Difficult for Legislature to Weigh Trade–Offs.** The lack of information provided makes it difficult for the Legislature to weigh the relative trade–offs associated with the proposed helicopter replacement. While we agree that eventual replacement of CalFIRE's helicopter fleet is reasonable given its capabilities, maintenance needs, and age of the current fleet; we note that there is a wide range of factors that must be considered prior to replacing the department's fleet. Such factors include (1) the number of helicopters needed, (2) how the helicopters will be used, (3) the desired specifications of each helicopter

(such as the size and speed), (4) the need for new facilities, and (5) the timeline for replacement. The Legislature will want to weigh the benefits and costs associated with each factor. For example, night vision capabilities allow helicopters to operate 24 hours a day, which could enable CalFIRE to respond and contain fires more quickly during nighttime hours. However, without knowing the cost of this capability, it is difficult for the Legislature to determine if helicopter night vision should be funded before other competing programs that it may deem to be of higher priority.

Staff Comments. The lack of a full-scope budget request was anticipated after multiple hearings and meetings on the subject of helicopter purchase during the 2015-16 budget process. In the 2015 subcommittee agenda, staff concurred with the LAO that the need for a helicopter replacement plan is supportable, but that the Administration had not provided enough information to the Legislature on the procurement scope and process. Budget bill requiring the department to provide more information on the scope of the purchase and options for various budget-levels for helicopter purchase was ultimately not supported by the Administration and not included in the budget.

The department continued with its procurement schedule as planned, and released an Information for Bid in early 2016. The results of the bid process were made public by the Department of General Services on March 8, 2016. Four bid were received and are being reviewed by the Administration. The companies bidding have various rights to protest the final selection, including review by an Administrative Law Judge and appeal to the Superior Court.

Staff has concerns about the long-term cost of the helicopters, beyond the purchase of individual units, and the Legislature's ability to provide oversight over the costs of the aviation unit at CalFIRE. The budget includes a service contract anticipated to increase by nearly $10 million per year at the end of four years, while at the same time not providing information on what will drive a good portion of the costs of the new helicopter fleet.

The Subcommittee may wish to ask:

- Why did the Department of General Services and CalFIRE select the Information for Bid process? How did the Request for Information inform the bid process?
- How is the Legislature supposed to weigh the out-year costs of capital outlay, maintenance and operations of the model selected by CalFIRE? Why were these costs, potentially increasing the total purchase price by tens, if not hundreds, of millions of dollars, not included in the bid process?
- What are the cost estimates for helicopters, staff training, personnel, and capital outlay; and the planned procurement schedule?
- How can the Legislature evaluate the proposal to increase support and maintenance in the aviation unit, without answers to the above questions?

Staff Recommendation. Hold open for anticipated May Revision proposal.

Issue 2: Emergency Command Center Staffing and Situational Command Awareness Data Acquisition (SCADA)

Background. CalFIRE manages a total of 24 command centers, with each of the department's 21 units supported by a center. The local command centers are supported by two regional operation centers and the Sacramento headquarters. Staffing for the centers was established in 1982, when the department was primarily a wildfire activity department. Since that time, CalFIRE dispatches have increased by nearly 400 percent, including all emergency incidents. The State Responsibility Area (SRA), for which CalFIRE manages emergency response, has remained at around 31 million acres, while the population within the SRA has increased by about 64 percent. At the same time, there have been significant increases in population in the wildland-urban interface. As a full-service fire department, CalFIRE responds to wildland fires, structure fires, floods, hazardous material spills, swift water rescues, civil disturbances, earthquakes, and medical emergencies of all kinds.

Governor's Proposal. The Governor's budget includes two proposals related to command centers as follows:

- **Emergency Command Center Staffing.** The budget requests $17 million ($16.9 million General fund and $28,000 various special funds), and 61.6 permanent positions, along with 34.3 two-year, limited-duration temporary help positions, to increase Emergency Command Center (ECC) staffing. The positions are requested to improve intake of emergency calls and allocate and manage resources for emergencies.

- **Situational Command Awareness Data Acquisition.** The Governor's budget requests $7.6 million ($7 million General Fund and $600,000 Special Funds) and 12.8 positions beginning in the budget year, growing to $13.2 million in two years, then leveling off to $7.6 million, ongoing. The proposal includes a request for eight vehicles, including one for a battalion chief, for ongoing field level support. Additionally, the request will require the department to lease new office space in order to accommodate the additional Sacramento-based positions.

Staff Comments. As California's population within the Wildland-Urban Interface (WUI) and State Responsibility Area increase, staffing for state-level firefighting increases. So, too, as the department takes on more responsibility within its mutual-aid for federal and local emergencies, demand for emergency services increases. Add to this the public expectation, whether within a local jurisdiction (such as a city), or in the wildlands, that emergency calls are answered and dispatched in less than a minute, costs to CalFIRE will only increase. The department's submitted information includes workload and funding justifications, all of which support the notion that firefighting costs will continue to increase, regardless of efforts to reduce wildfire risk.

The Subcommittee may wish to ask the department:

- Why isn't there a corresponding reduction in the overall CalFIRE budget for the SCADA proposal given that this proposal is intended to provide significant efficiencies within the department? What is the overall reduction in budget anticipated by implementing this proposal?

- As part of mutual-aid, how have the federal firefighting units kept up with CalFIRE? Do they take as many emergency calls and maintain the same standards of response as the state—or do they remain mainly a wildfire service?

Staff Recommendation. Hold open for further review.

Issue 3: Professional Standards Program

Background. State law has various mechanisms in place intended to minimize employee misconduct and to respond to such misconduct when it occurs. The department conducts administrative investigations in response to concerns regarding employee behavior. The department also is required to conduct internal administrative investigations under specific circumstances, such as whenever a formal complaint is filed against a peace officer or when a complaint or suspicion of employee misconduct is filed via the California Whistleblower's Protection Act. In addition, CalFIRE, in compliance with statute, requires background investigations on all public safety dispatchers, peace officers, public officers, and emergency medical technicians.

Currently, CalFIRE does not have a unit dedicated specifically to these responsibilities and reports that some of these functions are performed in the field with minimal oversight and redirected staff. When investigations become too complex to pursue with existing resources, CalFIRE contracts with another department to perform the investigation. In contrast, some other departments have designated units that perform these activities. For example, within CNRA, DPR and DFW have units that conduct internal investigations.

Governor's Proposal. The Governor's budget proposes $4.4 million ($3.7 million ongoing) primarily from the General Fund, and 14 permanent positions to establish a professional standards program in headquarters, which would include a unit to provide additional oversight for internal investigations and adverse actions, as well as expand manager and supervisor training. The proposed positions would conduct administrative and background investigations, provide more training to managers and supervisors, and develop guidelines to promote consistent application of penalties.

Under the proposal, much of the workload in 2016–17 would focus on developing new disciplinary policies and processes, as well as training all department managers and supervisors on implementing these procedures. After 2016–17, the nature of the workload would shift to focusing on ongoing training, document review, routine investigations, and oversight. The program is, in part, a response to recent concerns regarding the department's hiring and promotion practices and other allegations of employee misconduct.

Legislative Analyst's Office (LAO) Assessment. The LAO assessment finds that it is reasonable for the department to standardize its policies and procedures, increase its oversight of activities in the field, and make its training program more robust. However, their assessment finds that the ongoing workload for the new program is unclear for several reasons, as outlined below.

Estimate of Future Workload Uncertain. First, the proposed program is new, and its estimated ongoing workload is a projection based on recent workload. While this serves as a reasonable starting point for estimating future workload, actual ongoing workload might change. For example, the number of investigations in recent years might be above average due to increased concerns that arose from a high–profile case and related events over the past couple of years. Basing the ongoing workload on the number of investigations in recent years could overestimate the program's needs. In addition, the number of background investigations could fluctuate based on future position authority and vacancy rates.

Impact of New Professional Standards Unit on Ongoing Workload Unclear. Second, it is unclear how the creation of a new professional standards unit will affect the ongoing workload because some of the unit's activities could influence the number of required investigations or adverse actions undertaken. For example, if the improved education and training successfully prevent misconduct in the future, the new unit might have fewer cases of employee misconduct to process in the long run.

Specific Staff Needed in Long Run Unclear. Third, because the make–up of activities is proposed to shift, the number and classifications of staff might not be appropriate for the ongoing workload. For example, it is not clear that the same classifications needed to undertake policy development and training are best suited for the ongoing investigations workload.

LAO Recommendation. Given the uncertainty about the department's ongoing workload related to the new professional standards program, we recommend that the Legislature approve the additional ongoing resources proposed on a three–year limited–term basis. This timeframe would allow the department to fully implement the program over a period of time before evaluating the program's ongoing workload needs. This would also provide an opportunity for the Legislature and administration to evaluate the effectiveness of the proposed program before committing ongoing resources.

Staff Comments. Staff concurs with the LAO suggestion for a limited-term trial program, in order to provide evaluation and ongoing oversight of the proposal. Concerns have been raised about the training aspect of the proposal, and whether or not it is sufficient within the overall department mission. The department should address this concern in its presentation.

Staff Recommendation. Hold open for discussion with the department.

3340 California Conservation Corps

The CCC provides young adults between the ages of 18 and 25 (and veterans to age 29) work experience and educational opportunities. Program participants, referred to as corpsmembers, work on projects that conserve and improve the environment. They also provide assistance during natural disasters. Work projects are sponsored by various governmental and nongovernmental agencies that reimburse CCC for the work performed by corpsmembers. Corpsmembers often live in residential facilities that serve as a hub of CCC service delivery. Typical activities include academic and technical training, as corpsmembers pursue educational and career development goals. After successfully completing a year, corpsmembers are eligible to receive a scholarship toward continuing education or training.

The Governor's 2016-17 budget proposes a total of $131 million for support of CCC. Almost half of these funds are from the General Fund with the remaining coming from a few special funds. The proposed amount reflects a net increase of $34 million, or 35 percent, compared to projected current–year expenditures. This change primarily reflects (1) a $20 million augmentation from the General Fund to renovate the kitchen, dormitory, and multipurpose room at the Auburn residential center; and (2) an increase of $15 million from the Greenhouse Gas Emission Reduction Fund (GGRF) to operate a new Energy Corps Program that would focus on reducing greenhouse gas emissions for public buildings. In addition, Control Section 6.10 includes $700,000 from the General Fund for deferred maintenance at CCC facilities.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
General Fund	$ 43,852	$ 45,342	$ 44,375
California Environmental License Plate Fund	320	322	318
Collins-Dugan Calif Conservation Corps Reimbursement Acct	35,827	36,499	41,803
Reimbursements	-	1	-
State Responsibility Area Fire Prevention Fund	1,769	7,038	4,522
Greenhouse Gas Reduction Fund	-	-	15,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund	4,392	275	-
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Fund of 2006	178	-	-
Clean Energy Job Creation Fund	4,374	5,403	5,400
Total Expenditures (All Funds)	**$90,712**	**$94,880**	**$111,418**

Issue 1: Residential Facilities Expansion

Background. The CCC operates 25 facilities in urban and rural areas statewide—seven residential centers and 18 nonresidential facilities known as satellite facilities. The typical residential center includes a dormitory, dining room and kitchen, administrative offices, recreational facilities, classroom space, and warehouse space. The residential centers normally house between 80 and 100 corpsmembers. The typical satellite facility includes classroom space and administrative offices. The satellite facilities normally serve between 30 and 60 corpsmembers.

Governor's Proposal. The Governor's budget includes a five–year plan for major expansion of residential centers. The Administration's recent Five-Year Infrastructure Plan, which proposes state spending on infrastructure projects in all areas of state government through 2020-21, includes a major expansion of the CCC residential center program. Specifically, the plan proposes a combined total of $171 million over the next five years from the General Fund and lease-revenue bond funds to design and construct new CCC residential centers. There would be added costs to complete design and construction of two new residential centers that would still be in the preliminary plan phase in 2020-21. The figure on the next page summarizes the five-year plan to (1) complete construction of six new residential centers by the end of 2020-21 and (2) begin the acquisition and preliminary planning phases for two additional residential centers that would begin construction after 2020-21. Some of the proposed centers would replace current satellite facilities, while others would add capacity in new locations.

The budget also requests $2.6 million (General Fund), 12.5 positions, and 47 corpsmembers, to convert the former CalFIRE Magalia facility into a residential corpsmember facility serving Butte County.

Under the Governor's plan, the total number of corpsmembers would increase, and a greater share would reside in residential centers. By 2020-21, the number of residential corpsmembers would increase from 623 to 1,172 (88 percent), and the total number of corpsmembers would increase from 1,537 to 1,757 (14 percent). This would result in the share of corpsmembers in residential centers increasing from 41 percent to 67 percent.

Once a residential center is built, its annual average operating cost is $3.4 million. Roughly 50 percent of operating costs are paid for with General Fund, 45 percent are paid for with reimbursements from work projects, and the remaining five percent is from state special funds.

California Conservation Corps Five–Year Expansion Plan

(In Thousands)

	2016–17	2017–18	2018–19	2019–20	2020–21	Total Project Cost
Napa—new residential center	$200 A	$1,000 P	$2,000 W	$24,800 C	—	$28,000
Pomona—new residential center	100 A	1,000 P	2,000 W	24,920 C	—	28,020
Ukiah—replace existing residential center	100 A	200 A	1,000 P	2,000 W	$24,720 C	28,020
San Diego—new residential center	—	280 A	1,000 P	2,000 W	24,720 C	28,000
Santa Clara—new residential center	—	280 A	1,000 P	2,000 W	24,720 C	28,000
Kern—new residential center	—	—	—	3,200 A,P,W	24,720 C	27,920
Del Norte—new residential center	—	—	—	280 A	1,000 P	1,280
Inyo/Mono—new residential center	—	—	—	280 A	1,000 P	1,280
Totals	**$400**	**$2,760**	**$7,000**	**$59,480**	**$100,880**	**$170,520**[a]

[a]Does not include costs for working drawings and construction of new residential centers at Del Norte and Inyo/Mono that will be incurred after 2020–21.

Phases: A = acquisition; P = preliminary plans; W = working drawings; and C = construction

Source: Legislative Analyst's Office, 2016

Expansion Designed to Achieve Multiple Goals. The Administration believes that the proposed expansion will achieve multiple goals. First, residential centers allow access to the CCC program for young people from all parts of the state, not just those that live within commuting distance of a satellite facility. Corpsmembers must find affordable housing within commuting distance of the satellite facility. This can present a barrier in regions where the cost of living is relatively high (such as Napa). By removing the obstacle of finding affordable housing within commuting distance of a satellite facility, CCC believes it will have more participation in certain regions.

Second, the CCC states that residential centers offer a better option than some of its satellite locations by (1) providing a structured environment offering full immersion in work projects and educational programs, (2) offering stability and security, and (3) providing many opportunities for community engagement and personal development. According to CCC, residential facilities promote academic success because the residential setting provides more time for corpsmembers to dedicate to academics. They can attend class, participate in study groups, and participate in academic projects onsite. Data shows CCC corpsmembers in school at residential centers achieved greater gains in math and reading levels than their counterparts in satellite facilities. Furthermore, a higher percentage of corpsmembers from residential centers (27 percent) go on to post-corps education and training than satellite facilities (17 percent), as evidenced by the greater number of CCC graduates from residential centers who claim the scholarship earned by successfully completing a year of service. Residential center corpsmembers are also more likely to participate in community service projects than satellite facility corpsmembers.

Third, the CCC states that the proposed expansion would allow it to better meet the needs of the communities by having more corpsmembers there and offer a residential center program in additional areas of the state. The number of corpsmembers at some of CCC's satellite operations matches the needs of the communities they serve. In deciding which satellite facilities to convert to residential centers, the CCC reviewed several factors such as recruitment trends, demand for work, and existing field staffing. The CCC also considered its geographic reach and its ability to offer residential center programs throughout the state. For example, there is currently no residential center south of Camarillo, so the Governor's proposal includes two new residential centers, in Pomona and San Diego.

Governor's Budget Proposal. The Governor's budget for 2016-17, proposes $400,000 from the General Fund to begin implementation of the above expansion plan. This amount consists of funding for the acquisition phase of residential centers in Napa ($200,000), Pomona ($100,000), and Ukiah ($100,000). Acquisition phase costs can include an investigation of the condition of a property, surveys, title costs, appraisal fees, and staff time. For Napa and Pomona the administration plans to use lease-revenue bonds (generally repaid from the General Fund) for construction, which increases the total costs of the project due to the interest paid on the bonds. Ukiah is proposed to be funded entirely from the General Fund. (The Governor's budget also proposes $2.7 million from the General Fund for one–time and ongoing operational costs of a new residential center in Butte County [Magalia].)

Expansion at Initial Three Sites Would Mostly Leverage Existing State Properties. The Administration plans to build new residential centers on existing state property whenever possible. According to the Administration, utilizing existing state property is preferred and expedites site selection and acquisition. For the Pomona residential center, the former Lanterman Developmental Center (now Cal Poly Pomona) is an option. For the Napa residential center, the Napa State Hospital and the Yountville Veterans Home are both options. In Ukiah, continuing in the current leased facility is no longer feasible. This is because the Department of General Services will not renew the lease as the buildings are in disrepair and do not meet today's building standards.

LAO Assessment. The LAO provides the following assessment:

> The decision about whether to take the initial steps towards a major expansion of CCC residential centers is ultimately a policy decision for the Legislature. In large part, this determination will be based on how the Legislature weighs the potential benefits of expanding the CCC residential program against other General Fund priorities. In this section we assess (1) the costs and potential benefits of the Governor's proposed expansion, and (2) the data available on corpsmember outcomes.
>
> **Major Cost to Shift Towards Residential Center Model With Modest Increase in Corpsmembers.** The Governor's 2016-17 budget proposes funding ($400,000 General Fund) for the acquisition phase of three residential centers that will cost a total of $84 million to complete. The Governor's 2016-17 proposal is just the first step in a plan to spend a combined total of $171 million over the next five years (with additional construction costs estimated at roughly $50 million in subsequent years) to design and construct new CCC residential centers. Over the same time period, the total number of corpsmembers would increase only modestly—by 220 corpsmembers. In our view, the Governor's proposal presents the Legislature with a policy decision about whether to spend a significant amount of General Fund over the next several years to shift the CCC program from a primarily satellite facility–based program to a primarily residential

center–based program—with about two–thirds of corpsmembers living in residential centers in five years. By approving the Governor's 2016-17 proposal, the Legislature would be signaling its agreement with the Governor's long-term policy goal of shifting to greater use of residential centers.

Measureable Outcomes for Corpsmembers Currently Limited. The CCC states that it is beginning to implement a database to collect information on where corpsmembers go after they leave CCC in order to identify trends that could help them to manage the program more effectively. For example, CCC would like to have more information about the number of corpsmembers who leave CCC to begin jobs, attend college, or for other reasons. This information would help CCC administrators to more efficiently and effectively manage the program. However, CCC does not believe it will be able to identify meaningful trends in the data it is collecting for another two or three years.

Without robust data on outcomes after corpsmembers leave CCC, it is more difficult to assess whether a major expansion of residential centers is a wise investment. For example, data suggests that residential centers contribute to corpsmembers performing better than their satellite facility colleagues on some educational and community service measures. However, we do not know whether there are meaningful differences between residential center corpsmembers and their satellite facility colleagues after they leave CCC on such measurements as educational outcomes or employment status.

Ukiah Project Appears Warranted. The new Ukiah residential center will replace an existing leased residential center. The Department of General Services will not renew the lease on the existing facility due to the fire, life, safety, and building code compliance issues. We view this as a reasonable request that will allow for continued CCC services in a region where a residential center is already established.

LAO Recommendation: The LAO offers the following recommendation:

Defer Decision on Napa and Pomona Projects. We recommend the Legislature wait until there is more information on corpsmember outcomes before approving the acquisition phase for new residential centers in Napa and Pomona. We believe the proposal to construct new residential centers in Napa and Pomona is worth exploring. There may be benefits, in addition to the ones discussed earlier in this analysis, from shifting from a primarily satellite facility to a primarily residential–center model. However, we do not know for certain such a shift will better achieve program goals because there is limited data on how residential center corpsmember post–service outcomes compare to outcomes for their satellite facility colleagues. Furthermore, any such benefits would have to be weighed against the significant additional costs of providing corpsmember slots in a residential setting. Accordingly, we believe the Legislature should not signal its intent to go forward with new residential center construction in Napa and Pomona—at an estimated total cost of $28 million per new residential center—by funding the acquisition phase until more information is available regarding corpsmember outcomes.

Require CCC to Report on Outcomes to Inform Longer–Term Policy Choices. We believe the Legislature should take steps to ensure that it will have sufficient information in the future to make informed decisions about whether to go forward with the residential center expansion. We recommend the Legislature require the CCC to report at budget hearings on its progress towards developing a database to track corpsmember outcomes. This data should be complete enough to inform CCC management decisions about how to improve the efficiency and effectiveness of the CCC program. It should also be broad enough to inform legislative decisions about the benefits of expanding CCC. According to CCC, it will not be able to identify trends for another two or three years. We acknowledge that collecting this data may have a cost. We further recommend CCC report at budget hearings on whether it can develop a robust database within existing resources, or whether additional resources are necessary to create this database.

Approve Request for Ukiah Acquisition Phase. We recommend the Legislature approve the request for $100,000 General Fund to begin the acquisition phase of a project to replace the current residential center in Ukiah.

Staff Comments. The LAO assessment of the proposal is thorough and accurately portrays the expansion of the residential facilities as a major change in direction for the corps. However, the corps discussion of the benefits of residential facilities to the corpsmember should not be discounted as the Legislature considers this proposal. Staff have concerns that the size and nature of the proposal may be setting the CCC up for future budget challenges. The addition of the residential facilities will increase the CCC baseline General Fund budget, not all of which can be recouped by either contracts with local entities, or with other state funds. In past years, budget cuts left the CCC baseline budget so reduced that it was challenged to be able to meet its core mission.

The Subcommittee may wish to ask:

- What will be the cost to the General Fund for the additional staffing and corpsmembers at the residential facilities?

- How did the CCC determine where to locate various residential facilities? Was the decision based on mission (increasing energy and forest corpsmember employment pathways), or the availability of surplus property?

- How has the corpsmembers career pathways changed in the past decade—where are corpsmembers finding long term employment after their service to the state?

- Has the Administration considered fundamental changes to the corpsmember career pathway within the state? For example, should there be a longer residential residency at fire camps in order to move corpsmembers into CalFIRE positions? Are there other ways to increase the path to state employment?

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, April 7, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman

ISSUES PROPOSED FOR DISCUSSION

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3860 Department of Water Resources

The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department maintains the State Water Resources Development System, including the State Water Project (SWP). The department also maintains public safety and prevents damage through flood control operations, supervision of dams, and water projects.

Additionally, the department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor-owned utilities (IOUs).

Governor's Budget. The Governor's budget includes $3.1 billion (including infrastructure expenditures) and 3,320 positions for support of DWR. The proposed budget represents an overall decrease of $2 billion mainly due to decreased appropriations for proposition 1E bond funds, which were fully appropriated last year.

EXPENDITURES BY PROGRAM (in thousands)

	Program	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
	Continuing Formulation of the California Water Plan	$347,179	$737,178	$259,603
	Implementation of the State Water Resources Development System	362,531	1,708,660	1,707,902
	Public Safety and Prevention of Damage	218,112	1,714,088	150,293
	Central Valley Flood Protection Board	4,732	20,001	13,416
	Services	3,338	7,783	7,766
	California Energy Resources Scheduling	972,070	961,602	928,463
	Loan Repayment Program	- 1,112	- 1,405	- 1,405
Total Expenditures (All Programs)		**$1,906,850**	**$5,147,909**	**$3,066,040**

VOTE-ONLY CALENDAR

1. **Riverine Stewardship Technical Assistance.** The department currently administers two programs relating to river and stream restoration; the Fish Passage Improvement Program and the Urban Streams Restoration Program. These programs have received funding under previous general obligation bond acts (Propositions 13, 50 and 84). This proposal requests that the remaining dollars from these bond acts ($2.4 million from Proposition 13, $600,000 from Proposition 50, and $1.66 million from Proposition 84) be combined and used to provide technical assistance to federal, state, and local entities undertaking river and stream restoration projects. The proposal also seeks $17 million in reimbursement authority to allow DWR to receive payment from federal or state entities as part of its providing the technical assistance.

2. **San Joaquin River Restoration and Truckee River Operating Agreement Implementation (State and Federal Reimbursement).** The budget proposes to give DWR the authority to receive funds from other state and federal entities associated with the San Joaquin River Restoration ($25.1 million in reimbursement) and would also provide DWR with ongoing support for implementation of the Truckee River Operating Agreement ($350,000).

3. **Drinking Water Quality – Pilot Projects (Safe Drinking Water Local Assistance Funding).** The budget requests $2.5 million (Proposition 50) in local assistance funding to fund pilot and demonstration projects for treatment and removal of seven specific contaminants, as well as drinking water disinfection projects using ultraviolet technology and ozone treatment. The language of Proposition 50 specifically delineates that the funds must be used for pilot projects to eliminate seven specific, listed contaminants. This request appropriates the remaining Prop 50 funds for this work in one final grant round.

4. **Water Loss Audit Program Implementation.** The budget requests $350,000 (General Fund) ongoing support to implement the distribution system water loss audit program required by SB 555 (Wolk), Chapter 679, Statutes of 2015. In addition, a one-time appropriation of $150,000 (General Fund) is requested to develop rules and processes for validation and submittal, and for the utilization of a public on-line water audit submittal tool and database. The costs in this proposal are consistent with cost estimates provided by the department to the Legislature during discussions of SB 555.

Staff Recommendation: Approve as proposed.

Vote:

Issue 1: Flood Management and General Fund Restoration

Background. According to a November 2013 report by DWR, California faces significant risk from flooding. The flood risk for a given area is determined by the amount of damage (such as damage to property and loss of life) that would be caused if a flood occurred, combined with the likelihood that a flood will occur. For example, an urban area along a river might have a relatively high flood risk—even if a flood is unlikely to occur—because the area has high property values and a large number of residents would be affected if flooding happened. In contrast, a rural area might have a lower flood risk—even if a flood is more likely to occur—because property values and populations in the area are lower.

State Role in Flood Protection. Historically, most flooding has occurred in the Central Valley. The state is the primary entity responsible for flood control in this area. The State Plan of Flood Control (SPFC) is the state's system of flood protection in the Central Valley. It includes about 1,600 miles of levees, as well as other flood control infrastructure, such as bypasses and weirs, which are used to divert water at times of high flow.

Within the SPFC, the state funds the construction and repair of flood control infrastructure. Typically, the federal and local governments also provide funding for these projects. The state also provides grants to local governments to support local levee improvements and other activities. For most levee segments, the state has turned over the operations and maintenance to local governments (primarily local flood control districts). Even though some of these local agencies have failed to adequately maintain the levees in the past, the state has been found liable for such levee failures. Outside the SPFC, the state's role in flood management generally consists of providing financial assistance to local governments for flood control projects located throughout the state.

Voters Passed Proposition 1E. In November 2006, California voters approved the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E) in order to improve the condition of the state's levees. Proposition 1E authorized the sale of $4.1 billion in general obligation bonds for several broad categories of flood protection activities, such as improvements to the state's flood control system and the construction of bypasses. The measure requires (1) all funds to be appropriated by July 1, 2016, (2) the funds to be directed to projects that achieve maximum public benefits, and (3) the Governor to submit an annual flood prevention expenditure plan that includes the amount of matching federal and local funds. These funds have been fully appropriated as of June 2015.

Central Valley Flood Protection Plan Developed. Subsequently, the Legislature passed the Central Valley Flood Protection Act of 2008 (Chapter 364, Statutes of 2007 [SB 5, Machado]). Chapter 364 required DWR to develop a plan—the Central Valley Flood Protection Plan (CVFPP)—for reducing the risk of flooding throughout the SPFC system, including recommended actions and projects. The CVFPP was developed by DWR in 2012 and identified a total flood control funding need of $14 billion to $17 billion.

State Flood Protection Activities. The state funds several types of flood protection activities. This includes three types of state-managed capital outlay projects:

- **Urban Capital Outlay Projects.** These projects protect urban areas, typically by improving levees. Projects in urban areas often provide large reductions in flood risk for the protected areas because the levees protect high value property and large populations. However, the way urban capital projects have historically been constructed often negatively affect fish habitat for several reasons, such as by reducing native vegetation. Consequently, such projects often require significant environmental mitigation. The federal government often provides most of the funding for these projects because they meet certain federal criteria for reducing flood risk in a cost-effective manner.

- **Rural Capital Outlay Projects.** These projects protect rural areas by repairing levees and making other improvements, such as flood-proofing structures or widening floodplains. The impact of rural flood projects on fish habitat depends on how they are designed. For example, some of these projects include “setback” levees, which are built further back from the bank of the river. This connects the river to its historical floodplain, which creates additional habitat and provides good food sources for fish and other species. Because these projects reduce risk in rural areas—which do not have high populations or property values—they often do not meet the federal government’s cost-effectiveness criteria. Thus, the state typically pays over half the cost of these projects, with local governments paying the remainder.

- **Systemwide Capital Outlay Projects.** These projects include building or expanding existing bypasses (such as the Yolo Bypass near Davis). Bypasses significantly reduce the chance of flooding for large regions—including urban and rural areas—and improve environmental benefits for fish species that migrate through them. However, because some of the flood benefits accrue to rural areas, these projects may not reduce flood risk as cost-effectively as urban projects. The cost shares among state, federal, and local governments depend on the specific project.

The state also provides funding for other activities, including:

- **Grants to Local Governments.** The state provides grants to support a variety of flood protection activities at the local level. Specifically, the state funds a share of the costs associated with projects that are developed and led by local governments. This includes grant programs focused on reducing flood risk in small communities and supporting local levee maintenance.

- **State Operations.** The state also supports various state flood protection activities, such as updates to the CVFPP, analyses of flood risk, levee maintenance, and purchasing equipment and supplies needed to respond to flood emergencies.

Governor's Flood and Hydrography Budget Requests

Governor's Proposals. The Governor's budget includes several proposals designed to improve flood protection statewide. These include:

1. General Fund Restoration ($11.5 million). The proposal includes $10.1 million for flood system operations and maintenance. The department directly operates and maintains 293 miles of state-federal project levees, where no local levee protection district exists. Additionally, the department maintains over 1200 miles of flood control channels and more than 20 related flood control structures and activities. General Fund reductions in 2011 left the department with no funding to undertake routine levee maintenance activities, replace or repair equipment, or undertake channel maintenance work to ensure unimpeded flows. Support for such activities would not be a legal use of general obligation bond funds, so Proposition 1E was not an option from which to draw.

The proposal includes $900,000 for flood emergency response. The department annually works with local agencies with responsibilities for flood protection, and emergency response and planning. This includes assessment of critical infrastructure and potential deficiencies, preplanning and prepositioning of flood fight material, and ensuring that state and local response entities (police, fire, county offices of emergency management, regional California Office of Emergency Services staff, and the department) have clear communication and a clear understanding of responsibilities in the event of a flood emergency. When the General Fund was cut from this program, temporary support of the activities was able to be supported by Proposition 1E, but as those bond funds are drawn down, reinstatement of General Fund support is needed.

Finally, the proposal includes $500,000 for flood risk reduction programs. The department administers various flood risk reduction programs currently funded through appropriations from Proposition 1E. In the 2015-16 Budget Act, the Legislature approved bond funding for continuing urban ($270 million), nonurban ($118 million), and systemwide ($300 million) flood risk reduction actions. While project funding is currently supported by bond funds, these programs, and the local flood projects that they support, are ongoing. This funding is used to support various activities associated with those programs, including geodetic surveys, property review and transfers, and support for the Central Valley Flood Protection Board in processing permits and other associated activities. This request will restore the General Fund that was temporarily shifted to bond funds, as the bond funds for these activities will be expended by FY 2016-17. Absent this support, work timelines will be extended or possibly projects will be deferred.

2. Increased Flood Protection (Bond Funds). The budget requests reversion of $28.9 million from unused balances of Proposition 84, and a new appropriation of $62.5 million from Proposition 84, and $360,000 from Proposition 13. This proposal specifically requests $60 million (Propositions 84) to provide state-support of local flood management activities within the Sacramento-San Joaquin Delta. Additionally, approximately $1.4 million (Propositions 13 and 84) is requested in support of the department's Flood Corridors Program and $1.5 million (Propositions 84) in support of the Statewide Flood Control Subventions Program. The language of these bond acts dedicates these funds specifically for the purposes of delta flood protection, the flood corridors program, and flood control subventions. This is the remaining funding from these bond acts for these purposes.

3. California National Hydrography Dataset and Stream Gages. The budget request $2.3 million (General Fund) to continue and restore the collection and use of data relating to statewide hydrology.

The proposal includes $1.1 million annually plus $775,000 one-time (General Fund), to support the maintenance of the National Hydrograph Dataset (NHD). The NHD works in a manner similar to Google Maps, but for data regarding waterways. Currently, the data contained in the NHD for California is at a very low resolution and covers only major waterways. This proposal will allow DWR to update the NHD to include details for streams, canals, sloughs and smaller waterways. This update would provide a basis for local communities to collaborate on urban stream restoration and flood control projects, as well as state and federal agencies to collaborate on the San Francisco Bay Delta. An accurate, high-resolution map of the waterways in California, opens up the possibility of new uses for the data by government, business, and non-profit organizations. This proposal would build on the work started (but abandoned) by the US Geological Survey, and provide California with a consistent, authoritative source for California's water features. This request includes $775,000 one-time support to expand the number of California waterways covered and the detail of the resolution.

The proposal includes $1.25 million in 2016-17 and 2017-18 (General Fund) to repair, replace, address stream gage safety issues. This proposal would provide for the renovation and upgrade of 30 existing stream gages on the San Joaquin, Sacramento, Feather, Consumes, Scott, Shasta, and Susan Rivers and tributaries to these rivers. This work would address corroded, damaged, or otherwise unsafe structural elements of the flow measurement gages, and provides the opportunity to upgrade technology. According to the department, California established the first gages in 1849 and continuous water data records are vital to management of the state's water resources.

4. Deferred Maintenance. The Governor's budget includes $100 million (General Fund) for general deferred maintenance at the department. The department plans to expend $60 million for facilities within the state plan of flood control (Central Valley), including $10 million for department facility repair. The remaining $40 million is proposed for flood protection facilities outside the state plan of flood control, including a competitive grant program for local flood control agencies (outside of the state plan of flood control).

Staff Comments. The proposals listed are necessary to continuing the state's commitment to flood protection, both in the statewide plan of flood control and local flood-prone areas. Similarly, the hydrography datasets are critical to future water management decisions. The department should address its plan for deferred maintenance in its presentation.

Staff Recommendation. Approve as proposed.

Vote:

Issue 2: Drought Emergency Response

Background. The Governor's budget includes continuing drought-related proposals. In January, the Legislative Analyst's Office (LAO) provided an extensive analysis of the state's drought conditions, drought response, and Governor's budget proposals. The LAO's executive summary follows:

> **State Has Been Experiencing Exceptionally Dry Period.** California has been experiencing a serious drought for the past four years. In fact, by some measures the current drought actually began in 2007, with one wet year—2011—in the middle. While there are optimistic signs that El Niño weather patterns will bring California a wet winter in 2016, how much precipitation will fall as snow in the state's northern mountain ranges—a major source of the state's water throughout the year—remains uncertain. Moreover, the cumulative deficit of water reserves resulting from multiple years of drought is sufficiently severe that some degree of drought conditions likely will continue at least through 2016. Scientific research also suggests that climate change will lead to more frequent and intense droughts in the future.
>
> **Drought Has Affected Various Sectors in Different Ways.** Sector-specific water needs and access to alternative water sources have led to notable distinctions in the severity of the drought's impacts across the state. For example, while the drought has led to a decrease in the state's agricultural production, farmers and ranchers have moderated the drought's impacts by employing short-term strategies, such as fallowing land, purchasing water from others, and—in particular—pumping groundwater. In contrast, some rural communities—mainly in the Central Valley—have struggled to identify alternative water sources upon which to draw when their domestic wells have gone dry. Multiple years of warm temperatures and dry conditions have had severe effects on environmental conditions across the state, including degrading habitats for fish, waterbirds and other wildlife, killing millions of the state's trees, and contributing to more prevalent and intense wildfires. For urban communities, the primary drought impact has been a state-ordered requirement to use less water, including mandatory constraints on the frequency of outdoor watering.
>
> **State Funded Both Short- and Long-Term Drought Response Activities.** The state has deployed numerous resources—fiscal, logistical, and personnel—in responding to the impacts of the current drought. This includes appropriating $3 billion to 13 different state departments between 2013-14 and 2015-16. State general obligation bonds (primarily Proposition 1, the 2014 water bond) provided about three-quarters of these funds, with state General Fund contributing around one-fifth. Some of the funded activities (such as providing bottled drinking water or rescuing fish) are to meet an emergency need stemming from the current drought, and then will conclude. Other projects, particularly those supported by bond funds (such as building new wastewater treatment plants), will be implemented over the course of several years, and therefore will be more helpful in mitigating the effects of future droughts. Lastly, other activities (such as lawn removal or water efficiency upgrades), often are intended to have noticeable effects in both the current and future droughts.

Drought Response Has Also Included Policy Changes and Regulatory Actions. In addition to increased funding, the state's drought response has included certain policy changes. Because current drought conditions require immediate response but are not expected to continue forever, most changes have been authorized on a temporary basis, primarily by gubernatorial executive order or emergency departmental regulations. For example, one of the most publicized temporary drought-related policies has been the Governor's order (enforced through regulations) to reduce statewide urban water use by 25 percent. State regulatory agencies also have exercised their existing authority in responding to drought conditions. For example, the State Water Resources Control Board has ordered and enforced that less water be diverted from some of the state's rivers and streams, and the Department of Fish and Wildlife has closed some streams and rivers to fishing.

Governor Proposes Continued Funding for Drought Response Activities in 2016-17. The Governor's budget proposal provides $323 million for drought response efforts in 2016-17. This funding would primarily support the continuation of initiatives funded in recent years that address emergency drought response needs. For example, the proposal includes funding for increased wildland firefighting, to provide various forms of human assistance in drought-affected communities (such as drinking water, food, financial assistance, and housing and employment services), and to monitor and assist at-risk fish and wildlife. The proposal also dedicates cap-and-trade revenues for four conservation programs intended to improve water and energy efficiency.

LAO Recommendations for 2016-17: Adopt Most of Governor's Drought-Related Budget Proposals. We believe the Governor's approach to focus primarily on the most urgent human and environmental drought-related needs makes sense. The severity of enduring drought conditions supports the continued need for these response activities. As such, we recommend the Legislature adopt the components of the Governor's drought package that meet essential human and environmental needs and that are likely to result in immediate water conservation. We believe additional information is needed, however, before adopting the Governor's four cap-and-trade-funded conservation proposals. Whether these proposals represent the best approach to achieving water and energy savings and reducing greenhouse gases is unclear. We therefore recommend the Legislature delay deciding on whether to fund these programs until the administration has provided additional information to justify the request.

LAO Recommendations for Longer Term: Learn Lessons to Apply in Future Droughts. Given the certainty that droughts will reoccur, and the possibility that subsequent droughts might be similarly intense, we recommend the Legislature continue to plan now for the future. Such planning can be facilitated by (1) learning from the state's response to the current drought, (2) identifying and sustaining short-term drought-response activities and policy changes that should be continued even after the current drought dissipates, and (3) identifying and enacting new policy changes that can help improve the state's response to droughts in the future. We recommend the Legislature spend the coming months and years vetting various drought-related budget and policy proposals for their potential benefits and trade-offs, and enacting changes around which there is widespread and/or scientific consensus. This could include both changes that remove existing barriers to effective drought response, as well as proactive changes that improve water management across the state. The Legislature can gather such information through a number of methods, including oversight hearings and public forums, but we also recommend the administration submit two formal reports: one that provides data measuring the degree to which intended drought response objectives were met, and one that provides a comprehensive summary of lessons learned from the state's response to this drought.

Governor's Budget Drought Proposals

Governor's Proposal. The Governor's 2016-17 budget includes $64 million (General Fund) in support of continuing emergency response activities associated with the state's current drought. The proposal has three main elements: (1) $17 million in support of 25 positions that are undertaking drought response activities; (2) $5 million to assist disadvantaged communities with emergency water supply and public health issues associated with drought conditions; and (3) $42 million for Delta salinity barrier construction work (the removal in fall 2016 if installed in spring 2016, and the reinstallation, if necessary, in spring 2017). Specifically, the proposal includes:

This request is substantially similar to the appropriations made in the 2015-16 Budget Act.

- **Salinity Barriers ($42 million).** The 2015-16 Budget Act included $11 million for the one-time removal of the 2015 barrier. The 2016-17 request would cover the complete costs of one cycle of removal and installation of a salinity barrier or barriers should that be necessary due to continuing drought conditions.

- **State Operations ($17 million).** This proposal identifies the same 11 program areas that were funded in fiscal year 2015-16. These are:

  1. State's Save Our Water public outreach campaign.
  2. Departmental communication and actions with local agencies.
  3. Drought Response Management.
  4. Drought Task Force.
  5. Advanced planning for drought response, mitigation and recovery.
  6. Oversight of projects to implement Drought Action Plan.
  7. Development and management of analytic hydrology, climate, groundwater data.
  8. Assistance to urban and agriculture agencies to update water management plans to support drought conservation activities.
  9. Inspections, assessments and evaluation of local infrastructure and plans to support regional water improvements including water interties.
  10. Water flow and quality monitoring, and impacts modeling.
  11. Facilitate multi-agency coordination and communication relating to water transfers to address drought conditions.

- **Emergency Assistance ($5 million) -** This proposal, while similar to the $5 million in the 2015-16 Budget Act, expands slightly the scope of work that can be funded in efforts to assist communities facing drinking water shortages. According to the department, this proposal would allow support for projects that address an imminent drought-related emergency, but rather than providing a one-time fix, would provide resiliency to the water supply to head off such an emergency in the future as well.

Staff Comments. As April begins, the state in in better shape, water-wise, than in previous years. However years of groundwater overdraft, drought conditions, and low-precipitation have left many areas deficient. At this time, it is unclear whether or not certain proposals will be necessary, for example the delta barriers are not likely to be necessary given that water flows through the Delta have improved significantly. Similarly, it is unclear to what extent the water transfers will continue to be needed in the coming budget year.

The subcommittee may wish to ask the department to provide an update on the drought conditions, both north and south of the Delta, and to outline which pieces of the proposal may not be necessary in the budget year.

Staff Recommendation. Hold open for May Revision.

Issue 3: Greenhouse Gas Emission Programs

Background. In June, 2015, the department announced the award of $28 million in June 2015 to 22 entities for 25 projects that will save water and energy and reduce greenhouse gas emissions. The grants are designed to help California respond to the immediate drought while building resiliency to cope with future droughts and climate change. They are DWR's first grants using proceeds from California's cap-and-trade program for combating climate change. Through the Greenhouse Gas Reduction Fund (GGRF), DWR and other state agencies are investing in projects that reduce carbon pollution while also creating jobs, improving air quality and providing other benefits, such as energy and water savings.

In all, the 25 projects are anticipated to save an estimated 270,000 acre-feet of water and prevent the release of approximately 199,000 metric tons of greenhouse gas emissions, which contribute to climate change. Over 70 percent of the funding will provide benefits to disadvantaged communities that are targeted for investments from the GGRF. The projects include installation of water meters for Merced residents that can be read and tracked by satellite, design and installation of a smart irrigation control system for 18 Bakersfield parks, and distribution of water conservation toolkits to households in the small Tulare County town of Alpaugh.

Governor's Proposal. The budget requests $10 million (GGRF) for grants that would reduce water use and would also provide for a measurable reduction in carbon emissions associated with that reduced water use. This would be the fourth appropriation of GGRF dollars to the department for this purpose. The 2016-17 appropriation would be rolled into the 2015-16 program (for a total of $29 million in grants available) to fund projects received under the one grant solicitation rather than a second solicitation effort.

Legislative Analyst's Office (LAO) Assessment. The LAO assessment, as discussed in previous hearings, has focused on a general lack of detail provided by the Administration regarding overall cap-and-trade proposals.

Staff Comments. Staff concurs with the necessity of continued water-energy focus for GGRF dollars. The Legislature needs to weight whether or not this program continues to be the highest priority for cap-and-trade funding, or whether there are other ways to reduce greenhouse gas emission within the water/energy sector.

Staff Recommendation. Hold open.

Issue 4: Delta Habitat Conservation and Conveyance Program (DHCCP) and WaterFix

Background. The DHCCP was established in 2008 to implement a gubernatorial directive to address both water supply issues and environmental concerns related to the Delta. Specific goals of DHCCP include protecting and restoring Delta habitat and studying improved methods to reduce the impact of water conveyance on the Delta.

Governor's Proposal. The budget requests the conversion of 38 limited-term positions to permanent positions. These positions are intended to carry out the preliminary design phase activities within components of the Delta Habitat Conservation and Conveyance Program (DHCCP). This proposal includes no funding request as the positions are funded by the State Water Project and have no impact on the state's annual budget act. The DHCCP is the unit within the department that would carry out the planning and design of the Governor's proposed tunnels to convey water through the Sacramento-San Joaquin Delta as part of the effort to achieve the goals of ecosystem restoration and water supply reliability in the Delta.

Through fiscal year 2012-13, the Legislature had approved 37 permanent positions and 38 two-year limited-term positions to support the DHCCP. In fiscal year 2014-15 the Department requested that the 38 two-year limited-term positions be converted to permanent. Noting "the complexity and scope of this project and its multiple delays," the Assembly rejected the conversion to permanent, and instead granted a two-year extension of the limited-term positions. The Senate took this same action to conform.

Previous LAO Recommendation. In previous years, the LAO recommended against making positions permanent for the DHCCP (a request for 15 positions to be converted). This was because the Legislature did not have the Delta Plan, and could therefore not evaluate the merits of the proposal against the plan.

Staff Comments. Staff concurs with the following comments of the Assembly Budget Committee: "The DWR has yet to complete a CEQA document for this project including specifying operational criteria or making binding agreements to fund all construction, operations, maintenance, and mitigation. The Delta Reform Act requires these actions must be complete before construction can begin. Until it is clear that this project has met its binding commitments and is moving forward, new permanent positions for WaterFix are premature. Further, the department has only filled four of the 38 limited0term positions it previously received."

Staff recommends denying the Administration's request to make the positions permanent, but recommends approving, for another two years, the four positions that have already been filled.

Recommendation: Deny proposal to make positions permanent. Approve extension of four positions for two years.

Vote:

3885 Delta Stewardship Council

Established in 2009 by the Delta Reform Act, the mission of the Delta Stewardship Council, through a seven-member board, is to further the state's goals of providing a more reliable water supply for California and protecting, restoring, and enhancing the Sacramento-San Joaquin Delta ecosystem. The goals are to be achieved in a manner that protects and enhances the unique cultural, recreational, natural resource, and agricultural values of the Delta. In 2013, the council adopted a legally enforceable Delta Plan to further the state's goals and guide state and local agency activities related to the Delta. Under state law, agencies are required to coordinate their actions pursuant to the Delta Plan with the council and the other relevant agencies.

The council is informed by scientific input from the Delta Science Program and the Delta Independent Science Board. The mission of the Delta Science Program is to provide the best possible unbiased scientific information to inform water and environmental decision-making in the Delta. The Delta Stewardship Council is the successor to the California Bay-Delta Authority and CALFED Bay-Delta Program.

Governor's Budget. The Governor's January budget includes $26 million (mostly General Fund), an increase of $1.5 million. The increase is mainly due to a proposal to implement the Delta Plan.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
General Fund	$ 10,309	$ 17,233	$ 18,734
California Environmental License Plate Fund	604	809	807
Federal Trust Fund	159	2,749	2,785
Reimbursements	1,369	4,450	4,450
Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002	997	-	-
Total Expenditures (All Funds)	**$13,438**	**$25,241**	**$26,776**

Issue 1: Delta Plan and Delta Science Program

Background. The Delta Stewardship Council (DSC) was created in 2009 as an independent state agency to guide the state's goals of: (1) providing more reliable water supply through the Delta and, (2) restoring the Delta. The Delta Plan, adopted in 2013, is both a regulatory document and a series of recommendations for state and local agencies operating within the Delta.

The Delta Reform Act required the Delta Plan to include an adaptive management strategy for ongoing ecosystem restoration and water management decisions, and that Plan implementation be based on best available science. The act also requires the council to "review the Delta Plan at least once every five years and revise it as the council deems appropriate." The dynamic nature of the Delta has resulted in several high priority updates that are necessary to achieve the coequal goals. Updating the plan on an "as-needed basis" would not only ensure the relevancy of the Plan in terms of serving as a framework towards achieving the coequal goals, but it would do so in a cost-effective manner.

The Delta Reform Act includes requirements for incorporating the BDCP into the Delta Plan (with conditions) in order to create a single, complete management plan for the Delta. In the 2015 budget act, the council received a one-time augmentation of $1.0 million for consultant contracts to assist with anticipated updates to the Delta Plan in the event of BDCP approval and incorporation into the plan. In April 2015, the state and federal agencies responsible for the BDCP proposed a new approach to replace the proposed plan: WaterFix and a parallel initiative, EcoRestore. Given the timing of the shift, the council's 2015-16 budget change request did not anticipate this change in approach.

In light of this significant change, additions and modifications to the Delta Plan, its narrative, regulatory policies, and recommendations, will be necessary. These Delta Plan revisions, in turn, will provide guidance to the Department of Water Resources, which will need to certify the WaterFix project's consistency with the Delta Plan, as will EcoRestore's individual restoration projects.

Budget Proposal. The Governor's budget requests $3.6 million (General Fund) to support independent science through the Delta Science Program and to update the Delta Plan and regulations to address flood management, ecosystem restoration, and water supply reliability. Specifically, the proposal includes:

- **Delta Science Program.** The budget proposes $2.1 million annually to bolster the Delta Science Program's mission of providing the best available science by increasing support for monitoring and science investigations, and the Delta Plan Interagency Implementation Committee's High-Impact Science Actions, which were endorsed in 2015 by the 17-member panel comprised of state and federal agencies; and

- **High-Priority Delta Plan Updates**. The budget proposes $1.45 million for the next two years to update the Delta Plan, regulations, and recommendations relative to flood management, ecosystem restoration, water supply, and the significant shift in policy from the Bay Delta Conservation Plan (BDCP) to WaterFix and EcoRestore.

Staff Comments. Staff concurs with the need to continue a baseline Delta Science Program and the baseline activities proposed by the council in the current-year's budget. Science-based adaptive management is important to ensuring that the Delta Plan remains an effective and relevant document upon which decision-making in the Delta is reliant. Without the ability to actively update the Delta Plan as is currently needed, the plan's effectiveness and relevancy will be significantly compromised, impacting the council's ability to effectively carry out its statutory mandates, including consistency determinations for covered actions such as the WaterFix and EcoRestore projects.

It is important to clarify that none of this funding would go to complete the Bay Delta Conservation Plan (BDCP), WaterFix, or to incorporate WaterFix into the Delta Plan if it advances.

Staff Recommendation: Approve as proposed.

Vote:

3840 Delta Protection Commission

The Delta Protection Act was adopted by the Legislature in 1992 and updated in 2009. The act declares that the Sacramento-San Joaquin Delta is "a natural resource of statewide, national, and international significance, containing irreplaceable resources, and that it is the policy of the State to recognize, preserve, and protect those resources of the Delta for the use and enjoyment of current and future generations."

The Delta Protection Commission was created under the 1992 Act to recognize and protect the unique cultural, recreational, natural and agricultural resources of the Delta, and is further defined as "the appropriate agency to identify and provide recommendations to the Delta Stewardship Council on methods of preserving the Delta as an evolving place." With this mandate, the commission focuses on the oversight of delta land use and resource management, levees and emergency response, the support of delta agriculture, recreation, tourism and local economic development, and the protection of delta historic, cultural and natural resources.

Governor's Budget. The Governor's January budget includes $1.6 million (mostly Environmental License Plate Fund), about the same amount as in previous years.

EXPENDITURES BY FUND (in thousands)

	Fund	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
	General Fund	$ -	$ -	$ 150
	California Environmental License Plate Fund	866	1,073	1,086
	Harbors and Watercraft Revolving Fund	386	240	253
	Reimbursements	245	259	82
Total Expenditures (All Funds)		**$1,497**	**$1,572**	**$1,571**

Issue 1: Economic Sustainability Plan Update

Background. Section 29759 of the Public Resources Code mandated the Delta Protection Commission (DPC) to, not later than July 1, 2011, prepare and adopt, by a majority vote of the membership of the commission, an economic sustainability plan. The economic sustainability plan is required to include information and recommendations that inform the Delta Stewardship Council's policies regarding the socioeconomic sustainability of the Delta region. The economic sustainability plan was completed on time and includes all of the following:

1. Public safety recommendations, such as flood protection recommendations.
2. The economic goals, policies, and objectives in local general plans and other local economic efforts, including recommendations on continued socioeconomic sustainability of agriculture and its infrastructure and legacy communities in the Delta.
3. Comments and recommendations to the Department of Water Resources concerning its periodic update of the flood management plan for the Delta.
4. Identification of ways to encourage recreational investment along key river corridors, as appropriate.

Budget Proposal. The Governor's budget requests $150,000 (one-time, General Fund), for consultant work to review, and partially update, the economic sustainability plan as required by statute, including necessary public participation processes. The Delta Protection Act requires the commission to review and make necessary amendments to the plan every five years. Existing staff are fully extended with ongoing workload requirements and efforts to meet other mandates in the Delta Protection Act and Delta Reform Act. This proposal would provide funding for consultants to augment the commission staff and assist in the review and update of the policies and recommendations of the plan, as well as conduct required public participation processes.

Staff Comments. Staff concurs with the need for the proposal. However, given the changing timelines related to the development of WaterFix, it would be helpful for the commission to discuss how it plans to keep up with the changing timelines.

Staff Recommendation: Approve as proposed.

Vote:

3940 State Water Resources Control Board

The State Water Resources Control Board (SWRCB) and the nine Regional Water Quality Control Boards (regional boards or water boards) preserve and enhance the quality of California's water resources and ensure proper allocation and effective use. These objectives are achieved through the Water Quality and Water Rights programs.

Governor's Budget. The Governor's January budget includes $1 billion to support the board's activities, a decrease of $1.9 billion over the current year budget. This change is primarily due to the appropriation of Proposition 1 bond funds in 2015. Most of the board's budget is special funds, with $47.9 million of the proposed total funding coming from General Fund.

EXPENDITURES BY PROGRAM (in thousands)

Program	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
Water Quality	$1,049,287	$2,834,905	$915,041
Drinking Water Quality	39,463	44,216	47,761
Water Rights	22,507	33,590	41,996
Department of Justice Legal Services	1,217	1,217	1,217
Administration	23,762	33,485	33,820
Administration - Distributed	- 23,762	- 33,487	- 33,822
Total Expenditures (All Programs)	**$1,112,474**	**$2,913,926**	**$1,006,013**

VOTE-ONLY CALENDAR

1. **Drinking Water Operator Certification Program.** The Governor's budget requests $110,000 and one permanent position for the Drinking Water Operator Certification Program (DWOCP) to replace a limited-term position that will expire on June 30, 2016. The new position will assist with the examination process and the increased workload within the unit. The position cost of $110,000 will be offset by a reduction in contract costs of $388,000. The net result is a reduction of $278,000 to the Drinking Water Operator Certification Special Account.

2. **Board Member Per Diem.** The Governor proposes $335,000 (various special funds) for increased regional board member per diem payments and budget TBL. The proposal increases Regional Water Board member per diem from $100 to $500. It also authorizes board members to receive one day's per diem to review materials in preparation for board meetings. Further, it deletes provisions stating that board members receiving unrelated salary are not eligible for per diem and caps total statewide expenditures for Board member per diem in lieu of the current cap for each regional board. This cap is in accordance with the increased per diem payments proposed and assumes each regional board meets once monthly.

3. **Low-Income Water Rate Assistance Program.** The Governor's budget requests $129,000 per year for two years (Waste Discharge Permit Fund, Civil Penalties) and one position to develop a plan for the funding and implementation of the Low-Income Water Rate Assistance Program, as required by AB 401 (Dodd), Chapter 662, Statutes of 2015. AB 401 requires the SWRCB to consider existing rate assistance programs authorized by the Public Utilities Commission in developing the plan and include recommendations for other cost-effective methods of providing assistance to low-income water customers. The SWRCB must also submit a report to the Legislature no later than February 1, 2018, on its findings regarding the feasibility, financial stability, and desired structure of the program, including any recommendations for legislative action that may need to be taken.

4. **No Cost Conversion of Surface Water Ambient Monitoring Program Contract Funding to Personal Services.** The Governor's budget proposes to redirect existing contract funds, from the Waste Discharge Permit Fund (WDPF), currently used for contracted water quality monitoring tasks to hire six permanent state employees to conduct this work. This proposal does not require additional funding.

5. **Public Water Systems Consolidations.** The Governor's budget requests 2.5 permanent positions and $352,000 (Safe Drinking Water Account) to address the increased workload associated implementing SB 88 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2015. SB 88 authorizes the SWRCB to require a public water system or state small system serving a disadvantaged that consistently fails to provide an adequate supply of safe drinking water to be consolidated with, or receive an extension of service from, another public water system. The legislation also requires the SWRCB to make funds available for the costs of completing the consolidation or extension, and would provide liability protection to the receiving water system, wholesaler or other agency in the chain of distribution.

6. **Safe Drinking Water Account Expenditure Authority.** The Governor's budget requests an additional $3,702,000 per year in expenditure authority from the Safe Drinking Water Account to support the Drinking Water Program. Approval of this proposal will allow the SWRCB to shift expenditures for Large Water Systems (LWS) that are currently being subsidized by federal funds and grant money to fees paid by LWS. These federal funds are no longer available to support program administrative costs. This increase will allow the program to fully fund budgetary expenditures with fees.

7. **Urban Retail Water Suppliers.** The Governor's budget requests one positon and $540,000 ($400,000 Local Assistance) from the Small System Technical Assistance Account to address the increased workload associated with implementing the provisions of SB 555 (Wolk), Chapter 679, Statutes of 2015. SB 555 requires the SWRCB to develop regulations establishing performance standards for urban water supplier water loss and provide up to $400,000 towards procuring water loss audit report validation assistance for urban retail water suppliers.

8. **School District Account Technical Assistance.** The Governor's budget requests a reappropriation of the unencumbered local assistance balance in the School District Account from FYs 2009-10, 2010-11, and 2011-12. Extending the encumbrance period would provide the SWRCB with the ability to continue paying claims to school districts that perform corrective action in response to an unauthorized release of petroleum from underground storage tanks. The SWRCB requests that the reappropriated funds be available for encumbrance until June 30, 2019.

9. **Site Cleanup Subaccount.** The Governor's budget requests a reappropriation to extend the encumbrance and liquidation period of the local assistance funds in the Site Cleanup Subaccount (SCS) and the Replacing, Removing, or Upgrading Underground Storage Tanks (RUST) Loans from the fiscal year 2015-16 appropriation. The SWRCB requests that the re-appropriated funds be available for encumbrance until June 30, 2018 and liquidation until June 30, 2021. The Governor's 2015-16 Budget proposal inadvertently left out this request for extended encumbrance and liquidation periods.

10. **Timber Regulation and Forest Restoration Program Implementation.** The Governor's Budget requests conversion of 5.3 limited term positions to permanent and $547,000 from the Timber Regulation and Forest Restoration Fund to continue the implementation of AB 1492 (Blumenfield), Chapter 289, Statues of 2012), as they pertain to the authorities and responsibilities of the state and regional water boards.

11. **Water Rights Fund Technical Adjustment.** The Governor's Budget requests trailer bill language (TBL) to make $3.75 million in Water Rights Fund (WRF) that is currently appropriated without regard to fiscal year (used to support 25 enforcement positions) available for encumbrance for one year, rather than the current default three-year period. This TBL will provide funding for the enforcement positions, but correct an issue where unspent funds are rolled to subsequent years even though they are not required for the operational purpose of supporting the 25 water rights enforcement positions. These

changes are consistent with legislative intent to fund the positions, but allow unspent funds to revert to the WRF so as to not cause additional pressures when setting fees.

Staff Recommendation: Approve as proposed.

Vote:

Issue 1: Water Rights Permitting and Licensing Augmentation

Background. The SWRCB Division of Water Rights Permitting and Licensing Program is tasked with processing applications to appropriate water (permits), requests for licenses on fully developed water right permits, registrations, and petitions to change existing rights and redirect wastewater for beneficial use.

A water right permit is an authorization to develop a water diversion and use project. In addition to authorizing diversion and beneficial use, permits also include terms and conditions that help to protect public trust resources and other legal users of water. An application to divert and use water by permit may be filed by any person or other entity that seeks to divert and beneficially use a reasonable amount of surface water. Filing of the application initiates a public process which includes administrative and environmental reviews by Permitting and Licensing Program staff.

The board has maintained a significant water rights program backlog for many years. The current number of pending items, as of June 2015, consists of 385 applications, 304 registrations, 578 petitions, and 1,626 expired permits subject to licensing review. Using average recent non-drought years, completion rates to estimate, current backlog is 14 years for applications to appropriate water, nine years for registrations, eight years for petitions, and 44 years for licensing of water rights permits. To date, streamlining and other efficiency efforts have not been able to overcome the high workload volume. According to the board, without this proposal, existing staff will continue to focus on the highest priority projects. The bulk of the projects in the backlog will likely continue to experience a lack of progress. Parties who are illegally diverting without valid water rights will likely continue to divert. Increasing staffing levels should directly increase the number of water right permits, licenses, registrations, petitions, and related water orders issued in any given year as compared to the number issued under current staffing levels.

Budget Proposal. The budget proposes seven positions and $851,000 (Water Rights Fund) to process applications to appropriate water, petitions to change existing rights, wastewater change petitions, and licensing of water rights. The program is funded through fees charged to water right permit and license holders. The SWRCB estimates that this proposal would increase water right's permits, licenses, and application fees by approximately eight percent.

Staff Comments. Staff concurs with the necessity of the proposal, which will result in more rapid action on new water rights, water right change petitions, wastewater petitions and water rights licensing. Given the serious nature of the drought, changing water systems, and increasing local reliance, the state should do all it can to move forward with water rights program reforms.

Staff Recommendation: Approve as proposed.

Vote:

Issue 2: Water Recycling

Background. The state prioritizes the review and approval of projects and programs that increase local water supplies including recycled water. Due to the drought, the number of projects proposing to use recycled water has increased significantly and has expanded to areas of the state that historically have not considered use of recycled water. The water board anticipates that the number of recycled water projects will continue to increase as local agencies plan for future sustainable water supplies.

Proposition 1 allocated $725 million for water recycling to the water board, upon appropriation. Of this amount, $293 million has been appropriated over two years.

Budget Proposal. The Governor's budget requests three existing limited term positions be converted to permanent positions and $498,000 ($149,000 from Waste Discharge Permit Fund and $349,000 from the Safe Drinking Water Account) to address the increased water recycling work load associated with the drought. The Division of Drinking Water currently has three limited-term positions dedicated to developing criteria for indirect potable reuse of recycled water. These positions expire on June 30, 2016. The workload for these positions will extend beyond their current expiration date and will shift from criteria development to implementation. Once these criteria are in place, the board anticipates an increase in projects proposing potable reuse of recycled water.

April Finance Letter. The spring finance letter requests $322 million (Proposition 1), including $320.3 million in local assistance to fund water recycling projects. The request includes an extended encumbrance period until June 30, 2019, and liquidation until June 30, 2021. The funding would be allocated in a manner similar to the previous allocation, and according to the recent rulemaking at the board.

Staff Comments. Staff concurs with the need for the proposal. Over the past few months many water recycling project proponents have contacted the budget office concerned that, with regulations ready to go, the water board has not proposed new allocations of water recycling funding. The spring finance letter addresses concerns raised by constituents and stakeholders who have projects ready for funding.

The subcommittee may wish to ask the board to discuss the status of the water recycling regulations and demand for water recycling funding, and how the spring finance letter proposed funding will be allocated.

Staff Recommendation: Approve as proposed.

Vote:

Issue 3: Environmental Lab Accreditation Program Fees

Background. ELAP provides evaluation and accreditation of environmental testing laboratories to verify the quality of analytical data used for regulatory purposes meets requirements of the State's drinking water, wastewater, shellfish, food, and hazardous waste programs. The current ELAP fee schedule has not generated sufficient revenue to meet the program's budgetary authority. Total ELAP revenue for Fiscal Year 2014-15 fell short of total budgetary authority by approximately $1.8 million. In order to address this structural deficit, fees needed to be increased by approximately 58% in 2015-16. Absent this authority to adjust fees for 2016-17 and beyond, other fund sources would be necessary to offset continuing operational costs.

Budget Proposal. The Governor's budget requests budget trailer bill language (TBL) to amend the Health and Safety Code to allow the State Water Resources Control Board (SWRCB) to adopt fee regulations by emergency actions so that the annual fee schedule will generate sufficient revenue to support the Environmental Laboratory Accreditation Program (ELAP) annual budgetary appropriation. This request will align the ELAP fee process with the SWRCB's fee authority for its water quality, water rights, and other drinking water programs.

Staff Comments. Staff concurs with the need for increased funding and appreciates the board's outreach to stakeholders in order to identify a fee schedule that reflects its general fee authority for other water board programs.

Staff Recommendation: Approve as proposed.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, April 7, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman

Outcomes

ISSUES PROPOSED FOR DISCUSSION

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3860 Department of Water Resources

The Department of Water Resources (DWR) protects and manages California's water resources. In this capacity, the department maintains the State Water Resources Development System, including the State Water Project (SWP). The department also maintains public safety and prevents damage through flood control operations, supervision of dams, and water projects.

Additionally, the department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor-owned utilities (IOUs).

Governor's Budget. The Governor's budget includes $3.1 billion (including infrastructure expenditures) and 3,320 positions for support of DWR. The proposed budget represents an overall decrease of $2 billion mainly due to decreased appropriations for proposition 1E bond funds, which were fully appropriated last year.

EXPENDITURES BY PROGRAM (in thousands)

	Program	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
	Continuing Formulation of the California Water Plan	$347,179	$737,178	$259,603
	Implementation of the State Water Resources Development System	362,531	1,708,660	1,707,902
	Public Safety and Prevention of Damage	218,112	1,714,088	150,293
	Central Valley Flood Protection Board	4,732	20,001	13,416
	Services	3,338	7,783	7,766
	California Energy Resources Scheduling	972,070	961,602	928,463
	Loan Repayment Program	- 1,112	- 1,405	- 1,405
Total Expenditures (All Programs)		**$1,906,850**	**$5,147,909**	**$3,066,040**

VOTE-ONLY CALENDAR

1. **Riverine Stewardship Technical Assistance.** The department currently administers two programs relating to river and stream restoration; the Fish Passage Improvement Program and the Urban Streams Restoration Program. These programs have received funding under previous general obligation bond acts (Propositions 13, 50 and 84). This proposal requests that the remaining dollars from these bond acts ($2.4 million from Proposition 13, $600,000 from Proposition 50, and $1.66 million from Proposition 84) be combined and used to provide technical assistance to federal, state, and local entities undertaking river and stream restoration projects. The proposal also seeks $17 million in reimbursement authority to allow DWR to receive payment from federal or state entities as part of its providing the technical assistance.

2. **San Joaquin River Restoration and Truckee River Operating Agreement Implementation (State and Federal Reimbursement).** The budget proposes to give DWR the authority to receive funds from other state and federal entities associated with the San Joaquin River Restoration ($25.1 million in reimbursement) and would also provide DWR with ongoing support for implementation of the Truckee River Operating Agreement ($350,000).

3. **Drinking Water Quality – Pilot Projects (Safe Drinking Water Local Assistance Funding).** The budget requests $2.5 million (Proposition 50) in local assistance funding to fund pilot and demonstration projects for treatment and removal of seven specific contaminants, as well as drinking water disinfection projects using ultraviolet technology and ozone treatment. The language of Proposition 50 specifically delineates that the funds must be used for pilot projects to eliminate seven specific, listed contaminants. This request appropriates the remaining Prop 50 funds for this work in one final grant round.

4. **Water Loss Audit Program Implementation.** The budget requests $350,000 (General Fund) ongoing support to implement the distribution system water loss audit program required by SB 555 (Wolk), Chapter 679, Statutes of 2015. In addition, a one-time appropriation of $150,000 (General Fund) is requested to develop rules and processes for validation and submittal, and for the utilization of a public on-line water audit submittal tool and database. The costs in this proposal are consistent with cost estimates provided by the department to the Legislature during discussions of SB 555.

Staff Recommendation: Approve as proposed.

Vote: **motion to approve**

- **Item 1 and Item 2 (San Joaquin River portion): 2-1 (Nielsen, no)**
- **Items 2 (Truckee River), 3, and 4: 3-0**

Issue 1: Flood Management and General Fund Restoration

Background. According to a November 2013 report by DWR, California faces significant risk from flooding. The flood risk for a given area is determined by the amount of damage (such as damage to property and loss of life) that would be caused if a flood occurred, combined with the likelihood that a flood will occur. For example, an urban area along a river might have a relatively high flood risk—even if a flood is unlikely to occur—because the area has high property values and a large number of residents would be affected if flooding happened. In contrast, a rural area might have a lower flood risk—even if a flood is more likely to occur—because property values and populations in the area are lower.

State Role in Flood Protection. Historically, most flooding has occurred in the Central Valley. The state is the primary entity responsible for flood control in this area. The State Plan of Flood Control (SPFC) is the state's system of flood protection in the Central Valley. It includes about 1,600 miles of levees, as well as other flood control infrastructure, such as bypasses and weirs, which are used to divert water at times of high flow.

Within the SPFC, the state funds the construction and repair of flood control infrastructure. Typically, the federal and local governments also provide funding for these projects. The state also provides grants to local governments to support local levee improvements and other activities. For most levee segments, the state has turned over the operations and maintenance to local governments (primarily local flood control districts). Even though some of these local agencies have failed to adequately maintain the levees in the past, the state has been found liable for such levee failures. Outside the SPFC, the state's role in flood management generally consists of providing financial assistance to local governments for flood control projects located throughout the state.

Voters Passed Proposition 1E. In November 2006, California voters approved the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E) in order to improve the condition of the state's levees. Proposition 1E authorized the sale of $4.1 billion in general obligation bonds for several broad categories of flood protection activities, such as improvements to the state's flood control system and the construction of bypasses. The measure requires (1) all funds to be appropriated by July 1, 2016, (2) the funds to be directed to projects that achieve maximum public benefits, and (3) the Governor to submit an annual flood prevention expenditure plan that includes the amount of matching federal and local funds. These funds have been fully appropriated as of June 2015.

Central Valley Flood Protection Plan Developed. Subsequently, the Legislature passed the Central Valley Flood Protection Act of 2008 (Chapter 364, Statutes of 2007 [SB 5, Machado]). Chapter 364 required DWR to develop a plan—the Central Valley Flood Protection Plan (CVFPP)—for reducing the risk of flooding throughout the SPFC system, including recommended actions and projects. The CVFPP was developed by DWR in 2012 and identified a total flood control funding need of $14 billion to $17 billion.

State Flood Protection Activities. The state funds several types of flood protection activities. This includes three types of state-managed capital outlay projects:

- **Urban Capital Outlay Projects.** These projects protect urban areas, typically by improving levees. Projects in urban areas often provide large reductions in flood risk for the protected areas because the levees protect high value property and large populations. However, the way urban capital projects have historically been constructed often negatively affect fish habitat for several reasons, such as by reducing native vegetation. Consequently, such projects often require significant environmental mitigation. The federal government often provides most of the funding for these projects because they meet certain federal criteria for reducing flood risk in a cost-effective manner.

- **Rural Capital Outlay Projects.** These projects protect rural areas by repairing levees and making other improvements, such as flood-proofing structures or widening floodplains. The impact of rural flood projects on fish habitat depends on how they are designed. For example, some of these projects include "setback" levees, which are built further back from the bank of the river. This connects the river to its historical floodplain, which creates additional habitat and provides good food sources for fish and other species. Because these projects reduce risk in rural areas—which do not have high populations or property values—they often do not meet the federal government's cost-effectiveness criteria. Thus, the state typically pays over half the cost of these projects, with local governments paying the remainder.

- **Systemwide Capital Outlay Projects.** These projects include building or expanding existing bypasses (such as the Yolo Bypass near Davis). Bypasses significantly reduce the chance of flooding for large regions—including urban and rural areas—and improve environmental benefits for fish species that migrate through them. However, because some of the flood benefits accrue to rural areas, these projects may not reduce flood risk as cost-effectively as urban projects. The cost shares among state, federal, and local governments depend on the specific project.

The state also provides funding for other activities, including:

- **Grants to Local Governments.** The state provides grants to support a variety of flood protection activities at the local level. Specifically, the state funds a share of the costs associated with projects that are developed and led by local governments. This includes grant programs focused on reducing flood risk in small communities and supporting local levee maintenance.

- **State Operations.** The state also supports various state flood protection activities, such as updates to the CVFPP, analyses of flood risk, levee maintenance, and purchasing equipment and supplies needed to respond to flood emergencies.

Governor's Flood and Hydrography Budget Requests

Governor's Proposals. The Governor's budget includes several proposals designed to improve flood protection statewide. These include:

1. General Fund Restoration ($11.5 million). The proposal includes $10.1 million for flood system operations and maintenance. The department directly operates and maintains 293 miles of state-federal project levees, where no local levee protection district exists. Additionally, the department maintains over 1200 miles of flood control channels and more than 20 related flood control structures and activities. General Fund reductions in 2011 left the department with no funding to undertake routine levee maintenance activities, replace or repair equipment, or undertake channel maintenance work to ensure unimpeded flows. Support for such activities would not be a legal use of general obligation bond funds, so Proposition 1E was not an option from which to draw.

The proposal includes $900,000 for flood emergency response. The department annually works with local agencies with responsibilities for flood protection, and emergency response and planning. This includes assessment of critical infrastructure and potential deficiencies, preplanning and prepositioning of flood fight material, and ensuring that state and local response entities (police, fire, county offices of emergency management, regional California Office of Emergency Services staff, and the department) have clear communication and a clear understanding of responsibilities in the event of a flood emergency. When the General Fund was cut from this program, temporary support of the activities was able to be supported by Proposition 1E, but as those bond funds are drawn down, reinstatement of General Fund support is needed.

Finally, the proposal includes $500,000 for flood risk reduction programs. The department administers various flood risk reduction programs currently funded through appropriations from Proposition 1E. In the 2015-16 Budget Act, the Legislature approved bond funding for continuing urban ($270 million), nonurban ($118 million), and systemwide ($300 million) flood risk reduction actions. While project funding is currently supported by bond funds, these programs, and the local flood projects that they support, are ongoing. This funding is used to support various activities associated with those programs, including geodetic surveys, property review and transfers, and support for the Central Valley Flood Protection Board in processing permits and other associated activities. This request will restore the General Fund that was temporarily shifted to bond funds, as the bond funds for these activities will be expended by FY 2016-17. Absent this support, work timelines will be extended or possibly projects will be deferred.

2. Increased Flood Protection (Bond Funds). The budget requests reversion of $28.9 million from unused balances of Proposition 84, and a new appropriation of $62.5 million from Proposition 84, and $360,000 from Proposition 13. This proposal specifically requests $60 million (Propositions 84) to provide state-support of local flood management activities within the Sacramento-San Joaquin Delta. Additionally, approximately $1.4 million (Propositions 13 and 84) is requested in support of the department's Flood Corridors Program and $1.5 million (Propositions 84) in support of the Statewide Flood Control Subventions Program. The language of these bond acts dedicates these funds specifically for the purposes of delta flood protection, the flood corridors program, and flood control subventions. This is the remaining funding from these bond acts for these purposes.

3. California National Hydrography Dataset and Stream Gages. The budget request $2.3 million (General Fund) to continue and restore the collection and use of data relating to statewide hydrology.

The proposal includes $1.1 million annually plus $775,000 one-time (General Fund), to support the maintenance of the National Hydrograph Dataset (NHD). The NHD works in a manner similar to Google Maps, but for data regarding waterways. Currently, the data contained in the NHD for California is at a very low resolution and covers only major waterways. This proposal will allow DWR to update the NHD to include details for streams, canals, sloughs and smaller waterways. This update would provide a basis for local communities to collaborate on urban stream restoration and flood control projects, as well as state and federal agencies to collaborate on the San Francisco Bay Delta. An accurate, high-resolution map of the waterways in California, opens up the possibility of new uses for the data by government, business, and non-profit organizations. This proposal would build on the work started (but abandoned) by the US Geological Survey, and provide California with a consistent, authoritative source for California's water features. This request includes $775,000 one-time support to expand the number of California waterways covered and the detail of the resolution.

The proposal includes $1.25 million in 2016-17 and 2017-18 (General Fund) to repair, replace, address stream gage safety issues. This proposal would provide for the renovation and upgrade of 30 existing stream gages on the San Joaquin, Sacramento, Feather, Consumes, Scott, Shasta, and Susan Rivers and tributaries to these rivers. This work would address corroded, damaged, or otherwise unsafe structural elements of the flow measurement gages, and provides the opportunity to upgrade technology. According to the department, California established the first gages in 1849 and continuous water data records are vital to management of the state's water resources.

4. Deferred Maintenance. The Governor's budget includes $100 million (General Fund) for general deferred maintenance at the department. The department plans to expend $60 million for facilities within the state plan of flood control (Central Valley), including $10 million for department facility repair. The remaining $40 million is proposed for flood protection facilities outside the state plan of flood control, including a competitive grant program for local flood control agencies (outside of the state plan of flood control).

Staff Comments. The proposals listed are necessary to continuing the state's commitment to flood protection, both in the statewide plan of flood control and local flood-prone areas. Similarly, the hydrography datasets are critical to future water management decisions. The department should address its plan for deferred maintenance in its presentation.

Staff Recommendation. Approve as proposed.

Vote: 3-0 to approve (all items) including LAO recommended budget bill language and reporting language for deferred maintenance.

Issue 2: Drought Emergency Response

Background. The Governor's budget includes continuing drought-related proposals. In January, the Legislative Analyst's Office (LAO) provided an extensive analysis of the state's drought conditions, drought response, and Governor's budget proposals. The LAO's executive summary follows:

> **State Has Been Experiencing Exceptionally Dry Period.** California has been experiencing a serious drought for the past four years. In fact, by some measures the current drought actually began in 2007, with one wet year—2011—in the middle. While there are optimistic signs that El Niño weather patterns will bring California a wet winter in 2016, how much precipitation will fall as snow in the state's northern mountain ranges—a major source of the state's water throughout the year—remains uncertain. Moreover, the cumulative deficit of water reserves resulting from multiple years of drought is sufficiently severe that some degree of drought conditions likely will continue at least through 2016. Scientific research also suggests that climate change will lead to more frequent and intense droughts in the future.
>
> **Drought Has Affected Various Sectors in Different Ways.** Sector-specific water needs and access to alternative water sources have led to notable distinctions in the severity of the drought's impacts across the state. For example, while the drought has led to a decrease in the state's agricultural production, farmers and ranchers have moderated the drought's impacts by employing short-term strategies, such as fallowing land, purchasing water from others, and—in particular—pumping groundwater. In contrast, some rural communities—mainly in the Central Valley—have struggled to identify alternative water sources upon which to draw when their domestic wells have gone dry. Multiple years of warm temperatures and dry conditions have had severe effects on environmental conditions across the state, including degrading habitats for fish, waterbirds and other wildlife, killing millions of the state's trees, and contributing to more prevalent and intense wildfires. For urban communities, the primary drought impact has been a state-ordered requirement to use less water, including mandatory constraints on the frequency of outdoor watering.
>
> **State Funded Both Short- and Long-Term Drought Response Activities.** The state has deployed numerous resources—fiscal, logistical, and personnel—in responding to the impacts of the current drought. This includes appropriating $3 billion to 13 different state departments between 2013-14 and 2015-16. State general obligation bonds (primarily Proposition 1, the 2014 water bond) provided about three-quarters of these funds, with state General Fund contributing around one-fifth. Some of the funded activities (such as providing bottled drinking water or rescuing fish) are to meet an emergency need stemming from the current drought, and then will conclude. Other projects, particularly those supported by bond funds (such as building new wastewater treatment plants), will be implemented over the course of several years, and therefore will be more helpful in mitigating the effects of future droughts. Lastly, other activities (such as lawn removal or water efficiency upgrades), often are intended to have noticeable effects in both the current and future droughts.

Drought Response Has Also Included Policy Changes and Regulatory Actions. In addition to increased funding, the state's drought response has included certain policy changes. Because current drought conditions require immediate response but are not expected to continue forever, most changes have been authorized on a temporary basis, primarily by gubernatorial executive order or emergency departmental regulations. For example, one of the most publicized temporary drought-related policies has been the Governor's order (enforced through regulations) to reduce statewide urban water use by 25 percent. State regulatory agencies also have exercised their existing authority in responding to drought conditions. For example, the State Water Resources Control Board has ordered and enforced that less water be diverted from some of the state's rivers and streams, and the Department of Fish and Wildlife has closed some streams and rivers to fishing.

Governor Proposes Continued Funding for Drought Response Activities in 2016-17. The Governor's budget proposal provides $323 million for drought response efforts in 2016-17. This funding would primarily support the continuation of initiatives funded in recent years that address emergency drought response needs. For example, the proposal includes funding for increased wildland firefighting, to provide various forms of human assistance in drought-affected communities (such as drinking water, food, financial assistance, and housing and employment services), and to monitor and assist at-risk fish and wildlife. The proposal also dedicates cap-and-trade revenues for four conservation programs intended to improve water and energy efficiency.

LAO Recommendations for 2016-17: Adopt Most of Governor's Drought-Related Budget Proposals. We believe the Governor's approach to focus primarily on the most urgent human and environmental drought-related needs makes sense. The severity of enduring drought conditions supports the continued need for these response activities. As such, we recommend the Legislature adopt the components of the Governor's drought package that meet essential human and environmental needs and that are likely to result in immediate water conservation. We believe additional information is needed, however, before adopting the Governor's four cap-and-trade-funded conservation proposals. Whether these proposals represent the best approach to achieving water and energy savings and reducing greenhouse gases is unclear. We therefore recommend the Legislature delay deciding on whether to fund these programs until the administration has provided additional information to justify the request.

LAO Recommendations for Longer Term: Learn Lessons to Apply in Future Droughts. Given the certainty that droughts will reoccur, and the possibility that subsequent droughts might be similarly intense, we recommend the Legislature continue to plan now for the future. Such planning can be facilitated by (1) learning from the state's response to the current drought, (2) identifying and sustaining short-term drought-response activities and policy changes that should be continued even after the current drought dissipates, and (3) identifying and enacting new policy changes that can help improve the state's response to droughts in the future. We recommend the Legislature spend the coming months and years vetting various drought-related budget and policy proposals for their potential benefits and trade-offs, and enacting changes around which there is widespread and/or scientific consensus. This could include both changes that remove existing barriers to effective drought response, as well as proactive changes that improve water management across the state. The Legislature can gather such information through a number of methods, including oversight hearings and public forums, but we also recommend the administration submit two formal reports: one that provides data measuring the degree to which intended drought response objectives were met, and one that provides a comprehensive summary of lessons learned from the state's response to this drought.

Governor's Budget Drought Proposals

Governor's Proposal. The Governor's 2016-17 budget includes $64 million (General Fund) in support of continuing emergency response activities associated with the state's current drought. The proposal has three main elements: (1) $17 million in support of 25 positions that are undertaking drought response activities; (2) $5 million to assist disadvantaged communities with emergency water supply and public health issues associated with drought conditions; and (3) $42 million for Delta salinity barrier construction work (the removal in fall 2016 if installed in spring 2016, and the reinstallation, if necessary, in spring 2017). Specifically, the proposal includes:

This request is substantially similar to the appropriations made in the 2015-16 Budget Act.

- **Salinity Barriers ($42 million).** The 2015-16 Budget Act included $11 million for the one-time removal of the 2015 barrier. The 2016-17 request would cover the complete costs of one cycle of removal and installation of a salinity barrier or barriers should that be necessary due to continuing drought conditions.

- **State Operations ($17 million).** This proposal identifies the same 11 program areas that were funded in fiscal year 2015-16. These are:

  1. State's Save Our Water public outreach campaign.
  2. Departmental communication and actions with local agencies.
  3. Drought Response Management.
  4. Drought Task Force.
  5. Advanced planning for drought response, mitigation and recovery.
  6. Oversight of projects to implement Drought Action Plan.
  7. Development and management of analytic hydrology, climate, groundwater data.
  8. Assistance to urban and agriculture agencies to update water management plans to support drought conservation activities.
  9. Inspections, assessments and evaluation of local infrastructure and plans to support regional water improvements including water interties.
  10. Water flow and quality monitoring, and impacts modeling.
  11. Facilitate multi-agency coordination and communication relating to water transfers to address drought conditions.

- **Emergency Assistance ($5 million) -** This proposal, while similar to the $5 million in the 2015-16 Budget Act, expands slightly the scope of work that can be funded in efforts to assist communities facing drinking water shortages. According to the department, this proposal would allow support for projects that address an imminent drought-related emergency, but rather than providing a one-time fix, would provide resiliency to the water supply to head off such an emergency in the future as well.

Staff Comments. As April begins, the state in in better shape, water-wise, than in previous years. However years of groundwater overdraft, drought conditions, and low-precipitation have left many areas deficient. At this time, it is unclear whether or not certain proposals will be necessary, for example the delta barriers are not likely to be necessary given that water flows through the Delta have improved significantly. Similarly, it is unclear to what extent the water transfers will continue to be needed in the coming budget year.

The subcommittee may wish to ask the department to provide an update on the drought conditions, both north and south of the Delta, and to outline which pieces of the proposal may not be necessary in the budget year.

Staff Recommendation.

Action: Hold open for May Revision. Staff directed to add LAO recommended reports on measurable outcomes and lessons learned to final vote-item.

Issue 3: Greenhouse Gas Emission Programs

Background. In June, 2015, the department announced the award of $28 million in June 2015 to 22 entities for 25 projects that will save water and energy and reduce greenhouse gas emissions. The grants are designed to help California respond to the immediate drought while building resiliency to cope with future droughts and climate change. They are DWR's first grants using proceeds from California's cap-and-trade program for combating climate change. Through the Greenhouse Gas Reduction Fund (GGRF), DWR and other state agencies are investing in projects that reduce carbon pollution while also creating jobs, improving air quality and providing other benefits, such as energy and water savings.

In all, the 25 projects are anticipated to save an estimated 270,000 acre-feet of water and prevent the release of approximately 199,000 metric tons of greenhouse gas emissions, which contribute to climate change. Over 70 percent of the funding will provide benefits to disadvantaged communities that are targeted for investments from the GGRF. The projects include installation of water meters for Merced residents that can be read and tracked by satellite, design and installation of a smart irrigation control system for 18 Bakersfield parks, and distribution of water conservation toolkits to households in the small Tulare County town of Alpaugh.

Governor's Proposal. The budget requests $10 million (GGRF) for grants that would reduce water use and would also provide for a measurable reduction in carbon emissions associated with that reduced water use. This would be the fourth appropriation of GGRF dollars to the department for this purpose. The 2016-17 appropriation would be rolled into the 2015-16 program (for a total of $29 million in grants available) to fund projects received under the one grant solicitation rather than a second solicitation effort.

Legislative Analyst's Office (LAO) Assessment. The LAO assessment, as discussed in previous hearings, has focused on a general lack of detail provided by the Administration regarding overall cap-and-trade proposals.

Staff Comments. Staff concurs with the necessity of continued water-energy focus for GGRF dollars. The Legislature needs to weight whether or not this program continues to be the highest priority for cap-and-trade funding, or whether there are other ways to reduce greenhouse gas emission within the water/energy sector.

Staff Recommendation. Hold open.

Action: Hold Open. Staff directed to add LAO recommended reports to final vote-item.

Issue 4: Delta Habitat Conservation and Conveyance Program (DHCCP) and WaterFix

Background. The DHCCP was established in 2008 to implement a gubernatorial directive to address both water supply issues and environmental concerns related to the Delta. Specific goals of DHCCP include protecting and restoring Delta habitat and studying improved methods to reduce the impact of water conveyance on the Delta.

Governor's Proposal. The budget requests the conversion of 38 limited-term positions to permanent positions. These positions are intended to carry out the preliminary design phase activities within components of the Delta Habitat Conservation and Conveyance Program (DHCCP). This proposal includes no funding request as the positions are funded by the State Water Project and have no impact on the state's annual budget act. The DHCCP is the unit within the department that would carry out the planning and design of the Governor's proposed tunnels to convey water through the Sacramento-San Joaquin Delta as part of the effort to achieve the goals of ecosystem restoration and water supply reliability in the Delta.

Through fiscal year 2012-13, the Legislature had approved 37 permanent positions and 38 two-year limited-term positions to support the DHCCP. In fiscal year 2014-15 the Department requested that the 38 two-year limited-term positions be converted to permanent. Noting "the complexity and scope of this project and its multiple delays," the Assembly rejected the conversion to permanent, and instead granted a two-year extension of the limited-term positions. The Senate took this same action to conform.

Previous LAO Recommendation. In previous years, the LAO recommended against making positions permanent for the DHCCP (a request for 15 positions to be converted). This was because the Legislature did not have the Delta Plan, and could therefore not evaluate the merits of the proposal against the plan.

Staff Comments. Staff concurs with the following comments of the Assembly Budget Committee: "The DWR has yet to complete a CEQA document for this project including specifying operational criteria or making binding agreements to fund all construction, operations, maintenance, and mitigation. The Delta Reform Act requires these actions must be complete before construction can begin. Until it is clear that this project has met its binding commitments and is moving forward, new permanent positions for WaterFix are premature. Further, the department has only filled four of the 38 limited0term positions it previously received."

Staff recommends denying the Administration's request to make the positions permanent, but recommends approving, for another two years, the four positions that have already been filled.

Recommendation: Deny proposal to make positions permanent. Approve extension of four positions for two years.

Vote: Hold Open. Department to work with staff on a reduced position request.

3885 Delta Stewardship Council

Established in 2009 by the Delta Reform Act, the mission of the Delta Stewardship Council, through a seven-member board, is to further the state's goals of providing a more reliable water supply for California and protecting, restoring, and enhancing the Sacramento-San Joaquin Delta ecosystem. The goals are to be achieved in a manner that protects and enhances the unique cultural, recreational, natural resource, and agricultural values of the Delta. In 2013, the council adopted a legally enforceable Delta Plan to further the state's goals and guide state and local agency activities related to the Delta. Under state law, agencies are required to coordinate their actions pursuant to the Delta Plan with the council and the other relevant agencies.

The council is informed by scientific input from the Delta Science Program and the Delta Independent Science Board. The mission of the Delta Science Program is to provide the best possible unbiased scientific information to inform water and environmental decision-making in the Delta. The Delta Stewardship Council is the successor to the California Bay-Delta Authority and CALFED Bay-Delta Program.

Governor's Budget. The Governor's January budget includes $26 million (mostly General Fund), an increase of $1.5 million. The increase is mainly due to a proposal to implement the Delta Plan.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
General Fund	$ 10,309	$ 17,233	$ 18,734
California Environmental License Plate Fund	604	809	807
Federal Trust Fund	159	2,749	2,785
Reimbursements	1,369	4,450	4,450
Water Security, Clean Drinking Water, Coastal and Beach Protection Fund of 2002	997	-	-
Total Expenditures (All Funds)	**$13,438**	**$25,241**	**$26,776**

Issue 1: Delta Plan and Delta Science Program

Background. The Delta Stewardship Council (DSC) was created in 2009 as an independent state agency to guide the state's goals of: (1) providing more reliable water supply through the Delta and, (2) restoring the Delta. The Delta Plan, adopted in 2013, is both a regulatory document and a series of recommendations for state and local agencies operating within the Delta.

The Delta Reform Act required the Delta Plan to include an adaptive management strategy for ongoing ecosystem restoration and water management decisions, and that Plan implementation be based on best available science. The act also requires the council to "review the Delta Plan at least once every five years and revise it as the council deems appropriate." The dynamic nature of the Delta has resulted in several high priority updates that are necessary to achieve the coequal goals. Updating the plan on an "as-needed basis" would not only ensure the relevancy of the Plan in terms of serving as a framework towards achieving the coequal goals, but it would do so in a cost-effective manner.

The Delta Reform Act includes requirements for incorporating the BDCP into the Delta Plan (with conditions) in order to create a single, complete management plan for the Delta. In the 2015 budget act, the council received a one-time augmentation of $1.0 million for consultant contracts to assist with anticipated updates to the Delta Plan in the event of BDCP approval and incorporation into the plan. In April 2015, the state and federal agencies responsible for the BDCP proposed a new approach to replace the proposed plan: WaterFix and a parallel initiative, EcoRestore. Given the timing of the shift, the council's 2015-16 budget change request did not anticipate this change in approach.

In light of this significant change, additions and modifications to the Delta Plan, its narrative, regulatory policies, and recommendations, will be necessary. These Delta Plan revisions, in turn, will provide guidance to the Department of Water Resources, which will need to certify the WaterFix project's consistency with the Delta Plan, as will EcoRestore's individual restoration projects.

Budget Proposal. The Governor's budget requests $3.6 million (General Fund) to support independent science through the Delta Science Program and to update the Delta Plan and regulations to address flood management, ecosystem restoration, and water supply reliability. Specifically, the proposal includes:

- **Delta Science Program.** The budget proposes $2.1 million annually to bolster the Delta Science Program's mission of providing the best available science by increasing support for monitoring and science investigations, and the Delta Plan Interagency Implementation Committee's High-Impact Science Actions, which were endorsed in 2015 by the 17-member panel comprised of state and federal agencies; and

- **High-Priority Delta Plan Updates**. The budget proposes $1.45 million for the next two years to update the Delta Plan, regulations, and recommendations relative to flood management, ecosystem restoration, water supply, and the significant shift in policy from the Bay Delta Conservation Plan (BDCP) to WaterFix and EcoRestore.

Staff Comments. Staff concurs with the need to continue a baseline Delta Science Program and the baseline activities proposed by the council in the current-year's budget. Science-based adaptive management is important to ensuring that the Delta Plan remains an effective and relevant document upon which decision-making in the Delta is reliant. Without the ability to actively update the Delta Plan as is currently needed, the plan's effectiveness and relevancy will be significantly compromised, impacting the council's ability to effectively carry out its statutory mandates, including consistency determinations for covered actions such as the WaterFix and EcoRestore projects.

It is important to clarify that none of this funding would go to complete the Bay Delta Conservation Plan (BDCP), WaterFix, or to incorporate WaterFix into the Delta Plan if it advances.

Staff Recommendation: Approve as proposed.

Vote: 2-1 to approve (Nielsen, no)

3840 Delta Protection Commission

The Delta Protection Act was adopted by the Legislature in 1992 and updated in 2009. The act declares that the Sacramento-San Joaquin Delta is "a natural resource of statewide, national, and international significance, containing irreplaceable resources, and that it is the policy of the State to recognize, preserve, and protect those resources of the Delta for the use and enjoyment of current and future generations."

The Delta Protection Commission was created under the 1992 Act to recognize and protect the unique cultural, recreational, natural and agricultural resources of the Delta, and is further defined as "the appropriate agency to identify and provide recommendations to the Delta Stewardship Council on methods of preserving the Delta as an evolving place." With this mandate, the commission focuses on the oversight of delta land use and resource management, levees and emergency response, the support of delta agriculture, recreation, tourism and local economic development, and the protection of delta historic, cultural and natural resources.

Governor's Budget. The Governor's January budget includes $1.6 million (mostly Environmental License Plate Fund), about the same amount as in previous years.

EXPENDITURES BY FUND (in thousands)

	Fund	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
	General Fund	$ -	$ -	$ 150
	California Environmental License Plate Fund	866	1,073	1,086
	Harbors and Watercraft Revolving Fund	386	240	253
	Reimbursements	245	259	82
Total Expenditures (All Funds)		**$1,497**	**$1,572**	**$1,571**

Issue 1: Economic Sustainability Plan Update

Background. Section 29759 of the Public Resources Code mandated the Delta Protection Commission (DPC) to, not later than July 1, 2011, prepare and adopt, by a majority vote of the membership of the commission, an economic sustainability plan. The economic sustainability plan is required to include information and recommendations that inform the Delta Stewardship Council's policies regarding the socioeconomic sustainability of the Delta region. The economic sustainability plan was completed on time and includes all of the following:

1. Public safety recommendations, such as flood protection recommendations.
2. The economic goals, policies, and objectives in local general plans and other local economic efforts, including recommendations on continued socioeconomic sustainability of agriculture and its infrastructure and legacy communities in the Delta.
3. Comments and recommendations to the Department of Water Resources concerning its periodic update of the flood management plan for the Delta.
4. Identification of ways to encourage recreational investment along key river corridors, as appropriate.

Budget Proposal. The Governor's budget requests $150,000 (one-time, General Fund), for consultant work to review, and partially update, the economic sustainability plan as required by statute, including necessary public participation processes. The Delta Protection Act requires the commission to review and make necessary amendments to the plan every five years. Existing staff are fully extended with ongoing workload requirements and efforts to meet other mandates in the Delta Protection Act and Delta Reform Act. This proposal would provide funding for consultants to augment the commission staff and assist in the review and update of the policies and recommendations of the plan, as well as conduct required public participation processes.

Staff Comments. Staff concurs with the need for the proposal. However, given the changing timelines related to the development of WaterFix, it would be helpful for the commission to discuss how it plans to keep up with the changing timelines.

Staff Recommendation: Approve as proposed.

Vote: 2-1 to approve (Nielsen, no)

3940 State Water Resources Control Board

The State Water Resources Control Board (SWRCB) and the nine Regional Water Quality Control Boards (regional boards or water boards) preserve and enhance the quality of California's water resources and ensure proper allocation and effective use. These objectives are achieved through the Water Quality and Water Rights programs.

Governor's Budget. The Governor's January budget includes $1 billion to support the board's activities, a decrease of $1.9 billion over the current year budget. This change is primarily due to the appropriation of Proposition 1 bond funds in 2015. Most of the board's budget is special funds, with $47.9 million of the proposed total funding coming from General Fund.

EXPENDITURES BY PROGRAM (in thousands)

Program	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
Water Quality	$1,049,287	$2,834,905	$915,041
Drinking Water Quality	39,463	44,216	47,761
Water Rights	22,507	33,590	41,996
Department of Justice Legal Services	1,217	1,217	1,217
Administration	23,762	33,485	33,820
Administration - Distributed	- 23,762	- 33,487	- 33,822
Total Expenditures (All Programs)	**$1,112,474**	**$2,913,926**	**$1,006,013**

VOTE-ONLY CALENDAR

1. **Drinking Water Operator Certification Program.** The Governor's budget requests $110,000 and one permanent position for the Drinking Water Operator Certification Program (DWOCP) to replace a limited-term position that will expire on June 30, 2016. The new position will assist with the examination process and the increased workload within the unit. The position cost of $110,000 will be offset by a reduction in contract costs of $388,000. The net result is a reduction of $278,000 to the Drinking Water Operator Certification Special Account.

2. **Board Member Per Diem.** The Governor proposes $335,000 (various special funds) for increased regional board member per diem payments and budget TBL. The proposal increases Regional Water Board member per diem from $100 to $500. It also authorizes board members to receive one day's per diem to review materials in preparation for board meetings. Further, it deletes provisions stating that board members receiving unrelated salary are not eligible for per diem and caps total statewide expenditures for Board member per diem in lieu of the current cap for each regional board. This cap is in accordance with the increased per diem payments proposed and assumes each regional board meets once monthly.

3. **Low-Income Water Rate Assistance Program.** The Governor's budget requests $129,000 per year for two years (Waste Discharge Permit Fund, Civil Penalties) and one position to develop a plan for the funding and implementation of the Low-Income Water Rate Assistance Program, as required by AB 401 (Dodd), Chapter 662, Statutes of 2015. AB 401 requires the SWRCB to consider existing rate assistance programs authorized by the Public Utilities Commission in developing the plan and include recommendations for other cost-effective methods of providing assistance to low-income water customers. The SWRCB must also submit a report to the Legislature no later than February 1, 2018, on its findings regarding the feasibility, financial stability, and desired structure of the program, including any recommendations for legislative action that may need to be taken.

4. **No Cost Conversion of Surface Water Ambient Monitoring Program Contract Funding to Personal Services.** The Governor's budget proposes to redirect existing contract funds, from the Waste Discharge Permit Fund (WDPF), currently used for contracted water quality monitoring tasks to hire six permanent state employees to conduct this work. This proposal does not require additional funding.

5. **Public Water Systems Consolidations.** The Governor's budget requests 2.5 permanent positions and $352,000 (Safe Drinking Water Account) to address the increased workload associated implementing SB 88 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2015. SB 88 authorizes the SWRCB to require a public water system or state small system serving a disadvantaged that consistently fails to provide an adequate supply of safe drinking water to be consolidated with, or receive an extension of service from, another public water system. The legislation also requires the SWRCB to make funds available for the costs of completing the consolidation or extension, and would provide liability protection to the receiving water system, wholesaler or other agency in the chain of distribution.

6. **Safe Drinking Water Account Expenditure Authority.** The Governor's budget requests an additional $3,702,000 per year in expenditure authority from the Safe Drinking Water Account to support the Drinking Water Program. Approval of this proposal will allow the SWRCB to shift expenditures for Large Water Systems (LWS) that are currently being subsidized by federal funds and grant money to fees paid by LWS. These federal funds are no longer available to support program administrative costs. This increase will allow the program to fully fund budgetary expenditures with fees.

7. **Urban Retail Water Suppliers.** The Governor's budget requests one positon and $540,000 ($400,000 Local Assistance) from the Small System Technical Assistance Account to address the increased workload associated with implementing the provisions of SB 555 (Wolk), Chapter 679, Statutes of 2015. SB 555 requires the SWRCB to develop regulations establishing performance standards for urban water supplier water loss and provide up to $400,000 towards procuring water loss audit report validation assistance for urban retail water suppliers.

8. **School District Account Technical Assistance.** The Governor's budget requests a reappropriation of the unencumbered local assistance balance in the School District Account from FYs 2009-10, 2010-11, and 2011-12. Extending the encumbrance period would provide the SWRCB with the ability to continue paying claims to school districts that perform corrective action in response to an unauthorized release of petroleum from underground storage tanks. The SWRCB requests that the reappropriated funds be available for encumbrance until June 30, 2019.

9. **Site Cleanup Subaccount.** The Governor's budget requests a reappropriation to extend the encumbrance and liquidation period of the local assistance funds in the Site Cleanup Subaccount (SCS) and the Replacing, Removing, or Upgrading Underground Storage Tanks (RUST) Loans from the fiscal year 2015-16 appropriation. The SWRCB requests that the re-appropriated funds be available for encumbrance until June 30, 2018 and liquidation until June 30, 2021. The Governor's 2015-16 Budget proposal inadvertently left out this request for extended encumbrance and liquidation periods.

10. **Timber Regulation and Forest Restoration Program Implementation.** The Governor's Budget requests conversion of 5.3 limited term positions to permanent and $547,000 from the Timber Regulation and Forest Restoration Fund to continue the implementation of AB 1492 (Blumenfield), Chapter 289, Statues of 2012), as they pertain to the authorities and responsibilities of the state and regional water boards.

11. **Water Rights Fund Technical Adjustment.** The Governor's Budget requests trailer bill language (TBL) to make $3.75 million in Water Rights Fund (WRF) that is currently appropriated without regard to fiscal year (used to support 25 enforcement positions) available for encumbrance for one year, rather than the current default three-year period. This TBL will provide funding for the enforcement positions, but correct an issue where unspent funds are rolled to subsequent years even though they are not required for the operational purpose of supporting the 25 water rights enforcement positions. These

changes are consistent with legislative intent to fund the positions, but allow unspent funds to revert to the WRF so as to not cause additional pressures when setting fees.

Staff Recommendation: Approve as proposed.

Vote: motion to approve

- **Item 2: (3-0 to approve)**
- **Items 1, 7, 8, 9, 11 (3-0 to approve)**
- **Items 3, 4, 5, 6, 10 (2-1 [Nielsen, no])**

Issue 1: Water Rights Permitting and Licensing Augmentation

Background. The SWRCB Division of Water Rights Permitting and Licensing Program is tasked with processing applications to appropriate water (permits), requests for licenses on fully developed water right permits, registrations, and petitions to change existing rights and redirect wastewater for beneficial use.

A water right permit is an authorization to develop a water diversion and use project. In addition to authorizing diversion and beneficial use, permits also include terms and conditions that help to protect public trust resources and other legal users of water. An application to divert and use water by permit may be filed by any person or other entity that seeks to divert and beneficially use a reasonable amount of surface water. Filing of the application initiates a public process which includes administrative and environmental reviews by Permitting and Licensing Program staff.

The board has maintained a significant water rights program backlog for many years. The current number of pending items, as of June 2015, consists of 385 applications, 304 registrations, 578 petitions, and 1,626 expired permits subject to licensing review. Using average recent non-drought years, completion rates to estimate, current backlog is 14 years for applications to appropriate water, nine years for registrations, eight years for petitions, and 44 years for licensing of water rights permits. To date, streamlining and other efficiency efforts have not been able to overcome the high workload volume. According to the board, without this proposal, existing staff will continue to focus on the highest priority projects. The bulk of the projects in the backlog will likely continue to experience a lack of progress. Parties who are illegally diverting without valid water rights will likely continue to divert. Increasing staffing levels should directly increase the number of water right permits, licenses, registrations, petitions, and related water orders issued in any given year as compared to the number issued under current staffing levels.

Budget Proposal. The budget proposes seven positions and $851,000 (Water Rights Fund) to process applications to appropriate water, petitions to change existing rights, wastewater change petitions, and licensing of water rights. The program is funded through fees charged to water right permit and license holders. The SWRCB estimates that this proposal would increase water right's permits, licenses, and application fees by approximately eight percent.

Staff Comments. Staff concurs with the necessity of the proposal, which will result in more rapid action on new water rights, water right change petitions, wastewater petitions and water rights licensing. Given the serious nature of the drought, changing water systems, and increasing local reliance, the state should do all it can to move forward with water rights program reforms.

Staff Recommendation: Approve as proposed.

Vote: Hold Open

Issue 2: Water Recycling

Background. The state prioritizes the review and approval of projects and programs that increase local water supplies including recycled water. Due to the drought, the number of projects proposing to use recycled water has increased significantly and has expanded to areas of the state that historically have not considered use of recycled water. The water board anticipates that the number of recycled water projects will continue to increase as local agencies plan for future sustainable water supplies.

Proposition 1 allocated $725 million for water recycling to the water board, upon appropriation. Of this amount, $293 million has been appropriated over two years.

Budget Proposal. The Governor's budget requests three existing limited term positions be converted to permanent positions and $498,000 ($149,000 from Waste Discharge Permit Fund and $349,000 from the Safe Drinking Water Account) to address the increased water recycling work load associated with the drought. The Division of Drinking Water currently has three limited-term positions dedicated to developing criteria for indirect potable reuse of recycled water. These positions expire on June 30, 2016. The workload for these positions will extend beyond their current expiration date and will shift from criteria development to implementation. Once these criteria are in place, the board anticipates an increase in projects proposing potable reuse of recycled water.

April Finance Letter. The spring finance letter requests $322 million (Proposition 1), including $320.3 million in local assistance to fund water recycling projects. The request includes an extended encumbrance period until June 30, 2019, and liquidation until June 30, 2021. The funding would be allocated in a manner similar to the previous allocation, and according to the recent rulemaking at the board.

Staff Comments. Staff concurs with the need for the proposal. Over the past few months many water recycling project proponents have contacted the budget office concerned that, with regulations ready to go, the water board has not proposed new allocations of water recycling funding. The spring finance letter addresses concerns raised by constituents and stakeholders who have projects ready for funding.

The subcommittee may wish to ask the board to discuss the status of the water recycling regulations and demand for water recycling funding, and how the spring finance letter proposed funding will be allocated.

Staff Recommendation: Approve as proposed.

Vote: 3-0 to approve.

Issue 3: Environmental Lab Accreditation Program Fees

Background. ELAP provides evaluation and accreditation of environmental testing laboratories to verify the quality of analytical data used for regulatory purposes meets requirements of the State's drinking water, wastewater, shellfish, food, and hazardous waste programs. The current ELAP fee schedule has not generated sufficient revenue to meet the program's budgetary authority. Total ELAP revenue for Fiscal Year 2014-15 fell short of total budgetary authority by approximately $1.8 million. In order to address this structural deficit, fees needed to be increased by approximately 58% in 2015-16. Absent this authority to adjust fees for 2016-17 and beyond, other fund sources would be necessary to offset continuing operational costs.

Budget Proposal. The Governor's budget requests budget trailer bill language (TBL) to amend the Health and Safety Code to allow the State Water Resources Control Board (SWRCB) to adopt fee regulations by emergency actions so that the annual fee schedule will generate sufficient revenue to support the Environmental Laboratory Accreditation Program (ELAP) annual budgetary appropriation. This request will align the ELAP fee process with the SWRCB's fee authority for its water quality, water rights, and other drinking water programs.

Staff Comments. Staff concurs with the need for increased funding and appreciates the board’s outreach to stakeholders in order to identify a fee schedule that reflects its general fee authority for other water board programs.

Staff Recommendation: Approve as proposed.

Vote: 2-1 to approve (Nielsen, no)

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, April 14, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Farra Bracht

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Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Issues Proposed for Vote-Only

Staff Recommendation: Approve all of the following vote-only issues as budgeted.

0521 SECRETARY FOR TRANSPORTATION AGENCY

Issue 1: Statewide Coordination of Traffic Safety Data Systems

The Governor's budget proposes to redirect one position from the California Department of Transportation (Caltrans) to the Secretary for Transportation Agency and increase reimbursement authority (federal funds) by $159,000 to establish a Traffic Records Program Manager who would coordinate statewide efforts to align various state agencies and local government's traffic record systems. The proposal would also shift, on a one-time basis $200,000, in federal fund authority from the California Traffic Safety Program to complete a traffic records assessment using an outside vendor, or an interagency agreement with another state department. California's traffic records systems encompasses the hardware, software, personnel, and procedures that capture, store, transmit, analyze, and interpret traffic safety data. This data is housed in numerous state and local databases that cover a range of topics including crashes, citations, adjudications, driver licensing, emergency medical services, injury surveillance, roadway information, and vehicle records. In 2011, federal agencies recommended the state establish a traffic records data coordinator to manage data improvement projects, track the progress of implementing the traffic records strategic plan, and provide leadership to establish statewide business needs. This request is consistent with the federal recommendations.

2600 CALIFORNIA TRANSPORTATION COMMISSION

Issue 1: Transportation Goals and Performance Measures

The Governor's budget proposes for the California Transportation Commission (CTC), $191,000 on an on-going basis for one senior transportation engineer. The CTC is responsible for programming and allocating funds for the construction and improvements of highway, passenger rail, and transit systems throughout California. The CTC also advises and assists the Secretary for Transportation Agency and the Legislature in formulating and evaluating policies and plans for California's transportation programs. Several recently enacted laws expand the CTC's role in the accountability, oversight, and transparency in the management, programming, and execution of transportation projects statewide. The requested position would help to ensure that CTC is adequately staffed to fulfill this important responsibility. Specifically, the additional funds would help CTC to fulfill this role by providing a staff person that could review the State Highway Operation and Protection Plan (SHOPP) list of projects to ensure adequacy, consistency with the asset management plan, funding priorities, and recommend the SHOPP for approval, in addition to performing other key transparency and oversight functions.

2660 California Department of Transportation

Issue 1: Project Oversight for Federal Highway Administration

The budget proposes an increase of $1 million from local federal subvention funds for five positions and consulting resources to conduct activities associated with new Federal Highway Administration requirements for project oversight and program compliance reviews. These resources will be used to create a project oversight unit to focus on how local agencies hire architectural and engineering consultants to improve the hiring process in order to reduce the number of federal penalties. A recent audit found a significant level of non-compliance, or potential for non-compliance, with various federal regulations. These resources will help to ensure local agencies' compliance with procurement requirements and reduce penalties to local agencies in the future.

Issue 2: All Roads Network of Linear Referenced Data Mandate

The budget proposes an increase of $2.4 million ($2.2 million one-time and $223,000 for two years) to meet federal requirements supporting a single geographic reference for all roads called the Linear Referencing System. The Statewide Linear Referencing System provides information about pavement condition, traffic conditions, and will ultimately be expanded to include all federal aid eligible roads (state, local, and county roads) in California and other information such as information about intelligent traffic systems and culverts. This data is the foundation on which a map can be constructed that allows for visual analysis of the condition of the state's roads. This funding will support obtaining information about road network changes, deleting demolished roads, digitizing and calibrating new roads, and publishing the Linear Referencing System as a web service.

Issue 3: Toll Collection Services

The budget proposes to transfer toll collection services from Caltrans' Traffic Operations Program to its Maintenance Program to consolidate resources, improve departmental efficiencies, and provide flexibility for the operation of toll collection services during peak commute times. Caltrans staff provides toll collection services for the Bay Area Toll Authority which reimburses Caltrans for this work. The proposal transfers (1) 161 permanent positions, 120 temporary help positions, and nearly $16 million in reimbursement authority; (2) reduces the Traffic Operations Program by 40 permanent positions and $2.4 million in reimbursement authority; and, (3) increases the Maintenance Program by 29 temporary help positions and $1.4 million in reimbursement authority. The 29 temporary positions are being requested to minimize toll collectors' overtime hours, provide flexibility over peak travel times, and minimize costs. Shifting this program to the Maintenance Program will better align programs and activities within Caltrans.

2665 CALIFORNIA HIGH-SPEED RAIL AUTHORITY

Issue 1: Enhanced Auditing of Contracted Services

The budget proposes $826,000 in High-Speed Passenger Train Bond funding to establish six permanent auditor positions. Four of these auditor positions would be used to perform audits of contract costs that have been billed and reimbursed. Two of the auditor positions would address the increased workload due to the California High-Speed Rail Authority's Board of Directors audit requests of areas such as right-of-way parcel acquisition process, stipend payment process, and advanced technical concepts evaluation and integration process for design-build contracts. Audits will help to ensure that the project is carried out in an economical and cost-efficient manner and ensure compliance with the federal grant agreement and contract terms. The use of auditors to help provide oversight of a project of this size and scope is critical. The independent High-Speed Peer Review Group, the Legislative Analyst's Office, legislative budget staff, and the High-Speed Rail Authority's Board have all highlighted the importance of oversight of this project. These proposed resources are consistent with those recommendations.

Issue 2: High-Speed Rail Train System Planning-Reappropriation (Capital Outlay)

The budget proposes to reappropriate $145.2 million (for three years) of High-Speed Passenger Train Bond Funds (Proposition 1A) and federal funds approved in 2010, 2011, and 2012 for planning purposes for Phase I (San Francisco to Los Angeles/Anaheim) and Phase II (extensions to San Diego, Sacramento, and the Altamont Corridor) of the high-speed train system. The reappropriation of these funds will allow for the continuation of environmental review and preliminary design tasks to further the project. Due to the complicated nature of the project, it was not possible to encumber all of the funds within the three years provided in the Budget Act of 2013. It is anticipated that all of the unexpended authority will be for Proposition 1A funds; however, potentially some of federal funds will need to be reappropriated if they are not all spent by the end of the current fiscal year.

2720 DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

Issue 1: Integrated Database Management System Funding

The budget proposes $894,000 one-time funding from the Motor Vehicle Account (MVA) to cover costs associated with the California Highway Patrol's (CHP) use of the California Department of Technology's Integrated Database Management System (IDMS). Costs for IDMS used to be distributed across multiple departments. However, over time, many departments have upgraded their IT systems to more current platforms leaving few departments to bear the costs of maintaining the platform. The CHP is currently in the second stage of the process to migrate its databases from the IDMS to a replacement system. CHP intends to have a plan approved to start implementing the replacement project in 2017-18. This will be the third year that CHP has received a one-time augmentation to cover the funding shortfall associated with IDMS. The requested one-time funds are necessary to continue the operation of CHP's legacy systems on IDMS.

Issue 2: Expanded Network Infrastructure

The budget proposes $1.715 million MVA on an ongoing basis to cover increased costs associated with expanding network bandwidth capacity throughout the state. The network infrastructure is critical for CHP's work. It provides connectivity to headquarters, eight field divisions, 102 area offices, 25 communication centers, and 16 inspection facilities. Additional capacity is necessary to address current bandwidth deficiencies. The CHP contracts with commercial vendors for data circuits and, as a result of hardware and software upgrades, greater bandwidth is required. The CHP budgets $2.5 million each year for data circuit costs and these costs are projected to rise to $4.215 million by 2016-17. The proposed increase in expenditures will accommodate CHPs intensive data demands while at the same time improving data and system security.

Issue 3: California Motorcyclist Safety Program-Safety Outreach and Education

The budget proposes $1 million ongoing from the California Motorcyclist Safety Fund to improve the effectiveness of the Motorcyclist Safety Program. The fund was established in 1986 as a depository for a $2 fee collected by the DMV for all motorcycle registration and renewals. An additional $250,000 is deposited annually into the fund from the State Penalty Fund. Most of the funding is reserved for motorcycle rider safety instruction. In recent years, expenditures from the fund have been lower than anticipated due to lower than expected rider participation in safety training. Motorcycle-involved fatal and injury collisions are on the rise in California. In an effort to improve safety and save lives, CHP is proposing to conduct a major, on-going statewide public education and outreach campaign. Based on past experience, it is believed the campaign will help decrease fatal/injury collisions. There are sufficient dollars in the California Motorcyclist Safety Fund to maintain this effort through 2020-21.

Issue 4: Relocation of Fresno Area Office

The budget proposes $2.788 million one-time from the MVA for the relocation of the Fresno area office to a new facility. Consistent with the approval of relocation of the Fresno area office in the 2010 Budget Act, construction of the Fresno area office lease-purchase option project began in October 2015. At the time of the Governor's January budget, CHP estimated it would occupy the new facility in January 2017. However, that has been delayed until April 2017. As a result, the Administration has requested that the 2016-17 request be reduced by $870,000 to reflect the three month delay, resulting in a modified request of $1.918 million. These one-time costs include moving, installation of telephone and data services, and furniture as needed for the 158 staff assigned to the office.

Issue 5: California Highway Patrol Enhanced Radio System: Replace Towers and Vaults and Technical Adjustment to Budget Bill Language (April Finance Letters)

The April Finance Letter requests $445,000 MVA for the acquisition of property at Sawtooth Ridge (outside of Needles, CA) for Phase 1 of California Highway Patrol Enhanced Radio System (CHPERS). When this project was first approved in 2009, it was anticipated that a new tower and vault would be completed at the existing Sacramento Mountain radio tower site, thereby providing CHP with the dual-band coverage that is required by CHPERS. However, after several years of negotiating, it was determined that an on-site replacement would not be possible, and the 2015-16 reappropriation of CHPERS Phase 1 noted that nearby peaks would be analyzed for alternate sites. Since then, the Department of General Services has identified a nearby abandoned telecommunications site, Sawtooth Ridge. Sawtooth Ridge is a good replacement for Sacramento Mountain as both sites provide appropriate radio coverage to Eastern San Bernardino County, as well as line-of-sight access to the CHP Needles Area Office for microwave transmissions.

Sawtooth Ridge is currently in a section (640 acres) owned by Burlington Northern Santa Fe (BNSF). Most tower sites are leased to CHP; however, BNSF prefers to sell the state the full 640 acres. While this would be more land than necessary (approximately 23 acres for the site and access road), due to the remote desert location, and with offsetting savings in regards to surveying and negotiating, acquiring the full 640 acres is only marginally more expensive than the 23 acres. Further, the excess land can serve a role in environmental mitigation as the whole section is desert tortoise habitat. The total cost of the Sawtooth Ridge tower and vault replacement component of CHPERS Phase 1 is estimated at $7,044,000 MVA, with the $995,000 for preliminary plans and working drawings from existing authority, and $5,604,000 for construction anticipated for the 2017-18 fiscal year. This appropriation is necessary to move forward with the Sawtooth land purchase, as part of the project to address deteriorating radio communications and to improve radio interoperability among various public safety agencies.

Also, the April Finance Letter makes a technical adjustment to the budget bill language proposed in January and adds the word “acquisition” to the project title for Item 2720-310-0044, Schedule 1.

Issue 6: Santa Barbara Facility Replacement: Reappropriation (April Finance Letter)

The April Finance Letter requests a reappropriation of $3.4 million MVA for the acquisition, performance criteria and design-build phases of the Santa Barbara Facility Replacement project along with a request to extend the availability of these funds through June 30, 2019. There have been difficulties acquiring an appropriate site which has caused a delay for this project. The CHP had identified a potential site in Goleta for the Santa Barbara Area Office replacement project. During the acquisition phase and California Environmental Quality Act process, a moratorium on new water rights was levied throughout Santa Barbara County, which affected the ability to provide necessary services to the parcel. Additional concerns were raised by the community regarding the location of the facility and ultimately acquisition activities were ceased. Since then, a potential site was identified that could provide the required acreage, programmatic requirements and the necessary infrastructure such as sewer, water and power. In the event that the due diligence for the environmental and communication requirements are validated as compliant with the project requirements, negotiations on the site could begin with Department of Finance approval. A reappropriation will allow CHP to continue work on the new site and move forward on this project that will provide for an office that meets both CHP programmatic standards and seismic performance criteria for state-owned buildings. The additional time to encumber will best ensure that the project can be completed before the end of the liquidation period.

Issue 7: Contracting Language- Budget Bill Language (April Finance Letter)

The April Finance Letter requests the addition of budget bill language to allow the Department of General Services to use a single master architect and a single environmental service contract for multiple CHP area office replacement projects, and another single contract for the CHPERS Tower and Vault Replacement projects. This approach will allow for more efficient contracting for the design and environmental work for these projects, which is currently limited by state regulations. Under this provision and the contracts that have already been established for these projects, the use of this approach would be limited to a maximum of 10 CHP office replacement projects.

2740 DEPARTMENT OF MOTOR VEHICLES

Issue 1: Driver License and Identification Card Production Cost Increase

The budget proposes $6.9 million from the MVA on an on-going basis to fund an increase in the production costs for drivers' and identification cards. The DMV's current contract with MorphoTrust USA, LLC for the production of these cards expired on October 31, 2015. The previous contract language requires a system software and hardware upgrade and replacement upon execution of DMV's option to extend the contract beyond the first five years of full card production. The costs will increase from $1.385 per card to an average of $1.920 per card. DMV is expected to issue an average of 9 million cards annually over the next five years. Currently there are about 22.9 million driver's license cardholders, 4.9 million identification cardholders, and 104,000 salesperson license cardholders in California. This cost increase seems reasonable and appears to fall within the range of what some other states pay to produce these cards.

Issue 2: Expanded Eligibility for Drivers' Licenses (April Finance Letter)

The Administration requests in an April Finance Letter, $1.4 million MVA for the ongoing implementation of AB 60 (Alejo), Chapter 524, Statutes of 2013 for additional resources including staff, facilities' lease costs through December 2016, and interpreter services. Since DMV began accepting driver license applications from undocumented Californians on January 2, 2015, the DMV has issued about 660,000 driver licenses through February 2016. Leading up to the implementation, the DMV opened four Driver License Processing Centers, hired nearly 1,000 new employees, developed regulations detailing documents required to prove identity and residency, extended office hours, added Saturday service, and participated in more than 200 public outreach events across the state.

The initial request to implement AB 60 included 822 positions for 2014-15, 811 positions for 2015-16, which was further reduced to 215 positions in 2016-17. Due to the large volume of AB 60 applications, the department was given authority to administratively establish 49 limited-term (LT) positions for administrative reviews, effective July 1, 2015, through June 30, 2016. With the LT positions set to terminate on June 30, 2016, continuing to process AB 60 workloads at the expected service delivery goal of 30 to 45-days warrants additional staffing beyond the June 30, 2016, timeframe. In addition to the 49 positions for the administrative review, the department was also authorized in 2015-16 to administratively establish 64 positions until June 30, 2016, to support the launch of AB 60 and the workload associated with the secondary review interview process. This proposal provides an additional 11 positions for administrative reviews and 32 positions for secondary reviews for 2016-17.

Overview of Transportation Funding

Presentation by the Legislative Analyst's Office

Background: The California State Transportation Agency (CalSTA) has jurisdiction over the state's transportation departments and programs. These departments and programs include California Department of Transportation (Caltrans), High-Speed Rail Authority (HSRA), California Highway Patrol (CHP), Department of Motor Vehicles (DMV), State Transit Assistance (STA), California Transportation Commission (CTC), and the Board of Pilot Commissioners.

Transportation Budget Summary: The Governor's budget proposes a total of $17 billion in expenditures from various fund sources—the General Fund, state special funds, bond funds, federal funds, and reimbursements—for all departments and programs under CalSTA in 2016-17. This is an increase of $664 million, or four percent, over estimated expenditures for the current year. The increase primarily reflects the shifting of some HSRA workload and expenditures initially assumed to occur in 2015-16 to 2016-17. In addition, the budget reflects increased spending for highway and road projects in 2016-17, resulting from the first-year implementation of a transportation infrastructure funding package proposed by the Governor.

The figure on the next page shows spending for the state's major transportation programs and departments from selected sources.

Transportation Budget Summary—Major Funding Sources

(Dollars in Millions)

	Actual 2014-15	Estimated 2015-16	Proposed 2016-17	Change From 2015-16	
				Amount	Percent
Department of Transportation					
General Fund	$83.4	$84.0	$0	-$84.0	100%
Special funds	3,189.5	3,564.8	4,255.5	690.6	19.4
Bond funds	531.1	430.2	259.9	-170.4	-39.6
Federal funds	4,226.3	5,712.7	4,737.5	-975.3	-17.1
Local funds	1,014.9	1,121.1	1,238.1	117.0	10.4
Totals	**$9,045.2**	**$10,913.0**	**$10,490.9**	**-$422.1**	**-3.9%**
High–Speed Rail Authority					
Bond funds	$1,115.3	$269.3	$1,153.6	$884.2	328.3%
Federal funds	840.5	28.0	32.0	4.0	14.3
Greenhouse Gas Reduction Fund	250.0	600.0	600.0	—	—
Reimbursements	0.9	—	—	—	—
Totals	**$2,206.7**	**$897.3**	**$1,785.6**	**$888.2**	**99.0%**
California Highway Patrol					
Motor Vehicle Account	$2,009.3	$2,198.4	$2,241.2	$42.8	1.9%
Other special funds	177.2	185.1	136.7	-48.3	-26.1
Federal funds	17.0	20.2	20.2	—	—
Totals	**$2,203.5**	**$2,403.7**	**$2,398.2**	**-$5.5**	**-0.2%**
Department of Motor Vehicles					
General Fund	—	—	$3.9	$3.9	—
Motor Vehicle Account	$1044.2	$1,090.9	$1,060.1	-$30.9	-2.8%
Other special funds	43.6	47.3	45.4	-1.9	-4.0
Federal funds	1.4	2.9	2.9	—	—
Totals	**$1,089.2**	**$1,141.1**	**$1,112.2**	**-$28.9**	**–2.5%**
State Transit Assistance					
Public Transportation Account	$383.9	$299.4	$315.2	$15.8	5.3%
Bond funds	668.9	154.0	44.1	-109.9	-71.3
Greenhouse Gas Reduction Fund	24.2	119.8	99.8	-20.0	-16.7
Totals	**$1,077.0**	**$573.2**	**$459.1**	**-$114.1**	**-19.9%**

Issues Proposed for Discussion/Vote

0521 SECRETARY FOR TRANSPORTATION AGENCY

Agency Overview: The Secretary for the California State Transportation Agency (CalSTA) has jurisdiction over the following: Department of Transportation (Caltrans), Department of California Highway Patrol (CHP), Department of Motor Vehicles (DMV), and Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun (BOPC). In addition, the agency oversees two current stand-alone entities—the High-Speed Rail Authority (HSRA) and the California Transportation Commission (CTC). The agency secretary is the Governor's cabinet member for major policy and program matters involving transportation and oversees the operations of the agency's departments and programs. The agency also administers the California Traffic Safety Program.

Budget Summary: The Governor's budget proposes expenditures of $709.9 million from a combination of special funds, federal trust funds and reimbursements. Of this amount, $96.8 million is for the California Traffic Safety Program and $608.2 million is for the Transit and Intercity Rail Capital Program. Administrative costs of the agency are $4.8 million in the budget year.

Issue 1: Increased Funding for Transit and Intercity Rail Capital Program

Governor's Proposal: The Governor's budget proposes $200 million Greenhouse Gas Reduction Funds (GGRF) as part of the continuous appropriation for the Transit and Intercity Rail Capital Program (TIRCP). In addition, the budget proposes an additional $400 million GGRF for the program. Combined these two proposals would result in expenditures of $600 million for the Transit and Intercity Rail Capital Program in 2016-17.

The Administration's transportation reform and funding plan also proposed for TIRCP, $9 million from Public Transportation Account loan repayments and this additional amount of funding has already been approved as part of AB 133, (Committee on Budget and Fiscal Review), Chapter 2, Statutes of 2016.

Background: The TIRCP was created by SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014 to provide grants from the Greenhouse Gas Reduction Fund to fund capital improvements and operational investments that will modernize California's transit systems and intercity, commuter, and urban rail systems to reduce emissions of greenhouse gases by reducing vehicle miles traveled throughout California. SB 862 establishes that this program will receive, as a continuous appropriation, 10 percent of all revenues deposited in the GGRF. Additionally, it is a goal of this program to provide at least 25 percent of available funding to projects that provide a direct, meaningful, and assured benefit to disadvantaged communities. Caltrans, in collaboration with the Transportation Agency, is responsible for administering the program.

SB 9 Expands Projects that Can Be Funded. SB 9 (Beall), Chapter 710, Statutes of 2015, modified the program to delete references to operational investments and instead provide funding for "transformative" capital improvements, as defined, that will modernize California's intercity, commuter, and urban rail systems and bus and ferry transit systems to achieve certain policy objectives, including reducing emissions of greenhouse gases, expanding and improving transit services to increase ridership, and improving transit safety. SB 9 modifies the information required to be included in applications for grants under the program and authorizes an eligible applicant to submit an application to fund a project over multiple fiscal years and to submit multiple applications. SB 9 requires the Transportation Agency, in selecting projects for funding, to consider the extent to which a project reduces greenhouse gas emissions, and adds additional factors to be considered in evaluating applications for funding, such as bus and ferry transit service.

SB 9 also requires the Transportation Agency to approve, by July 1, 2018, a five-year program of projects, and requires the CTC to allocate the funding. Subsequent programs of projects will be approved not later than April 1 of each even-numbered year. This change allows for multiyear funding agreements and an applicant can expend its own moneys on a project in the approved program of projects, subject to future reimbursement from program moneys for eligible expenditures.

Applications for the current round of funding were due on April 5th, 2016 and a list of approved projects will be published on August 1, 2016. The 2016 funding round uses approximately $440 million through 2017-18 from the existing continuous appropriation based on 10 percent of cap-and-trade auction proceeds.

Projects Funded To Date. The first cycle of funding went to the projects identified in the figure below.

Transit and Intercity Rail Capital Program Project Awards

Applicant	Project	Amount Recommended	Match Funding	Total Project Cost
Antelope Valley Transit Authority	Regional Transit Interconnectivity & Environmental Sustainability Project	$ 24,403,000	$ 14,891,051	$ 39,294,051
Capitol Corridor Joint Powers Authority	Travel Time Reduction Project	$ 4,620,000	$ 800,700	$ 5,420,700
Los Angeles MTA (Metro)	Willowbrook/Rosa Parks Station & Blue Line Light Rail Operational Improvements Project	$ 38,494,000	$ 108,166,494	$ 146,660,494
LOSSAN Rail Corridor Agency	Pacific Surfliner Transit Transfer Program	$ 1,675,000	$ 200,000	$ 1,875,000
Monterey-Salinas Transit	Monterey Bay Operations & Maintenance Facility/Salinas Transit Service Project	$ 10,000,000	$ 10,260,000	$ 20,260,000
Orange County Transportation Authority	Bravo! Route 560 Rapid Buses	$ 2,320,000	$ 580,000	$ 2,900,000
Sacramento Regional Transit	Sacramento Regional Transit's Refurbishment of 7 Light Rail Vehicles Project	$ 6,427,000	$ 1,607,000	$ 8,034,000
San Diego Association of Governments	South Bay Bus Rapid Transit Project*	$ 4,000,000	$ 108,000,000	$ 112,000,000
San Diego MTS	San Diego Metropolitan Transit System Trolley Capacity Improvements Project	$ 31,936,000	$ 11,200,000	$ 43,136,000
San Francisco MTA (MUNI)	Expanding the SFMTA Light Rail Vehicle Fleet Project	$ 41,181,000	$ 162,470,000	$ 203,651,000
San Joaquin Regional Rail Commission	Altamont Corridor Express Wayside Power	$ 200,000	$ -	$ 200,000
San Joaquin RTD	MLK Corridor and Crosstown Miner Corridor Project	$ 6,841,000	$ 12,277,776	$ 19,118,776
SCRRA (Metrolink)	Purchase of 9 Fuel-Efficient Tier IV Locomotives Project	$ 41,181,000	$ 16,869,000	$ 58,050,000
Sonoma-Marin Area Rail Transit District	SMART Rail Car Capacity Project	$ 11,000,000	$ 46,400,000	$ 57,400,000
		$ 224,278,000	**$ 493,722,021**	**$ 718,000,021**

Questions for Agency/DOF:

1. How do transit and intercity rail capital projects support the state's development of a state rail system and better ensure an interconnected system that helps to enhance mobility using public transit?

Staff Comment: Cap-and-trade expenditures beyond the amounts continuously appropriated will be considered as part of the broader cap-and-trade spending package adopted by the Senate.

Staff Recommendation: Hold open.

2600 CALIFORNIA TRANSPORTATION COMMISSION

Department Overview: The California Transportation Commission (CTC) is responsible for programming and allocating funds for the construction and improvements of highway, passenger rail, and transit systems throughout California. The CTC advises and assists the Secretary of the Transportation Agency and the Legislature in formulating and evaluating policies and plans for California's transportation programs.

Budget Overview: The Governor's budget proposes expenditures of $4.3 million and 19.1 positions for the administration of the CTC, which is slightly greater than the current-year level of 16.1 positions and $3.9 million. Additionally, the budget includes $25.0 million in Clean Air and Transportation Improvement Bond Act funds (Proposition 116 of 1990) that are budgeted in the CTC and allocated to local governments.

Issue 1: Active Transportation Program Oversight (Informational Only)

Background: SB 99 (Committee on Budget and Fiscal Review), Chapter 359, Statutes of 2013, created the Active Transportation Program to promote increased use of active modes of transportation such as bicycling and walking. Funding for ATP was created by consolidating various funding streams that have historically funded active transportation, including the federal Transportation Alternatives Program (TAP), and the state Bicycle Transportation Account and Safe Routes to School and Environmental Enhancement and Mitigation programs.

The intent of the Legislature in creating the ATP was to achieve the following goals:

- Increase the proportion of trips accomplished by biking and walking.
- Increase safety and mobility for non-motorized users.
- Advance the efforts of regional agencies to achieve greenhouse gas (GHG) reduction goals.
- Enhance public health.
- Ensure that disadvantaged communities fully share in program benefits.
- Provide a broad spectrum of projects.

The California Transportation Commission (CTC) is required to develop and adopt guidelines and project selection criteria for the ATP. The guidelines are required to address various elements, including schedules and procedures, selection criteria, performance measures and program evaluation. The guidelines must include a process to ensure that no less than 25 percent of program funds are spent on projects that clearly benefit, or are located directly within disadvantaged communities. Fifty percent of the funds are competitively awarded by the CTC on a statewide basis and an additional 10 percent are competitively awarded by CTC to projects in rural and small urban areas of the state. The remaining 40 percent of funds are distributed to metropolitan planning organizations in large urban areas in proportion to each region's share of the total population. These MPOs may develop their own project selection criteria in consultation with Caltrans and CTC.

Eligible project types include, among other things, development of new, and improvements to existing bikeways and walkways, hazard elimination, installation of traffic control devices, Safe Routes to School projects, and educational and other non-infrastructure investments that demonstrate effectiveness in increasing active transportation.

Each Funding Cycle Programs Four Years of Projects. The CTC is required to adopt a four-year program of projects by April 1 of each odd-numbered year, but may alternatively adopt a program annually. The ATP is currently funded at approximately $120 million per year. During the first programming cycle, the CTC programmed three fiscal years of funding (2013-14 through 2015-16, or about $360 million in total). In Cycle 2, CTC funded three fiscal years (2016-17 through 2018-19, or about $360 million in total). As a result, in total, more than $720 million in ATP funds has been programmed on about 500 projects during the first two cycles of programming.

On March 17, 2016, CTC adopted revised guidelines for Cycle 3 of the program. The third and subsequent programming cycles, are anticipated to include two fiscal years of funding ($240 million). CTC expects to release the request for proposals for Cycle 3 on or about April 15, 2016. Once this cycle of funding is awarded, ATP projects will be programmed through fiscal year 2020-21.

Program Resources. At the time ATP was established in 2013, CTC did not request additional positions for program administration, intending to absorb the additional workload within existing resources.

Caltrans allocated eight personnel years to work on ATP—three in headquarters and five in district offices. Within headquarters, two positions are assigned to closing out the programs scheduled to sunset. The remaining position is charged with a variety of duties related to program administration, including development and maintenance of program guidelines, compliance with laws and regulations, solicitation of projects, and eligibility and deliverability reviews. This position is also responsible for database maintenance, preparation of reports, performance measures, auditing and management of technical assistance contracts. The five district positions are responsible for assisting with program management, project solicitation and selection, and project rating, ranking and prioritization.

Evaluation of Completed Projects. Key to evaluation of any competitive grant program is an analysis of the degree to which it achieves the stated goals. According to recently adopted ATP guidelines, evaluation will focus on the program's effectiveness in increasing the use of active modes of transportation. The guidelines address evaluation of increased mobility for non-motorized users; however, other program goals such as increased safety and the advancement of regional agencies efforts to achieve greenhouse gas reduction goals are not addressed. The guidelines also call upon Caltrans to conduct audits to determine whether performance outcomes are consistent with the project scope, schedule, benefits, etc. as described in the project agreement.

Program guidelines indicate that project applicants are contractually required to collect and report specified information including final costs, scope, and schedule (as compared to original) as well as performance outcomes. Specifically, the guidelines require before and after pedestrian and/or bicycle counts and an explanation of the methodology for conducting the counts. Data is required to be collected one year following completion of the project and then must be reported. At the present time, no ATP funded projects have reached the threshold for reporting. Thus, no data is currently available.

Technical Assistance for Program Applicants. As part of the Safe Route to Schools (SRTS) program previously administered by Caltrans, the Caltrans contracted with the California Department of Public Health to provide a technical assistance resource center (TARC). The purpose of TARC was to provide support and technical expertise to program applicants in the development of effective SRTS projects. Because many potential applicants have limited experience in the use of both engineering and non-engineering strategies to support and promote safe walking and bicycling, TARC was seen as an important resource to ensure that limited funding would be used for efficient and effective projects.

Since SRTS was incorporated into the ATP program, Caltrans and CTC have expanded the mission of TARC to support active transportation efforts more broadly. The new guidelines indicate that the role of the Active Transportation Resource Center is to provide technical assistance and training resources to help agencies deliver existing and future projects and to strengthen community involvement in projects. The ATRC is intended to support both existing and potential program applicants.

Questions for CTC and Caltrans:

1. Please describe how projects will be evaluated after completion to ensure the program is achieving the desired results? Is Caltrans and/or CTC adequately staffed to evaluate the effectiveness of completed projects in meeting the program goals?

2. Does a two or four-year funding cycle best fit ATP? What are the advantages and disadvantages of each?

Staff Comments: To date, about $720 million in funds has been awarded to approximately 490 projects, some of which will likely be completed within a few years. The next cycle of funding, to be awarded in 2017, will bring that total to nearly $1 billion being awarded to projects through 2020-21. Given that, it is good time for the Legislature to evaluate the program to ensure that it is working as intended and to make any necessary adjustments prior to awarding additional funds. Staff has identified issues on the following areas.

- ***Resources for Program Administration.*** Caltrans has indicated that actual staff resources expended on ATP exceeds allocated resources and this level of workload is likely to continue in the future. Specifically, since ATP is a relatively new program and, as with any new program, updates and revisions to guidelines policies and procedures will be required for upcoming funding cycles. Also, because many applicants have limited experience seeking federal and state transportation funds, staff support needs may be higher than average, at least in the near term. Finally, the need to compile and analyze data for program evaluation will likely grow, rather than shrink, as projects are completed. Given that, it may be appropriate to evaluate the adequacy of current staffing needs to ensure that the program can deliver on its goals.

- ***Programming Cycle.*** ATP is administered using a two-year award cycle and a four-year programming cycle (similar to the State Transportation Improvement Program). As a result, projects approved in 2017 will not be funded until at least 2019-20. While a relatively longer lead time is appropriate for more complex, larger projects, it may be unnecessary and even counterproductive for ATP because it lengthens the time between project development and completion of relatively small, community-based, and often critical safety and connectivity projects. Therefore, it may be appropriate to consider shortening the programming cycle to two years. This would have the ancillary benefit of delaying the Cycle 4 call for projects by two years, providing increased opportunity for program evaluation.

- ***Disadvantaged Communities.*** Statutorily, the ATP must expend at least 25 percent of program funds on projects either in, or directly benefitting, disadvantaged communities. In practice, the rate has been substantially higher and in Cycle 2, nearly 86 percent of funds in the statewide and rural and small urban components of the program went to projects classified as disadvantaged communities. It may be useful to consider what factors have contributed this outcome.

- ***Program Evaluation.*** The program is statutorily required to address six goals, but current guidelines only require project applicants to collect and report data on before/after walking and bicycling rates and do not require a standard method of data collection. It may be appropriate to consider what is needed to collect a more robust data set for more comprehensive program evaluation. It may also be appropriate to examine the adequacy of program funding expended by CTC and Caltrans on program evaluation. Finally, it may be appropriate to consider having CTC and Caltrans conduct an independent evaluation of a subset of projects in order to ensure accuracy and consistency.

- ***Active Transportation Resource Center.*** In Cycle 2, CTC awarded $3.5 million to Caltrans to fund the ATRC. It may be helpful to understand what activities Caltrans is delivering with these funds and specifically how those activities are enabling project applicants to develop better proposals and complete more effective and cost effective projects.

Informational Item Only

2660 Department of Transportation

Department Overview: The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive state system of 50,000 highway lane miles of pavement, 13,100 bridges, and 205,000 culverts; funds three intercity passenger rail routes; and provides funding for local transportation projects. (Culverts are pipes or other openings that allow naturally occurring water to flow beneath the roadway, such as when a highway crosses a small stream.) The highway system includes other facilities, such as roadside rest areas, landscaped and non–landscaped roadside, and maintenance buildings. The department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: aeronautics, highway transportation, mass transportation, transportation planning, administration, and equipment.

Budget Overview: The Governor's budget proposes total expenditures of $10.5 billion in 2016-17 for Caltrans—$422 million, or four percent, less than estimated current-year expenditures and 19,182 positions. Caltrans expenditures from federal funds and bond funds are assumed to decrease by $975 million and $170 million, respectively. This reflects an assumption that a greater amount of federal funds will be spent in the current year (rather than in the prior year as was previously assumed). The reduction also reflects the completion of certain Proposition 1B (2006) bond projects in the current year. State sources of revenue for the department are the state gasoline tax (30 cents per gallon) and the diesel excise tax (13 cents per gallon), the sales tax on diesel fuel, and weight fees for vehicles that carry heavy loans on the state's roadways, such as commercial trucks. State sources of revenue constitute about $6.0 billion of the total available resources.

Issue 1: Maintaining the State Highway System's Assets (Informational Only)

Overview: Caltrans' current, siloed approach to asset management has not resulted in the department using its resources in the most cost-effective manner to maintain the state highway system's assets. These assets include the roadways, culverts, bridges, sidewalks, and other infrastructure including intelligent traffic systems such as ramp metering devices. Both the Legislative Analyst's Office (LAO) and the State Auditor have recently raised concerns about the department's approach to maintaining its assets. In addition, as an attempt to address this problem, SB 486 (DeSaulnier), Chapter 917, Statutes of 2014, requires the department, in consultation with the CTC, to prepare a robust asset management plan to guide selection of projects for the state highway operation and protection program (SHOPP). Below are discussed changes Caltrans is making to its asset management approach, and the LAO and the State Auditor's recent findings.

Background: Caltrans maintains the state highway system primarily through two programs: the maintenance program and SHOPP. The maintenance program focuses on preventative work and corrects small problems before they worsen and require more costly repairs. Maintenance also includes field maintenance such as picking up litter and debris, and repairing guardrails. It does not include the construction of new assets or rehabilitation or reconstruction of roadways. Caltrans rehabilitates and reconstructs the state highway system through the SHOPP. Projects in this program include capital improvements for safety and the rehabilitation of state highways and bridges. These projects do not add capacity to the state highway system; adding capacity is the responsibility of Caltrans' state transportation improvement program (STIP). Multiyear plans for both SHOPP and STIP projects are adopted by the CTC.

As shown in the figure below, provided by the Legislative Analyst's Office (LAO), the highway maintenance and SHOPP programs provide a range of maintenance and rehabilitation work.

Figure 3

State Highway Repair Programs Perform Various Types of Work

Highway Maintenance Program		SHOPP	
Minor Maintenance	Major Maintenance	Minor Rehabilitation	Major Rehabilitation
• Performed on highway components in good condition. • Examples include filling potholes, damage assessment, and bridge painting. • Work performed by Caltrans staff.	• Performed on highway components in good or fair condition. • Examples include thin pavement overlays, bridge joint seals, and culvert debris removal. • Work performed by contractors.	• Performed on highway components in distressed condition. • Examples include thick pavement overlays and concrete panel replacement. • Work designed by Caltrans staff and performed by contractors.	• Performed on highway components in distressed condition. • Examples include complete removal and replacement, reconstructing road base, and mitigating erosion around bridge foundations. • Work designed by Caltrans staff and performed by contractors.

SHOPP = State Highway Operation and Protection Program.

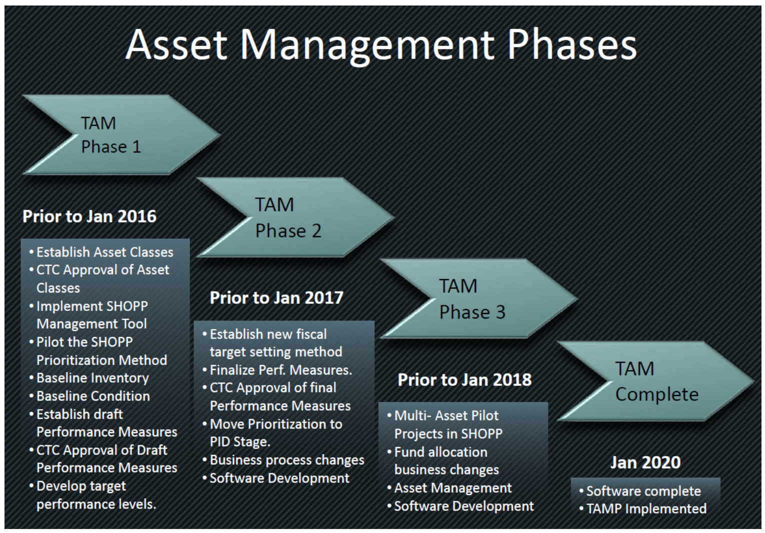
In 2015-16, Caltrans plans to spend $1.4 billion in state funds for the Highway Maintenance Program—$1 billion for minor routine maintenance and $434 million for major maintenance projects. The $434 million for major maintenance projects includes $234 million for pavement, $177 million for bridges, and $23 million for culverts.

In 2015-16, Caltrans estimates that it will spend $2.3 billion on SHOPP projects, including about $1.5 billion in federal funds and about $800 million in state funds. Of the $1.2 billion total amount, Caltrans plans to spend about $800 million on pavement, $350 million on bridges, and $50 million on culverts. The remainder of SHOPP funding is available for other purposes such as responding to emergencies and safety improvements.

Transportation Asset Management is Siloed. Historically, management of the maintenance and rehabilitation of the state highway system's assets has been done in silos. This approach is consistent with the state budget appropriating funding for projects to maintain the state's assets in silos. As a result, maintenance projects may not consider the needs of all state highway assets within a defined portion of the roadway. For example, a pavement repair project would not consider other potential projects within the roadway that also need to be addressed such as ADA compliance and culvert repairs to address blocked fish passages. Instead these projects would have to be as completed individual projects. Unfortunately, this approach fails to consider the condition and need for maintenance of all assets within a defined area. In addition, this lack of integration can result in increased costs because all of the needed work on a section of roadway is not done at the same time.

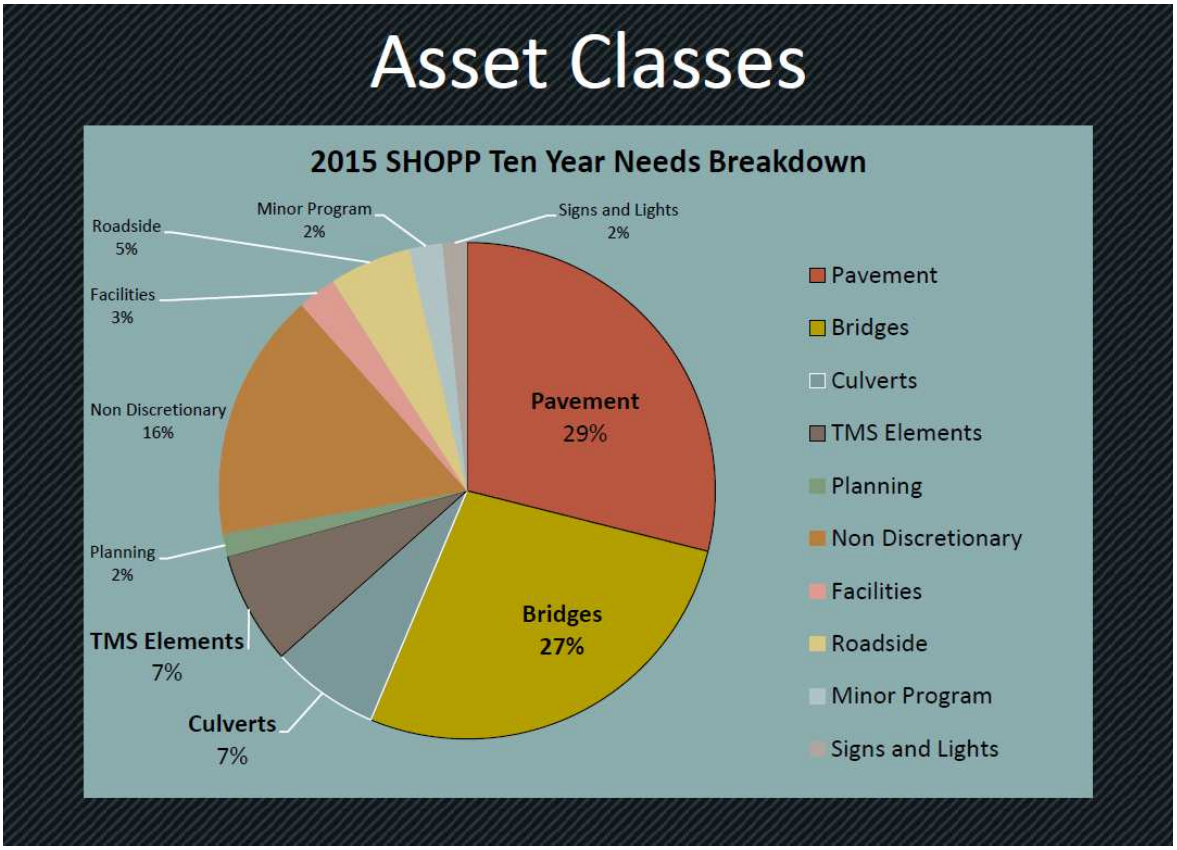
Shift Away from a Siloed Approach is Underway. Caltrans is shifting to a more comprehensive approach to asset management that brings together all of the information about the condition and needs of the state's highway system's assets. Beginning with the 2016 SHOPP, Caltrans' intention is to take a more comprehensive approach towards the management of its assets. As an example, the most recent directive from Caltrans is that when planning, SHOPP projects should consider climate change, complete streets, ADA, and fish passages.

As required by SB 486, Caltrans is in the process of transitioning to a full asset management approach by January 2020, as shown in the figure below. As part of this process, the department is piloting writing up the objectives they want to achieve on various transportation projects without consideration of funding silos and focusing on funding projects that address the needs of all state highway assets. Currently, approximately 37 projects that are "multi-asset" have been nominated for such an approach for the 2018 SHOPP. Each of the 12 Caltrans' districts submitted at least one project. These projects are in the "concept" phase at this time.



TAM=transportation asset management plan

The asset management plan will involve numerous categories of work in order to change how Caltrans manages the maintenance of its assets. The department has identified asset classes as shown in the figure below. Using these classes, maintenance staff is currently conducting a thorough inventory of all assets, establishing the baseline condition of these assets, and future optimal operational and condition targets. The department is also conducting an assessment of the performance of its system elements and then plans to conduct a performance gap analysis. Under the new approach to asset management, SHOPP projects will be prioritized based on using data from an automated system, rather than the current manual process. A primary focus of these changes within Caltrans will be improving the planning process, because under an asset management approach, knowing what is needed to maintain each asset class and planning the work is critical. While the department currently has numerous "plans"; these plans are not synthesized and this contributes to Caltrans' siloed approach to asset management.



Other important tasks Caltrans will need to engage in to successfully implement asset management include changing how projects are prioritized and programmed and performing deterioration modeling for all asset classes (as they currently have for pavement and bridges). Caltrans intends to shifts to conducting programmatic lifecycle costs analyses, rather than asset specific analyses, which would also attempt to capture costs influenced by factors such as usage and climate change. The department is also in the early stages of developing enterprise asset management software to improve its management of the state highway system's assets.

LAO Comments: The LAO recently reviewed the Governor's proposal to generate new funding for transportation and his proposal for spending those funds. Regarding the expenditure of these new funds, the LAO made recommendations to help ensure that the highest priority needs in order to maintain the state's assets are addressed first and that any additional funding provided to Caltrans through new revenues is allocated in an efficient and effective manner. In addition, to making recommendations about how the new revenues would be allocated, the LAO raises concerns about the lack of a comprehensive assessment of the condition of the highway system and recommends the Legislature adopt well-defined and robust accountability measures for both the Highway Maintenance Program and SHOPP, and report on the status of these metrics on a regular basis. For example, the Legislature could establish goals that a certain amount of pavement is kept in good condition. Regarding highway bridges, the LAO recommends that the Legislature require Caltrans to provide more detailed information on the number of distressed bridges and the estimated cost and timing for returning them to a state of good repair.

The LAO also raised concerns in its report about how the mix of pavement, bridge, and culvert projects that the Governor proposes to fund under his plan for additional revenues does not align with the actual needs of SHOPP. In addition, the LAO finds that the Governor's proposal does not provide adequate funding for major maintenance projects and if that type of work is deferred for too long, pavement, bridges, and culverts will deteriorate to the point of requiring more costly rehabilitation work through additional SHOPP projects.

The LAO's observations highlight the need for a comprehensive asset management plan and well-defined accountability measures.

California State Auditor: The auditor recently reviewed Caltrans's maintenance program and concludes that the maintenance division's allocations and spending for field maintenance do not match key indicators of maintenance need. (Field maintenance is generally performed by maintenance division staff and includes activities such as repairing minor pavement damage, clearing vegetation, and picking up litter.) Specifically, the maintenance division developed a budget model in 2009 for allocating field maintenance funding based on key indicators of maintenance need such as traffic volume and climate. However, the auditor found that the maintenance division abandoned this approach, and instead has based funding allocations to the 12 Caltrans districts on a simple average of historical spending rather than using level of maintenance performance (service scores) or other information about maintenance need, despite reporting to the Legislature that it was using a more sophisticated method. Additionally, the maintenance division's current process for evaluating service scores does not provide the same in-depth information as the model would have provided.

The maintenance division also does not use the information regarding service scores to strategically plan its work or to inform its funding allocations. Further, the maintenance division cannot demonstrate that it promptly performs certain field maintenance work. Specifically, data indicate that more than 30,000 service requests received by the three districts in fiscal years 2010-11 through 2014-15 remained unresolved for more than 90 days. Not surprisingly, the auditor found that the maintenance division's actual spending for field maintenance in the three districts they reviewed was not consistent with key indicators of need—climate and traffic volume.

The auditor specifically recommends that to better align the maintenance division's allocations with districts' maintenance needs, the Legislature should include language in the budget act that requires the maintenance division to develop and implement a budget model for field maintenance by June 30, 2017, that takes into account key indicators of maintenance need, such as traffic volume, climate, service scores, and any other factors the maintenance division deems necessary to ensure that the model adequately considers field maintenance need. Once the model is developed, Caltrans should use it to inform appropriate allocations to the districts.

Presentations:

- Caltrans and the CTC on the status of implementation of the Asset Management Plan.
- LAO on its review of the Governor's proposal to increase transportation funding for maintenance projects.
- State Auditor on its March 2016 report "California Department of Transportation: Its Maintenance Division's Allocation and Spending for Field Maintenance Do Not Match Key Indicators of Need".

Questions for Panel of Caltrans, CTC, and LAO, JLAC:

Caltrans:

1. Does the Asset Management Plan only affect SHOPP? What about the interaction with the Highway Maintenance Program?

2. What are the next steps?

3. How are existing funding silos being addressed within this framework?

4. What can the Legislature do to help break down the funding silos at Caltrans and minimize the risk that a portion of the funding will not materialize in the programmed SHOPP year for projects using a mix of funding sources?

5. What information technology tools could better help Caltrans manage its assets holistically?

6. Does Caltrans have any concerns about adopting a budget model for field maintenance?

CTC:

1. How does the CTC fit into asset management and what role will it play in helping Caltrans to manage its assets holistically, rather than in silos?

LAO:

1. What suggestions do you have to help the Legislature better ensure that Caltrans fully implements a comprehensive asset management approach?

2. What accountability measures do you recommend the Legislature monitor to assess Caltrans' management of the maintenance of the state highway system's assets?

Staff Comment: Caltrans has had negative reports and findings in recent years, including a critical external review of the management of the department, newspaper articles about the Bay Bridge, and most recently, critical reports by the LAO and the State Auditor. The two recent reports by the LAO and the State Auditor highlight Caltrans' shortcoming in its current approach to asset management—arguably Caltrans' most important responsibility, given that the state highway system is largely built-out. The LAO and the State Auditor explain in detail, serious finding which have large implications for the department's inability to manage the state's highway system's assets in the most cost-efficient and cost-effective manner.

In addition to work Caltrans is doing internally to change how it manages its assets, the Legislature may wish to take steps to move Caltrans from setting spending goals for specific activities as an indicator of meeting performance measures to requiring Caltrans to measure its ability to maintain the state's assets based on service scores relative to factors such as traffic volume and climate. The Legislature also may want to direct Caltrans to reconsider if it is funding the highest priority work first and to report to the Legislature on ways that it can break down funding and program silos so that these do not drive how Caltrans manages its assets. Further, the Legislature may want to require Caltrans to develop and use a budget model for field maintenance activities and allocating funds to the 12 districts.

Finally, as part of a larger conversation about ensuring the state's transportation-related activities are operating as effectively and efficiently as possible, while achieving overall objectives, the Legislature may want to consider establishing an Office of Inspector General to provide oversight of transportation infrastructure departments and to serve as a catalyst for activities that promote accountability, integrity, and efficiency. This office would be responsible for conducting audits, investigations, and management reviews relating to the programs and operations of transportation infrastructure departments, such as Caltrans and the High-Speed Rail Authority.

Informational issue only.

Issue 2: Continuation of Transportation Bond Act Administration

Governor's Proposal: The Governor's budget proposes $6 million (Proposition 1B funds) and 39 positions in 2016-17 for Caltrans to continue administrative workload associated with Proposition 1B bond programs, a reduction of three positions from the current-year level. Unlike prior years, the Governor's proposal would generally authorize the requested positions over a five-year period, instead of for two years. The figure below shows the proposed number of positions and the associated funding requested by year. The 39 positions proposed for 2016-17 would gradually decline to 26 positions in 2020-21.

Governor's Proposed Proposition 1B Administrative Staffing Plan
(Dollars in Millions)

	2016–17	2017–18	2018–19	2019–20	2020–21
Positions	39	36	31	29	26
Expenditures	$6.1	$5.8	$5.7	$5.5	$5.2

Background: In 2006, voters approved Proposition 1B (Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006), which authorized the state to sell about $20 billion in general obligation bonds for various transportation projects. As specified in Proposition 1B, such projects include those intended to improve state highways and local roads, modernize and expand transit systems, improve rail and freight facilities, and mitigate transportation–related air pollution. Caltrans is responsible for administering a majority of the Proposition 1B programs with about 2,300 total projects. Most of the Proposition 1B projects that are administered by Caltrans are either complete or are currently under construction. Specifically, 1,333 projects have completed construction, 763 are under construction, and 230 have not yet started construction.

Since the passage of Proposition 1B, Caltrans has received staff resources for the increased workload associated with the bond programs, including administrative staff. These positions perform administrative work (such as accounting, auditing, and budgeting) that are necessary throughout the various phases of a project—including planning, design, construction, and closeout. For instance, Caltrans accountants process payments to local agencies and make final payment adjustments to close out capital projects. The Legislature has generally approved administrative staff requests for only two years at a time because (1) the bond programs are not permanent and (2) the level of staff needed has fluctuated over time as workload initially ramped up, then reached a peak, and is now declining. For example, the 2014-15 budget provided funding over a two-year period for 42 staff positions at Caltrans to administer Proposition 1B. These positions are set to expire at the end of the 2015-16 fiscal year.

LAO Comments: The LAO finds that the level of resources included in the Governor's budget for Proposition 1B administrative staff in 2016-17 and 2017-18 appear reasonable. The proposal also recognizes that Caltrans' need for administrative staffing will decline as workload is completed for the Proposition 1B programs. However, the LAO finds that the Governor's approach of requesting administrative staff and funding over a five-year period is subject to considerable uncertainty—particularly after 2017-18. This is primarily because several factors can change the timing and amount of administrative work that Caltrans must perform in the future. For example, savings on projects that finish under budget can be redirected to fund additional projects, resulting in additional administrative work for Caltrans.

Additionally, workload required to close out a project is not fully known until construction is complete and Caltrans has audited the project. Given that roughly 1,000 of Caltrans' Proposition 1B projects are not yet complete, the level of actual project closeout work could differ significantly from the Administration's assumptions.

The LAO recommends that the Legislature approve the Governor's proposal for only two years (2016-17 and 2017-18), rather than over a five-year period as requested. This approach would better ensure that appropriate resources are being provided to Caltrans to meet the needs required under Proposition 1B and allow the Legislature to revisit the department's Proposition 1B administrative staffing needs in a couple of years to ensure that the appropriate level of resources is provided.

Staff Comment: Staff agrees with the LAO comments and notes that approving Proposition 1B staffing resources on a two-year basis is consistent with past practice.

Staff Recommendation: Approve the Administration's request to fund 39 positions in 2016-17 and 36 positions in 2017-18 for the administration of Proposition 1B and reject funding for the proposed positions for years 2018-19, 2019-20, and 2020-21.

Vote:

Issue 3: Increased Funding for the UC Institute of Transportation Studies

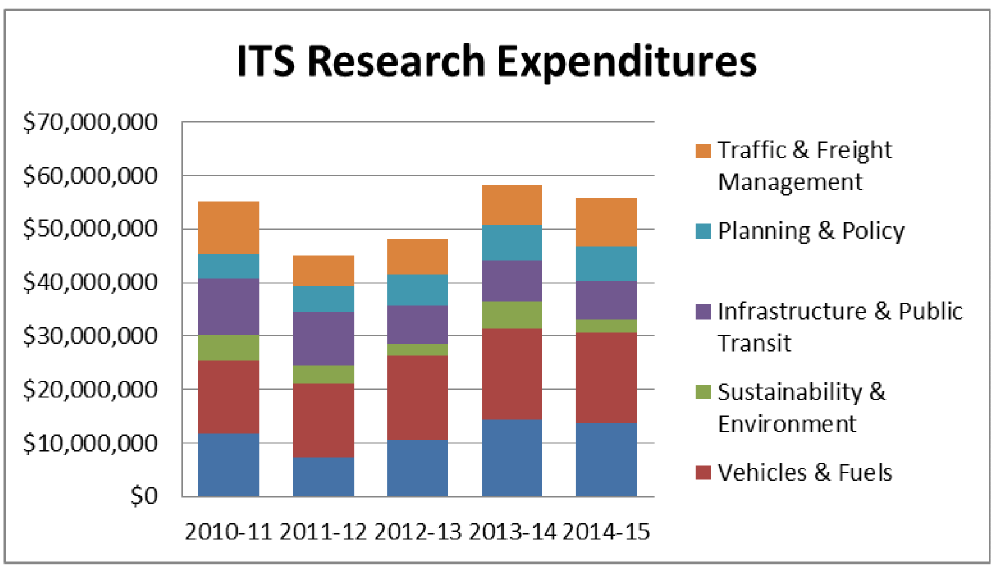
Governor's Proposal: No proposal.

Background: The Legislature established the Institute for Transportation and Traffic Engineering in 1947. The Institute for Transportation Studies (ITS, as it is now known) teams University of California (UC) researchers from more than 30 disciplines to advance the state of the art in transportation engineering and planning, to serve as a source of information to state, regional and local transportation agencies, and to provide knowledge transfer and continuous education to practicing transportation engineers and planners in California.

ITS has four branches—UC Berkeley, UC Davis, UC Irvine, and UCLA. ITS staff explore problems ranging from chronic traffic congestion to persistent air pollution, increasing climate change, impacts of local and global goods movements, and access for disadvantaged areas and groups.

The UC Regents have approved a request for a total ongoing funding augmentation of $9 million from the state's Public Transportation Account (PTA) that would be phased-in over three years in $3 million increments beginning in 2016-17, and includes an annual inflationary augmentation for future years.

According to UC, this request provides funding sufficient to establish permanent, ongoing programmatic infrastructure that will allow ITS to respond to state policy makers' requests for ad hoc guidance and to engage actively with California governments at all levels. ITS expenditures since 2010-11 by category of research are shown in the figure below. According to UC, this level of funding is inadequate for core functions and results in ITS being highly reactive to external funding opportunities and consequently its research is not explicitly focused on the state's transportation needs and priorities.



Competing Funding Priorities. The State Transportation Improvement Program (STIP) is a key planning document for funding future state highway, intercity rail and transit improvements throughout California. The STIP is funded with revenues from the Transportation Investment Fund and other funding sources including the PTA. In January 2016, the CTC approved a reduced estimate of projected funding available for the STIP by $754 million over the next five years. The commission's action marks the largest scaling back of the state's transportation program since the creation of the current funding structure nearly 20 years ago.

The revisions are the result of anticipated additional reductions in a portion of the gasoline excise tax which is the major source of state funding for the program. Set at a level of 18 cents a gallon just a few years ago, the price-based portion of the gas tax dropped to 12 cents per gallon last year. The estimate approved by the CTC projects that this revenue will fall another two cents a gallon for the coming fiscal year and that stabilization of this source may take longer than expected. Each penny reduction in the gas tax decreases revenue to fund state and local roads by about $140 million per year.

Approval of the ITS proposal would result in a further reduction of STIP funds by $45 million over the next five years.

Questions:

Caltrans:

1. Please discuss the interactions between PTA and STIP funding and trade-offs to consider when evaluating this proposal.

ITS:

2. Specifically what research would be funded with these additional resources?

Staff Comment: For many years, ITS has provided transportation research and analysis that supports and informs California's transportation policies and programs. State funding from the Public Transportation Account (PTA) for this type of research has not been increased for decades. With the current PTA funding, ITS leverages every dollar of the nearly $1 million annual appropriation it receives at a 30-to-1 ratio. However, there are significant tradeoffs to weigh. If a greater amount of funding goes to research, less STIP funding is available for transportation projects and the amount of STIP funding has recently been significantly reduced due to decreases in state gas tax revenues.

Staff Recommendation: Hold open.

Issue 4: State Transit Assistance Program Changes

Governor's Proposal: No proposal.

Background: The Transportation Development Act (TDA) provides two major sources of funding for public transportation: the Local Transportation Fund and the State Transit Assistance Fund (STA). These funds are for the development and support of public transportation needs that exist in California and are allocated to areas of each county based on population, taxable sales and transit performance.

STA funds are generated by the sales tax on diesel fuel, and the amount of money available for transit agencies varies from year to year based on the ups and downs of diesel prices. The State Controller's Office (SCO) appropriates STA funds to the 26 regional transportation planning agencies (RTPAs) across the state as follows:

- Fifty percent of STA funds are allocated based on their share of the population as defined by Public Utilities Code (PUC) 99313.

- Fifty percent of STA funds are allocated based on transit operators' revenues as defined by PUC 99314.

Operators have full discretion over the use of TDA and most of STA apportioned to them. Funds may be used by transit operators for both capital projects and transit operations. For most smaller transit agencies, TDA and STA are their main sources of operating funds.

The SCO recently reinterpreted the statutes that define how STA funds are distributed and implemented a significant change in the way STA program funds are allocated. This change went into effect the first quarter of 2015-16 for payments which were issued in January of 2016. The change altered the way STA funds have been distributed for decades and created winners and losers among transit operators. For example, the changes to the STA payments have resulted in net windfalls in unanticipated funding for some transit operators, for others the change resulted in major reductions in funding.

Questions:

1. Does the Administration have any concerns about adopting trailer bill language that would pause the current way of putting money out and return STA to the previous allocation methodology to allow for a policy bill to move through the process that would provide clarity on how these funds are distributed and to whom?

Staff Comment: The SCO's recent changes to how it allocates STA funds to transit operators occurred suddenly and without any opportunity for legislative or public review and comment. Both the California Transit Association and RTPAs have raised concerns about these changes that resulted in STA funding levels, which have historically been a predictable source of state transit operating funding, becoming volatile.

In order to maintain STA as a stable source of transit operator funding, statutory changes that clarify how STA is allocated are necessary. Making these changes through the policy bill process may take some time and in order to ensure that all necessary changes are made. The subcommittee may wish to adopt trailer bill language to “pause” the SCO’s reinterpreted allocation methodology until statutory clarifications are enacted.

Staff Recommendation: Adopt placeholder trailer bill language that requires the SCO for purposes of determining the amount of STA to distribute in the 3rd and 4th quarters of fiscal years 2015-16 and 2016-17, to use the same recipients and the same proportional shares as used in the fourth quarter of 2014-15. Staff notes that the length of time to use the previous methodology of allocating STA is still under consideration.

Staff Recommendation: Hold open at this time.

Vote:

2740 DEPARTMENT OF MOTOR VEHICLES

Department Overview: The DMV is responsible for registering vehicles, issuing driver licenses, and for promoting safety on California's streets and highways. Currently, there are 24 million licensed drivers and about 30 million registered vehicles in the state. Additionally, DMV licenses and regulates vehicle–related businesses, such as automobile dealers and driver training schools, and collects certain fees and tax revenues for state and local agencies.

Budget Summary: The Governor proposes total expenditures of $1.1 billion (no General Fund), which is about three percent less than the estimated level of spending in the current year. This is due to certain one–time spending in 2015-16. The level of spending proposed for 2016-17 supports about 8,300 positions at DMV.

Issue 1: Motor Vehicle Account (MVA) Fund Condition

Governor's Proposal: The Administration estimates a MVA operational shortfall of about $310 million in 2016-17 (assuming no new revenue or expenditures). If unaddressed, the ongoing shortfalls would result in the MVA becoming insolvent in 2017-18. In order to help address this problem, the Governor proposes to trailer bill language to increase MVA revenues by increasing the base vehicle registration fee. The Governor also proposes new MVA expenditures as discussed below.

Increased Revenues. The Governor proposes to increase the base vehicle registration fee by $10 (from $46 to $56), effective January 1, 2017, and to index the base registration fee to the Consumer Price Index (CPI), beginning in 2017-18, allowing the fee to automatically increase with inflation, similar to the CHP fee and the driver license fee. The Governor's budget assumes that the increased fee will generate about $80 million in 2016-17, and about $360 million upon full implementation in 2017-18.

Increased Expenditures. The Governor's budget includes proposals that would increase MVA expenditures. The major expenditure proposals are discussed in more detail later in this agenda.

Background: The MVA supports the state's activities related to the administration and enforcement of laws regulating the operation or registration of vehicles used on public streets and highways, as well as to mitigate the environmental effects of vehicle emissions. Due to expenditures outpacing revenues, the MVA faced an operational shortfall in 2015-16 of about $300 million, which was addressed through the one-time repayment of $480 million in loans that were previously made from the MVA to the General Fund. Absent corrective actions, the account would again experience an operational shortfall in 2016-17. The figure below shows the current and projected fund balance of the MVA under the Governor's budget proposal.

Motor Vehicle Account Fund Balance Forecast
(as of January 2016, dollars in millions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
BEGINNING RESERVES	$445	$299	$472	$201	$131	$110	$120
REVENUES AND TRANSFERS							
$10 Fee Increase			$79	$359	$398	$437	$477
Registration Fee	$2,653	$2,710	$2,764	$2,822	$2,882	$2,943	$3,005
Other Fees	$542	$538	$472	$547	$573	$573	$582
Total Fee Revenue	$3,195	$3,248	$3,315	$3,728	$3,853	$3,953	$4,064
General Fund Loan	$0	$480	$0	$0	$0	$0	$0
Transfers To Other Funds	-$69	-$71	-$76	-$80	-$82	-$84	-$85
Total Revenues/Transfers	$3,126	$3,657	$3,239	$3,648	$3,771	$3,869	$3,979
Total Resources	$3,571	$3,956	$3,711	$3,849	$3,902	$3,979	$4,099
EXPENDITURES							
CHP	$1,976	$2,104	$2,160	$2,241	$2,325	$2,412	$2,502
DMV	$1,044	$1,080	$1,054	$1,065	$1,076	$1,086	$1,097
ARB	$121	$124	$124	$126	$129	$132	$134
Other	$97	$67	$85	$87	$89	$90	$92
Cap Outlay/Facilities	$34	$109	$87	$199	$173	$139	$188
Expenditure Total	**$3,272**	**$3,484**	**$3,510**	**$3,718**	**$3,792**	**$3,859**	**$4,013**
Reserve	**$299**	**$472**	**$201**	**$131**	**$110**	**$120**	**$86**

Revenues. The MVA receives most of its revenues from vehicle registration fees. In 2015-16, $3.2 billion in revenues are estimated to be deposited into the MVA, with vehicle registration fees accounting for about $2.3 billion (72 percent), as shown in the figure above. Vehicle registration fees currently total $70 for each registered vehicle, which consists of two components:

- ***Base Registration Fee ($46).*** The state charges a base registration fee of $46, with $43 going to the MVA and $3 going to support certain environmental mitigation programs. The base registration fee was last increased in 2011 by $12 (from $34 to $46).

- ***CHP Fee ($24).*** The state also charges an additional fee of $24 that directly benefits CHP. In 2014, this fee was increased by $1 (from $23 to $24) and was indexed to the CPI.

The MVA also receives revenue from driver license fees. Revenue from these fees fluctuates based on the number of licenses renewed each year. In recent years, such revenue has averaged about $300 million annually, accounting for roughly 10 percent of total MVA revenues. The current driver license fee is $33 and was last increased by $1 in 2014. The driver license fee is also indexed to the CPI. The remaining MVA revenues primarily come from late fees associated with vehicle registration and driver license renewals, identification card fees, and miscellaneous fees for special permits and certificates (such as fees related to the regulation of automobile dealers and driver training schools).

The use of most MVA revenues is limited by the California Constitution to the administration and enforcement of laws regulating the use of vehicles on public highways and roads, as well as certain other transportation uses. However, roughly $70 million of the miscellaneous MVA revenue sources are not limited by constitutional provisions. Because they are available for broader purposes, these revenues are not retained in the MVA, and due to budgetary shortfalls beginning in 2009-10 were transferred to the General Fund.

Expenditures. The MVA primarily provides funding to three state departments—CHP, DMV, and the Air Resources Board—to support the activities authorized in the California Constitution. In recent years, expenditures from the MVA have increased. Some of these increases affect the MVA only in the short run (such as increased limited-term funding to DMV for the implementation of AB 60 (Alejo), Chapter 524, Statutes of 2013). Others create longer-term cost pressures on the MVA that can extend several years. These ongoing cost drivers include:

- ***CHP Officers' Salary Increases.*** The state and the union representing CHP officers negotiated a memorandum-of-understanding (MOU) in 2013 that provides salary increases for CHP officers annually from 2013-14 through 2018-19. The MOU specifies that the increases are determined by calculating the weighted average of the salaries of the state's five largest local police agencies. As a result, CHP officers received average salary increases of five percent a year in both 2013-14 and 2014-15, increasing ongoing MVA costs by $10 million.

- ***CHP Air Fleet Replacement.*** As part of the air fleet replacement plan for CHP's 26 aircraft, the Legislature approved $17 million in 2013-14, $16 million in 2014-15, and $14 million in 2015-16. Under the plan, the funding level for air fleet replacement will remain at $14 million in 2016-17, and decline to $8 million in 2017-18 and remain at that level on an ongoing basis.

- ***CHP Area Office Replacement.*** In 2013-14, the Legislature approved $6.4 million for the Administration's multiyear plan to replace existing CHP area offices. The funding supported the acquisition of land for one new office and the advanced planning to replace five additional offices. For these five offices, the Legislature subsequently approved $32.4 million in 2014-15 for the acquisition of land, $137 million in 2015-16 for the design and construction of these facilities, and funding for advanced planning for up to five additional facilities. The Administration's Five-Year Infrastructure Plan includes estimated capital costs for CHP of $789 million MVA over the next five years.

- ***DMV Field Office Replacement.*** In 2015-16, the Legislature approved $4.7 million to initiate the Administration's multiyear plan to replace existing DMV field offices. The funding supported pre-construction activities to replace three DMV field offices. The Administration's Five-Year Infrastructure Plan includes estimated capital costs for DMV of $496 million MVA over the next five years.

LAO Comments: The LAO finds that the Legislature will need to take steps to address the ongoing shortfall in the MVA and prevent insolvency. While the Governor's approach is one way of addressing the shortfalls in the near term, there are alternatives, and under the Governor's approach, the LAO estimates that the MVA would likely face an operational shortfall in the tens of millions of dollars by 2019-20. Based on this, the LAO recommends the Legislature consider taking actions to ensure that the MVA is sufficiently balanced in both the near and long-term. The Legislature could address such shortfalls by adopting a mix of the following strategies:

- ***Reduce or Limit MVA Expenditures.*** One approach to addressing the shortfalls in the MVA is to reduce expenditures or slow the pace of spending growth. Even a modest reduction to the pace of spending growth could significantly help the MVA's condition in the future. For example, the Legislature could defer the start of new capital projects to replace CHP and DMV facilities, or approve fewer new projects in future years than are included in the 2016 Five-Year Infrastructure Plan.

- ***Increase MVA Revenues.*** As proposed by the Governor, the Legislature could increase the vehicle registration fee. In determining an appropriate fee increase, it will want to consider the potential fiscal impacts on vehicle owners. The Legislature could also choose to increase non–registration MVA fees, such as driver license fees.

- ***Eliminate General Fund Transfer.*** As mentioned earlier, the MVA receives roughly $70 million in miscellaneous revenues that are not limited in their use by the California Constitution. Under existing law, these revenues are transferred to the General Fund, making them unavailable to support MVA expenditures. The Legislature could change state law in order to keep these revenues in the MVA.

Questions:

LAO:

1. Please present your concerns about the Administration's proposal to address the fund condition of the MVA and your recommendations to the Legislature about alternative ways to address the future shortfall.

DOF:

1. What are the risks of delaying some of the CHP and DMV field office replacements? What benefit to the solvency of the MVA would project delays of a year or two have on the fund condition of the MVA? Would delays potentially result in increased costs and if so, what is the order of magnitude of these costs?

Staff Comment. Staff agrees with the LAO comments that the Legislature will need to take actions to ensure the future solvency of the MVA. The Legislature may want to consider approving the vehicle registration fee increases proposed by the Administration and taking other actions to reduce the cost-pressure on the MVA in the future, such as approving fewer new capital outlay projects and eliminating the transfer of about $70 million MVA funds to the General Fund.

Staff Recommendation: Hold open.

Vote:

Issue 2: Self-Service Terminal Expansion Project

Governor's Proposal: The Governor proposes $8 million from the MVA on an ongoing basis to fund existing and increased costs related to self-service terminals. The proposal is part of an overall plan to expand the use of self-service terminals as an alternative for customers who would otherwise handle their transactions in DMV field offices. The DMV plans to increase the number of self-service terminals by 30 to 50—for a total of between 80 and 100 total terminals statewide. These new terminals would be placed in businesses around the state, such as grocery stores or convenience stores, to provide greater access to DMV services.

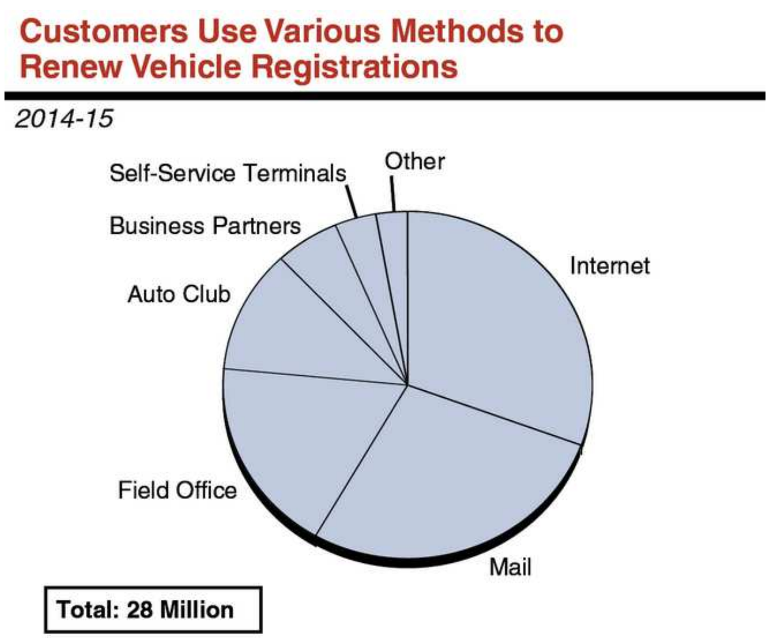
Specifically, the proposed $8 million includes the following:

- $4.4 million to support the existing costs of the $3.75 vendor transaction fee at the current level of 1.2 million self-service terminal transactions. These have historically been paid for from existing resources within DMV's base budget.

- $3.6 million to fund increased costs in 2016-17 from the proposed expansion of self-service terminals. This amount includes funding to pay the $3.75 vendor transaction fee for roughly 1 million additional transactions estimated to occur from the expansion, as well as for the installation and training costs related to the new terminals.

Background: DMV handles about 30 million vehicle registration renewal transactions each year. Customers can renew their registration through one of the several options currently available to them. These include mailing in renewals or coming into field offices or auto clubs, and completing renewals over the internet and through self-service terminals and business partners.

The figure below shows the proportion of registration renewal transactions that were completed in 2014-15 under each service option.

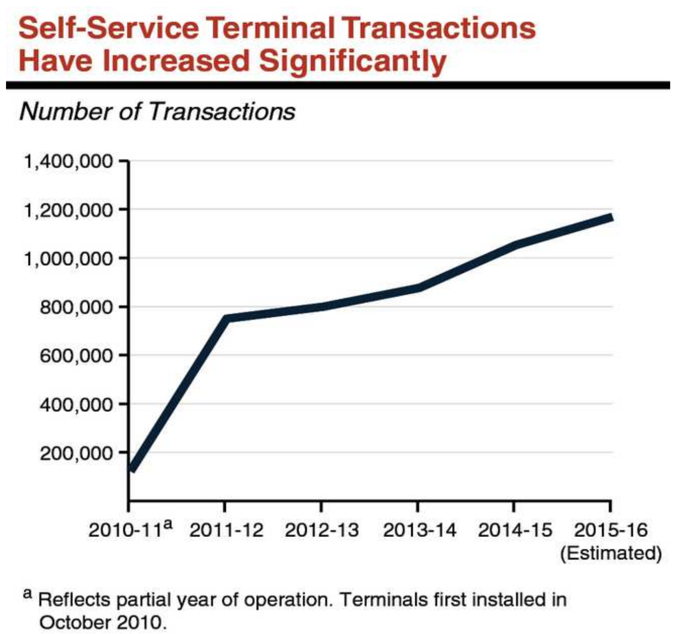


Source: Legislative Analyst's Office

Self-Service Terminals at DMV. Self-service terminals, which allow customers to process their vehicle registration renewal transactions at a kiosk, make up about four percent of total transactions. The DMV's 50 existing self-service terminals are located inside DMV field offices, accept multiple payment methods including cash, and provide a registration card and sticker to the customer upon completion of the renewal. These terminals can be a convenient alternative to DMV field office staff and, according to DMV, can be especially helpful to customers who are paying with cash or those who wait until the deadline to renew their registration.

DMV's costs for self-service terminal transactions includes a reported $5.62 in administrative costs for DMV and a $3.75 service fee that DMV pays to the vendor that provides and maintains the terminals. Under DMV's existing contract for its 50 self-service terminals, the vendor provides the self-service terminals at no initial cost to the state, but charges DMV a $3.75 fee for each transaction completed at a terminal. (In contrast, the average cost for a business partner transaction does not include a service fee as this is paid, on top of the base registration fee, directly by the customer to the business partner.) Based on the expected number of transactions, DMV estimates self–service transactions will cost a total of $11 million in the current year: about $6.6 million in administrative costs and $4.4 million in transaction fee payments to the vendor.

Use of Self-Service Terminals Has Increased Significantly. In October 2010, DMV administratively redirected resources within its base budget to fund the installation of 25 self-service terminals. Subsequently, the department redirected additional resources to double the number of self-service terminals to 50. The figure below shows the number of transactions processed through self-service terminals since they were first implemented. While the total number of transactions processed through self-service terminals is small compared to other service options, use of the terminals has increased significantly during the six years that they have been in operation—from 124,000 transactions in 2010-11 to an estimated 1.2 million transactions in 2015-16.



Source: Legislative Analyst's Office

Self-Service Terminals Are Cost-Effective. The base registration renewal fee charged to customers is the same regardless of the method the customer chooses to process the renewal. However, DMV's costs to process vehicle registration transactions differ significantly by processing method. Specifically, field office staff transactions are the most costly, with the average field office transaction for a registration renewal costing $23.63. In comparison, transactions processed at self-service terminals have an average cost of about $9.37 per transaction. Internet and mail transactions are the least costly at an average cost of $4.54 and $3.69 respectively.

LAO Comments: The LAO finds that expanding the use of self-service terminals, including to locations outside of DMV field offices and outside of DMV's regular business hours, has merit. Doing so would provide greater access to DMV's customers by providing additional options to complete DMV transactions. In particular, these terminals could assist customers who pay with cash, and those who wait until the deadline to renew their registration—two of the main reasons why customers currently renew their registration in a field office. Because transactions processed through a self-service terminal have lower costs than field office transactions, expanding the use of self-service terminals could also result in operational efficiencies and savings.

The LAO raises two concerns with the Governor's proposal. First, that the DMV has provided little information about its plan to expand self-service terminals, specifically information on the sequencing plan, the location of terminals, and the estimated level of savings from expanding this technology. The LAO finds that the absence of a complete implementation plan makes it difficult for the Legislature to assess the full costs of the proposal, make appropriate adjustments to DMV's budget to account for workload shifted out of field offices, and to ensure that the expansion of self-service terminals meets legislative priorities.

Second, the LAO finds that the proposed $8 million increase is not justified and that DMV has not attempted to account for reduced field office visits associated with the use of self-service terminals. The LAO estimates that if all transactions from existing terminals directly offset the need for field office transactions and DMV was able to make sufficient adjustments to account for the lower field office workload, DMV would save up to $17 million annually. At the projected higher level of transactions under the Governor's proposal, savings could be as much as $29 million. While it is unlikely that DMV could fully capture these savings in the short run, because some of their field office costs are fixed (such as facilities costs), the department could achieve a portion of these savings in the short run, and potentially more in the longer run. Additionally, LAO notes that $4.4 million of the amount requested is already funded from DMV's base budget as a result of various redirections. The LAO also notes that under the Governor's proposal, about two million motorists are estimated to use self-service terminals. However, the costs of the self-service terminal transaction fee would effectively be spread across all registered vehicle owners rather than just those who actually use the terminals.

Finally, the LAO recommends that the Legislature reject the Governor's proposal for $8 million from the MVA to support the costs of existing self-service terminals, as well as those of additional terminals. The LAO notes that DMV could continue to fund the existing self-service terminals and expand the number of terminals without this funding augmentation. The LAO also recommends that the Legislature require DMV to develop a detailed plan on the use and expansion of self-service terminals. In order to ensure the Legislature receives the plan in a timely manner, the LAO recommends adopting budget bill language requiring DMV to submit the plan by January 10, 2017. The language should also specify that DMV shall not proceed with its expansion plan until it is submitted to and reviewed by the Legislature.

Specifically, the plan should include (1) a sequencing strategy (including the approach and timing for increasing functionality of the terminals and how that relates to expanding the number of terminals), (2) DMV's assessment of which locations are good candidates for self-service terminals and the criteria DMV used to determine these locations, and (3) how DMV intends to account for the cost savings generated from the use of self-service terminals and identify the adjustments necessary to reflect a reduction in field office workload. As the Legislature evaluates this plan, it will also want to consider the potential benefits and limitations of passing the cost of self-service terminals on to the customers who benefit from the convenience of using the kiosks, rather than spreading these costs among all registered vehicle owners.

Questions:

- How does the use of SSTs fit into DMV's business model?

- The vendor is reimbursed by the state for each transaction. As a result, the vendor has an incentive to locate terminals where they will receive the greatest number of transactions. How will DMV ensure that the locations the vendor identifies for the placement of SSTs meet the needs of underserved populations, such as individuals who do not live near a DMV office or persons who do not have a regular bank account?

Staff Comments: Staff agrees with the concerns raised by the LAO about the lack of an expansion plan for SSTs. A comprehensive long-term plan would help to ensure that DMV is implementing the most cost-effective and accessible options for processing transactions. Such a plan would help DMV to better prepare for expanding the use of SSTs and enable the Legislature to plan for future budget requests. Because any expansion of automated processing options could potentially significantly reduce the need for staff to process transactions and keep to a minimum expansions of office space that may be needed in the future, such a plan should also consider these factors.

The Legislature would also benefit from receiving information about savings from the use of SSTs so that it can determine whether to redirect staff who are "freed up" when processes are automated or to achieve savings by reducing position authority. Staff notes that the April Finance Letter (discussed later in this agenda) proposes to uses the eight staff DMV states are "freed up" by the expansion of SSTs to implement federal REAL ID requirements.

Staff Recommendation: Hold open.

Issue 3: New Motor Voter Program

Governor's Proposal: The Governor proposes $3.9 million General Fund for implementation of AB 1461 (Gonzales), Chapter 729, Statutes 2015.

Specifically, the $3.9 million is for the following:

- $424,000 for 3.7 positions.
- $1.3 million for driver license/ identification card (DL/ID) and change of address forms reprint and/or destruction.
- $1.7 million for imaging machine replacement and maintenance contract and facilities cost for new cabling.
- $457,000 for DMV DL/ID systems software modification and update.

Background: The National Voter Registration Act (NVRA) of 1993 mandated that all 50 states make it easy for U.S. citizens to register to vote when applying for a DL/ID card. This mandate include the requirement to offer the voter registration option to every customer who applies for a DL/ID card. This resulted in revisions to DMV's DL/ID card application, which currently includes a section that asks "Do you wish to register to vote or to update your voter record?" The applicant must indicate that he or she:

1. Is registering to vote for the first time or is requesting a voter registration change (name change or change in political party).
2. Does not wish to register to vote or change the voter registration address.
3. Requests the department to update the voter registration address to a new county.
4. Requests the department to update the voter registration address within the same county.

The DMV mails all completed voter registration forms to local election officials. The department currently provides files to the Secretary of State (SOS) on all DL/ID card holders approaching their 18^{th} birthday. The SOS then follows up by communicating to individuals regarding his or her right to vote. A voter registration affidavit is also enclosed with DL renewal notices. The department assists with online voter registration through the SOS's website by providing the SOS with a copy of a DL/ID card holder's digitized signature in order to complete the online voter registration process.

AB 1461 Requires DMV to Register all Eligible Applicants to Vote (Unless They Decline.) AB 1461 requires the DMV to electronically transmit to the SOS specified information related to voter registration, including the applicant's name, date of birth, address, digitized signature, email address, telephone number, language preference, and other voter registration related information, as well as whether the applicant affirmatively declined to register to vote.

Changes to DMV Processes from AB 1461. The costs that will be incurred by DMV for implementation of AB 1461 are related to the reengineering of current processes, new hardware, software, and equipment, as well as systems programming. Due to the requirement of needing additional customer information, DMV will eliminate the current practice of combining change of addresses for DL/ID cards and vehicle registration (VR) on a single form. Instead, each process (DL/ID and VR) will have separate forms and separate work streams. The change of address forms processed through the mail will now require additional time to key a significant number of new data elements to complete the voter registration portion, adding to the overall transaction time. The current renewal-by-mail process for DL/ID cards involving a tear-off stub will be replaced by a full-page form that contains all necessary elements for renewal of a DL/ID card and construction of a data file for SOS. In order to collect the voter registration information for renewal-by-mail transactions, the department will need to purchase new automated mail processing machines to handle the full-size form and number of data elements. This will create an additional headquarters processing workload for both the operation of the machines and the technician review of forms when the automated system cannot read all data elements.

AB 1461 specifies that DMV shall complete implementation one year after the SOS certifies all of the following:

- The state has a statewide voter registration database that complies with the requirements of the federal Help America Vote Act of 2002.

- The Legislature has appropriated the funds necessary for the SOS and DMV to implement and maintain the California New Motor Voter Program.

- The SOS has adopted regulations to implement the provisions of the bill.

As of February 2016, SOS estimates the earliest date to begin implementation would be July 1, 2016.

Questions:

1. Please provide an update on DMV’s implementation of the new Motor Votor Program and an update on the Secretary of State’s progress implementing the federal Help America Vote Act requirements, including the development and adopting of regulations.

2. Will DMV provide data to the Legislature on the number of individuals that register to vote, and how many individuals proceed with the second stage of the process and provide language and party preference information.

Staff Comment: It will be important for the Legislature to continue oversight of the implementation of this new program, especially given the coordination that is required with the Secretary of State.

Staff Recommendation: Hold open.

Issue 4: Amendments Supporting the Green and White High-Occupancy Vehicle Decal Program (trailer bill language)

Governor's Proposal. The Governor's budget proposes trailer bill language would make the following changes to current law related to the Green and White High-Occupancy Vehicle (HOV) Decal Program:

- Remove the limit of 85,000 on the number of decals available for the green vehicle decal program and allow eligible vehicles to receive decals until the program's expiration on January 1, 2019.

- Extend the white sticker program until October 1, 2025 making it consistent with current federal law that was amended by the federal Fixing America's Surface Transportation (FAST) Act.

- Require Caltrans to prepare and submit a report to the Legislature, on or before December 1, 2017, on the degradation status of the HOV lanes on the state highway system.

Background: AB 71 (Cunneen), Chapter 330, Statutes of 1999 authorized allowing single-occupant, clean air vehicles access to HOV lanes. The intent of the initial and subsequent legislation was to incentivize the purchase of clean air vehicles. Currently, the DMV distributes two types of decals.

- White Clean Air Vehicle decals are available to an unlimited number of qualifying federal Inherently Low Emission Vehicles. Cars meeting these requirements are typically certified pure zero emission vehicles (100 percent battery electric and hydrogen fuel cell) and compressed natural gas vehicles. An unlimited number of decals are available for these vehicles.

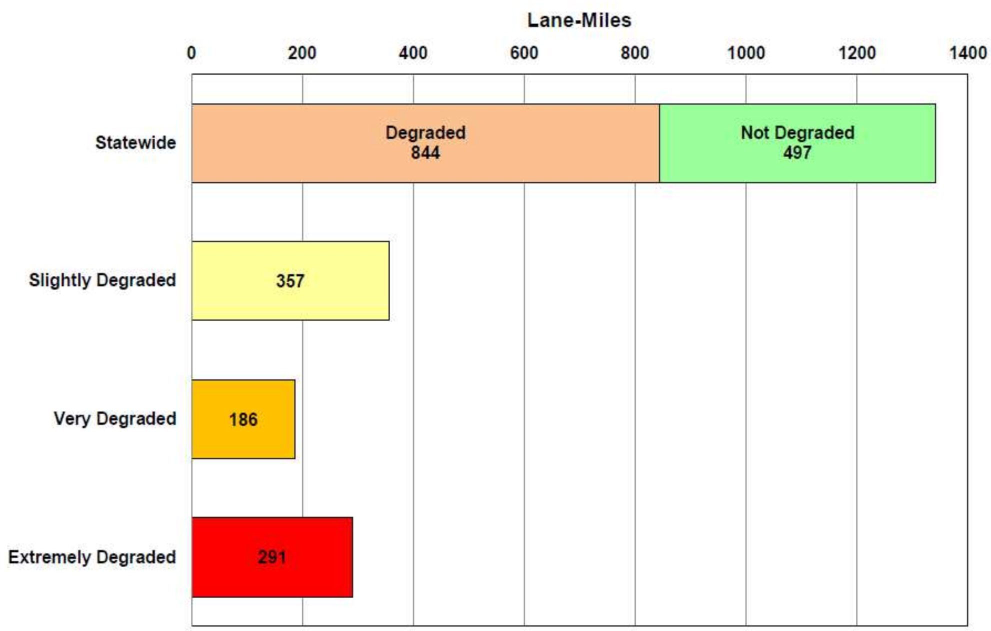
- Green Clean Air Vehicle decals are available to applicants that purchase or lease cars meeting California's transitional zero emission vehicles requirement, also known as the enhanced advanced technology partial zero emission vehicle requirement. Per SB 853 (Committee on Budget and Fiscal Review), Statutes 2014, Chapter 27, the green decal limit was increased by 15,000 to 55,000 decals effective July 1, 2014. Per AB 2013, (Muratsuchi), Chapter 527, Statutes of 2014, effective January 1, 2015, an additional 15,000 decals were made available for a new maximum of 70,000. The cap was increased in the 2015 Budget Act and the current cap on Green Clean Air Vehicle decals is 85,000.

Lane Degradation. The California Department of Transportation (Caltrans) prepared the "2014 California High-Occupancy Vehicle Lane Degradation Determination Report" (www.dot.ca.gov/hq/traffops/trafmgmt/hov/files/degrd_rept/2014-HOV-degradation-report.pdf) to report the performance of the HOV network in California as required by federal regulations. Federal law authorizes states to allow inherently low-emission vehicles (ILEVs), certain gasoline/electric plug-in hybrid vehicles, and toll-paying vehicles to access HOV lanes without meeting occupancy requirements. States that allow these exempted vehicles to use HOV lanes are required to monitor and report on the performance of those lanes.

By federal definition, an HOV lane is considered degraded if the average traffic speed during the morning or evening weekday peak commute hour is less than 45 miles per hour (mph) for more than 10 percent of the time over a consecutive 180-day period. In other words, the HOV lane's average traffic speed cannot drop below 45 mph for more than two weekdays each month. If the lane is considered degraded, then the state must limit or discontinue the use of the lane by the exempted vehicles or take other actions that will bring the operational performance up to the federal standard within 180 days after identification of the lane being degraded.

The most recent (2014) report found that during the first half of 2014, from January through June, approximately 59 percent (784 of 1,326 lane-miles) of monitored HOV lane segments were degraded and 41 percent (542 lane-miles) were not degraded. More than half of the degraded segments, 54 percent, were categorized as slightly degraded (420 of 784 total degraded lane-miles). For the second half of 2014, from July through December, approximately 63 percent (844 of 1,326 lane-miles) of all monitored HOV lane segments were degraded and 37 percent (497 lane-miles) were not degraded. Similar to the first half of the year, slightly degraded facilities accounted for the majority of all degradation, at 42 percent (357 of 844 total degraded lane-miles). The results for the second half of 2014 are shown in the figure below. The study also found that from 2013 to 2014, the number of degraded lane-miles increased approximately seven percent from 788 to 844.

STATEWIDE DEGRADATION SUMMARY BY CATEGORY
JULY 1 TO DECEMBER 31, 2014



NOTE: 1,341 lane-miles total.

The analysis suggests that factors contributing to degradation include:

- Recurrent congestion on the highway.
- Motorists from the general-purpose lanes merging into the lane near the end of an HOV facility and backing up traffic into the HOV lane.
- Lane change conflicts from motorists who attempt to enter or exit the HOV lanes.
- Traffic disruptions on the highway due to severe weather or traffic incidents, both on or outside of HOV lanes. Caltrans continues to investigate a long-term methodology to systematically identify such occurrences and exclude the freeway segments from degradation analysis.

Caltrans also found that the connection between exempted vehicles and degradation has yet to be established. Traffic counts indicate that exempted vehicles constitute a relatively small percentage of the peak hour HOV volume and are dispersed throughout the HOV network statewide.

Staff Comment: Some have raised concerns that allowing an increase in the number of single-occupant, clean air vehicles that access HOV lanes could result in lane degradation. While Caltrans has found lane degradation on its highways, it also finds that that the connection between exempted vehicles and degradation has yet to be established and it attributes degradation to other factors.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5: Capital Outlay: Field Office Replacements

Governor's Proposal. The Governor's budget requests a total of $5.6 million from the MVA for various phases of four DMV field office replacement projects. Specifically:

- $4.3 million is for the design phase of the three DMV office replacement projects (Inglewood, Santa Maria, and Delano) approved by the Legislature in the current year.

- $1.3 million is for preliminary plans to initiate a fourth DMV field office replacement project in San Diego. The proposed facility is 18,540 square feet, will be built on the same site as the existing field office, and will replace a 15,467 two–story office built in 1961.

The cost of constructing the four facilities above is estimated to be about $52 million, which the administration plans to request in future budgets.

Background: The DMV operates 313 facilities, which include customer service field offices, telephone service centers, commercial licensing facilities, headquarters, and driver safety and investigations offices. Over half of DMV facilities are customer service field offices. According to DMV, most of its field offices are programmatically deficient. For example, the department reports that many customer service field offices were built in the 1960s and 1970s and are not sufficiently sized to accommodate the number of customers who currently use the offices. This is primarily because of population increases in the areas served by the offices. In addition, DMV reports that certain customer service field offices are seismically deficient, creating safety risks.

The Administration's Five-Year Infrastructure Plan proposes $496 million from the MVA over the next five years to begin the renovation and replacement of deficient field offices and a Sacramento facility, as well as to construct two new consolidated drive test centers.

LAO Comment: The LAO finds that some of DMV's existing field offices have deficiencies that merit their replacement in the near future. However, the MVA is facing an operational shortfall and although the Governor proposes to increase MVA revenues by raising the vehicle registration fee, the LAO estimates that under the Governor's proposal (including the cost to replace the four DMV facilities), the MVA will be barely balanced over the next few years and likely have an operational shortfall in the tens of millions of dollars by 2019-20.

The LAO recommends that the Legislature consider the proposed DMV field office replacement projects in the context of a larger strategy for resolving the operational shortfall in the MVA. The Legislature may want to reduce MVA expenditures in order to help address shortfalls in the fund. As such, the Legislature may want to consider deferring the replacement of DMV field offices. Another approach for the Legislature to consider is to limit the number of additional DMV field office replacement projects it approves in the future.

Staff Comment: Staff concurs with the LAO analysis and recommendation.

Staff Recommendation: Hold open and direct the Administration to come back at the time of May Revise hearings with a prioritization of its 2015-16 budget requests and a strategy for ensuring the long-term solvency of the MVA.

Issue 6: REAL ID Implementation (April Finance Letter)

Governor's Proposal: The Governor's April Finance Letter requests $4.6 million MVA and 70 positions on an ongoing basis to begin the process of implementing AB 1465 (Gordon), Chapter 708, Statutes of 2015. AB 1465 authorizes DMV to require proof of residency for all original driver license and identification (DL/ID) card applications beginning July 1, 2016.

The proposal also requests that budget bill language be added to allow the Administration to increase this item when necessary to support activities associated with federal REAL ID compliance. No augmentation could be made any sooner than 30 days after the Joint Legislative Budget Committee has been notified in writing.

Background: Congress enacted and the President signed H.R. 1268-"Real ID Act of 2005" on May 11, 2005, which is designed to improve the security of driver's licenses and identification cards issued by individual states. The act includes certain minimum document and license issuance requirements, and it provides that only persons with legal presence status can be issued a DL/ID card. A state, however, can issue a DL/ID card to an undocumented immigrant, providing the license meets certain appearance requirements and clearly states that it cannot be used for any other official purpose.

DMV receives approximately 1.5 million original DL/ID card applications annually and does not require proof of residency for the issuance of a card; however, that will change with the implementation of AB 1465. Currently the only DLs that mandate proof of residency are for what is commonly referred to as "AB 60 applicants". AB 60 (Alejo), Chapter 524, Statutes of 2013, requires DMV to issue an original driver's license to an applicant who is unable to demonstrate proof of legal presence in the United States, if that person meets all other qualifications for licensure and provides satisfactory proof of identity and California residency. An AB 60 driver's license is valid only for driving purposes and cannot be used for identification or federal purposes.

Existing state law generally requires applicants to submit satisfactory proof of legal presence status under federal law, such as a birth certificate or approved immigration documents. Applications for the issuance or renewal of a DL/ID card must contain a section for the applicant's social security number (SSN). DMV is prohibited from accepting an application without a verified SSN unless the application was submitted with documents establishing legal presence and the Department of Homeland Security (DHS) verifies that the person is in the country legally, but not authorized to work. However, REAL ID standards go beyond these requirements. Initially compliance with REAL ID standards was to take effect January 15, 2013. However, federal DHS has determined that 21 states meet REAL ID Act standards, but the remaining states, including California, have been granted a deferment until October 1, 2020.

Questions:

1. Why is budget bill language authorizing the augmentation of additional funds to support federal REAL ID compliance necessary? Why can't DMV determine at this time what additional resources it will need for 2016-17?

Staff Comments: DMV has determined that implementation of AB 1465 will require 78 positions; however, this request is only for funding and position authority for 70 positions because under its proposal, eight positions would be redirected from efficiency achieved by expanding self-service terminals, as discussed earlier in this agenda.

Staff Recommendation: Hold open.

2720 DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

Department Overview: The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic and goods on the state's highway system and county roads in unincorporated areas. The department also promotes traffic safety by inspecting commercial vehicles, as well as inspecting and certifying school buses, ambulances, and other specialized vehicles. The CHP carries out a variety of other mandated tasks related to law enforcement, including investigating vehicular theft and providing backup to local law enforcement in criminal matters. Operations are divided into eight geographic divisions around the state.

Budget Overview: The Governor's budget proposes total expenditures of $2.4 billion (no General Fund) and 10,733 positions (of these about 7,500 are uniformed officers), which is about the same level as provided in the current year.

Issue 1: Capital Outlay: Advanced Planning and Site Selection, Funding for Three Area Office Replacements, and April Finance Letter Office Replacement

Governor's Proposal: The Governor's budget provides about $31.1 million from the MVA to fund site acquisition and preliminary plans for new CHP offices in Hayward, Ventura, and El Centro. These three facilities were identified through the site selection process and advanced planning funding provided in 2014-15. Also included in this amount is the Administration's request in an April Finance Letter to substitute the Quincy Replacement Facility (proposal would revert $27.6 million to the MVA), approved in 2014-15, with the San Bernardino Area Office Replacement project. The budget also includes $800,000 from the MVA for advanced planning and site selection to identify three additional offices to replace as part of the Administration's ongoing office replacement plan. The budget does not identify the specific area offices that would be replaced.

Specifically the proposals include:

- $15 million to fund the acquisition and preliminary plans for the Hayward area office replacement project. The proposed facility would be 43,518 square feet, or roughly four times the size of the existing 11,033 square foot office that was built in 1971. The Administration plans to request funding to construct the facility as part of the 2017-18 budget, at an estimated cost of $38.1 million, for a total project cost of $53.1 million.

- $5.6 million to fund the acquisition and preliminary plans for the Ventura area office replacement project. The proposed facility would be 40,534 square feet, or over three times the size of the existing 12,469 square foot office that was built in 1976. The Administration plans to request funding to construct the facility as part of the 2017-18 budget, at an estimated cost of $37.1 million, for a total project cost of $42.7 million.

- $4.3 million to fund acquisition and preliminary plans for the El Centro area office replacement project. The proposed facility would be 33,550 square feet, or about seven times the size of the existing 4,575 square foot facility that was built in 1966. The Administration plans to request $30.4 million in MVA funding to construct the facility as part of the 2017-18 budget—for a total project cost of $34.7 million.

- $5.4 million for the acquisition and performance criteria phases of the San Bernardino Area Office Replacement project. The proposed facility would be 43,552 square feet, or over three times the size of the existing 12,253 square foot office that was built in 1973. The Administration plans to request $33.1 million in MVA funding to construct the facility as part of the 2017-18 budget, for a total project cost of $38.5 million. The San Bernardino project proposal is a replacement for the Quincy project, which was approved in 2014-15, but has been delayed because of difficulties in acquiring an appropriate site. As a result, this proposal also includes the reversion of $27.6 million to the MVA.

The figure below summarizes the budget proposals including estimated total project costs.

Governor's Budget Proposal for CHP Capital Outlay
(Dollars in Millions)

Proposed Item	2016-17 Request	Estimated Total Project Cost
Statewide Planning and Site Identification Study	$0.8	NA
Hayward: Replacement Facility	15.0	$53.1
Ventura: Replacement Facility	5.6	42.7
El Centro: Replacement Facility	4.3	34.7
San Bernardino Replacement Facility	5.4	38.5
Total	**$31.1**	**$169.0**
Quincy Replacement Facility (reversion)	-27.6	NA

In addition, the proposal includes provisional budget language to allow the Department of Finance to provide an augmentation from the MVA of up $2 million for CHP to enter into purchase options, should an option be necessary to secure a property.

Background: The CHP operates 103 area offices across the state. These offices typically include a main office building for CHP staff, CHP vehicle parking and service areas, and a dispatch center. Beginning in 2013-14, the Administration initiated a plan to replace five CHP field offices each year for the next several years. For both the current year and prior year, the Legislature has approved funding in accordance to this plan. Specifically, the 2013-14 budget included $1.5 million for advanced planning and site selection to replace up to five unspecified CHP area offices. Based on the results of this advanced planning, the 2014-15 budget provided (1) $32.4 million to fund the acquisition and design for five replacement CHP area offices in Crescent City, Quincy, San Diego, Santa Barbara, and Truckee, and (2) $1.7 million for advanced planning and site selection to replace up to five unspecified additional CHP area offices. The 2015-16 budget provided $136 million to fund the design and construction of the replacement area offices in Crescent City, Quincy, San Diego, Santa Barbara, and Truckee, as well as $1 million for advanced planning and site selection to replace five additional unspecified area offices.

The Administration's Five-Year Infrastructure Plan proposes $789 million from the MVA over the next five years to continue a statewide area office replacement program. This funding will be used to develop budget packages and select site for approximately 25 area office projects, acquire land, start design on about 20 of those projects, and begin construction for approximately 15 projects. The plan notes that the ability to fund these projects depends on the resources available in the MVA.

LAO Comments: Many of CHP's existing area offices have deficiencies that merit their replacement in the near future. However, the MVA is facing an operational shortfall. Although the Governor proposes to increase MVA revenues by raising the vehicle registration fee, the LAO estimates that under the Governor's proposal (including the costs to replace area offices in Hayward, El Centro, and Ventura), the MVA would be barely balanced over the next few years and likely face an operational shortfall in the tens of millions of dollars by 2019-20.

In view of the above, the LAO recommends that the Legislature consider the proposed CHP area office replacement projects in the context of a larger strategy for resolving the operational shortfall in the MVA. For example, the Legislature may want to reduce MVA expenditures in order to help address shortfalls in the fund. As such, the Legislature may want to consider deferring one or more of the three proposed projects. The Legislature may also want to consider reducing the proposed funding for advanced planning and site selection as a way to limit the number of additional replacement projects (and the associated costs to complete the projects) that are allowed to proceed.

Staff Comments: Staff concurs with the LAO analysis and recommends holding this item open.

Staff Recommendation: Hold open.

Issue 2: Body-Worn Camera Pilot Program—Informational Only

Governor's Proposal: Consistent with the Budget Act of 2015 and SB 85 (Committee on Budget and Fiscal Review), Chapter 26, Statutes of 2015, the Department of Finance proposes to make $919,000 available for CHP for a body-worn camera (BWC) pilot program. The funds would be for the following:

- $853,000 for hardware, including cameras, dedicated video workstations, servers, charging bays, routers, and data storage equipment.
- $24,000 for software for dedicated video workstations and servers.
- $4,000 for telecommunication upgrades to accommodate additional data.
- $38,000 for contract services for server and hardware configuration and training.

Background: SB 85 requires the CHP to develop a plan for implementing a BWC pilot program on or before January 1, 2016. The Budget Act of 2015 authorizes the Director of Finance to approve up to $1 million for a pilot program, after 30 days notice to the Joint Legislative Budget Committee and submission of a proposed scope of a pilot program. CHP submitted the plan for the BWC pilot program in December 2015.

Recent events involving law enforcement and the public have created a growing expectation for the use of BWCs by law enforcement agencies. The BCW technology offers potential benefits including reduced civil liability and an increased perception of transparency. However, there are many unknowns associated with the technology such as the logistics of data storage, privacy issues, and cost considerations. The proposed pilot program will help to test and evaluate BWCs before statewide implementation.

The objective of the study is to test a BWC system in two CHP area offices—Stockton and Oakland—to determine the effectiveness and to identify potential issues associated with BWC use. One office will store data locally on a server and the other office will upload data to a cloud system. SB 85 requires the pilot program to explore (but does not limit it to) the following:

- The types of officers that should be assigned or permitted to wear a BWC and under what circumstances it should be worn.
- The minimum specifications to be used by the CHP.
- The practicality of an officer using a privately owned BWC while on duty.
- The best location on the officer's body where a BWC should be worn.
- Best practices for notifying the public that a BWC is recording.
- The identity of the individual(s) responsible for uploading BWC data.
- The circumstances during which recorded BWC data should be uploaded.
- Best practices for recorded BWC data storage.
- Random reviews of BWC data for compliance with the pilot program and overall officer performance.
- Best practices for accessing BWC data for an officer's personal use.
- Best practices for officer review of BWC data.
- Best practices for sharing BWC data internally.
- Best practices for sharing recorded BWC data externally with the public and the news media.
- BWC training.
- A schedule for reviewing BWC policies and protocols.

Additional study objectives include the following:

- Obtain an accurate estimate of the volume of video data captured by officers and the corresponding data storage needs.
- Identify the types of data storage (cloud, local server, or the combination of the two) most appropriate for the department.
- Determine the impact, if any, BWCs will have on the number of citizen complaints and use of force incidents in the test areas.
- Determine, via survey, officer and supervisory perception of the use and effectiveness of BWCs.
- Identify unforeseen challenges associated with the use of BWC technology.
- Identify operational issues, including the process of video evidence with the local district attorney(s) and the impact, if any, of Public Records Act requests.

According to the CHP this will be a 21-month program—six months for preparation, a 12 month test phase, and three months for the final evaluation phase. During the test phase, a monthly survey will be completed by every officer using a BWC, and officers will complete problem reports for any issues with the BWC equipment.

Questions:

1. When will the pilot program start?
2. Will the evaluation report be provided to the Legislature and will it include recommendations regarding program improvements and an evaluation of if the program should be expanded department-wide?
3. What do you anticipate being the greatest challenges during the pilot program?

Staff Comments: According to CHP, the funding provided will allow the CHP to evaluate the BWC technology, associated costs, data storage requirements, and the effectiveness of the technology, as well as other factors such as the impact on citizen complaints and the use of force.

This issue is informational only.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, April 14, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Farra Bracht
OUTCOMES

VOTE-ONLY ISSUES

Item	Department
0521	**Secretary for Transportation Agency**
Issue 1	Statewide Coordination of Traffic Safety Data Systems—**Approved as budgeted 3-0**
2600	**California Transportation Commission**
Issue 1	Transportation Goals and Performance Measures—**Approved as budgeted 3-0**
2660	**California Department of Transportation**
Issue 1	Project Oversight for Federal Highway Administration—**Approved as budgeted 3-0**
Issue 2	All Roads Network of Linear Referenced Data Mandate—**Approved as budgeted 3-0**
Issue 3	Toll Collection Services—**Approved as budgeted 3-0**
2665	**California High-Speed Rail Authority**
Issue 1	Enhanced Auditing of Contracted Services—**Approved as budgeted 2-1**
Issue 2	High-Speed Rail Train System Planning-Reappropriation—**Approved as budgeted 2-1**
2720	**California Highway Patrol**
Issue 1	Integrated Database Management System Funding—**Approved as budgeted 3-0**
Issue 2	Expanded Network Infrastructure—**Approved as budgeted 3-0**
Issue 3	California Motorcyclist Safety Program—**Approved as budgeted 3-0**
Issue 4	Relocation of Fresno Area Office—**Approved as budgeted 3-0**

Issue 5 California Highway Patrol Enhanced Radio System and Technical Adjustment **—HELD OPEN**

Issue 6 Santa Barbara Facility Replacement: Reappropriation**—Approved as budgeted 3-0**

Issue 7 Contracting Language- Budget Bill Language**—Approved as budgeted 2-0 (Nielsen abstaining)**

2740 Department of Motor Vehicles

Issue 1 Driver License and Identification Card Production Cost Increase **—Approved as budgeted 3-0**

Issue 2 Expanded Eligibility for Drivers' Licenses (April Finance Letter) **—Approved as budgeted 2-1**

OVERVIEW OF TRANSPORTATION FUNDING

Legislative Analyst's Office

DISCUSSION / VOTE ISSUES

Item	Department
0521	**Secretary for Transportation Agency**
Issue 1	Increased Funding for Transit and Intercity Rail Capital Program**—HELD OPEN**
2600	**California Transportation Commission**
Issue 1	Active Transportation Program Oversight (Informational Only)
2660	**California Department of Transportation**
Issue 1	Maintaining the State Highway System's Assets (Informational Only)
Issue 2	Continuation of Transportation Bond Act Administration**—Approved the Administration's request to fund 39 positions in 2016-17 and 36 positions in 2017-18 for the administration of Proposition 1B and reject funding for the proposed positions for years 2018-19, 2019-20, and 2020-21. Vote: 3-0.**
Issue 3	Increased Funding for the UC Institute of Transportation Studies**—HELD OPEN and directed staff to work with the Assembly to come up with a funding level.**
Issue 4	State Transit Assistance Program Changes—**Adopted placeholder trailer bill language that requires the SCO for purposes of determining the amount of STA to distribute in the 3rd and 4th quarters of fiscal years 2015-16 through 2017-18, to use the same recipients and the same proportional shares as used in the fourth quarter of 2014-15. Vote: 3-0.**
2740	**Department of Motor Vehicles**
Issue 1	Motor Vehicle Account Fund Condition**—HELD OPEN**
Issue 2	Self-Service Terminal Expansion Project**—HELD OPEN**
Issue 3	New Motor Voter Program**—HELD OPEN and directed the LAO to analyze the implementation of AB 1461.**
Issue 4	Amendments Supporting the Green and White High-Occupancy Vehicle Decal Program (Trailer Bill Language) —**Approved as budgeted 2-1**
Issue 5	Capital Outlay: Field Office Replacements**—HELD OPEN**
Issue 6	REAL ID Implementation (April Finance Letter) **—HELD OPEN**

2720	**California Highway Patrol**
Issue 1	Capital Outlay: Advanced Planning and Site Selection, and Funding for Area Office Replacements (includes April Finance Letter) **—HELD OPEN**
Issue 2	Body-Worn Camera Pilot Program (Informational Only)
	Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, April 21, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman

ISSUES PROPOSED FOR DISCUSSION

Item	Department	Page
3930	**Department of Pesticide Regulation**	**2**
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3960	**Department of Toxic Substances Control**	**7**
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3930 Department of Pesticide Regulation

The California Department of Pesticide Regulation (CDPR) administers programs to protect public health and the environment from unsafe exposures to pesticides. The department (1) evaluates the public health and environmental impact of pesticide use; (2) regulates, monitors, and controls the sale and use of pesticides in the state; and (3) develops and promotes the use of reduced-risk practices for pest management. The department is funded primarily by an assessment on the sale of pesticides in the state.

Governor's Budget. The Governor's budget includes $97.1 million and 291 positions for the Department of Pesticide Regulation. This is an increase of about $6 million, mainly due to the shift of the cost of an approved information technology system to the budget year. Other funds include fees on registration of products, federal funds, and the California Environmental License Plate Fund.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
Department of Pesticide Regulation Fund	$ 84,543	$ 88,049	$ 94,082
California Environmental License Plate Fund	461	470	466
Federal Trust Fund	2,253	2,011	2,006
Reimbursements	417	600	600
Total Expenditures (All Funds)	**$87,674**	**$91,130**	**$97,154**

VOTE-ONLY CALENDAR

1. **Reappropriation of Pesticide Registration Data Management System.** The department requests a technical budget adjustment to the previously approved information technology project due to additional review, so the project requirements, before funding, could be encumbered against the system integrator contract, the main contract for the project. There is no change to the total funding requested for the project.

2. **Continuing the Air Monitoring Network.** The budget proposes ongoing resources of $468,000 (Department of Pesticide Regulation Fund), and 1.5 positions, including contract funds for laboratory sample analysis. This will make permanent the previously approved, limited-term project, to monitor ambient air pesticide concentrations (including soil fumigants), and calculate the human health risk from exposure to multiple pesticides for long time periods.

3. **Augmentation of the Food Safety Program.** The budget proposes $391,000 one-time and $313,000, ongoing (Department of Pesticide Regulation Fund), and three environmental scientist positions to address increased workload from pesticide residue detections.

Staff Recommendation: Approve as proposed.

Vote:

Issue 1: Pollinator Protection Risk Evaluation

Background. A pesticide must be registered with the Department of Pesticide Regulation (DPR) before it can be used, possessed, or offered for sale in California. DPR is statutorily required to thoroughly evaluate the pesticides' toxic effects. One of the core functions of DPR is to ensure timely registration decisions while enhancing the protection of human health and the environment. In the last few years, both the U.S. Environmental Protection Agency (US EPA) and DPR have added new data requirements to allow assessment of the chronic risks of pesticide exposure to pollinators (honey and native bees). The new risk assessment framework is based on a tiered process, and focuses on the major routes of exposure (from overspray or direct contact with the pesticide on the plant surface). In June 2014, due to the significant decline of pollinators over the last several decades, President Obama issued a Presidential Memorandum "Creating a Federal Strategy to Promote the Health of Honey Bees and Other Pollinators." This strategy outlined a comprehensive approach to reducing the impact of multiple stressors on pollinator health, including pests and pathogens, and exposure to pesticides. Critical components of the strategy are to advance the science supporting regulatory decisions, as well as strategies for mitigation.

In the last year, California beekeepers lost 40 percent of their hives, nearly twice the national average. Wild bee populations have declined by 23 percent between 2003 and 2008 in the Central Valley and other key agricultural regions of the state. As an example, research suggests that widespread use of neonicotinoid (neonic) pesticides, which are a systemic pesticide designed to reduce or eliminate sap-eating pests (such as aphids), are negatively impacting hives in addition to other stressors. Although these products are used on a restricted basis in agricultural settings, they also can purchased by consumers for home and garden use, and are often found in pre-treated seedlings at home and garden stores. A November 2015 U.S. Geological Survey study, found residue from one of three types of neonics in a majority of bees sampled.

In addition to the data requirement and assessment process, the US EPA also instituted various regulations and label revisions to currently registered pesticide products in order to provide further protection for pollinators. DPR staff was, as of last year, redirected to review the label amendments to currently registered pollinator-impacting pesticides. Despite DPR's attempt to redirect resources to assist with the label revisions to pollinator labeling language required for currently registered pesticide products, DPR states that it cannot efficiently and effectively address this; and the new evaluation of new pesticide products containing new active ingredients, without new resources.

Governor's Proposal. The Governor's budget requests two positions and $335,000 in DPR Funds ($308,000 ongoing) to address the increasing workload with pollinator protection issues. One position will help evaluate and assess ecotoxicology studies and to establish new pollinator data requirements in collaboration with the U.S. Environmental Protection Agency (EPA). The second position will organize onsite field events for growers and beekeepers, develop a California-managed pollinator protection plan, conduct enforcement training, create and disseminate brochures and educational materials, evaluate rulemaking, and investigate pollinator/pesticide bee damage incidents and causes.

Specifically, the department plans to:

- Develop and conduct collaborative educational field events between growers and beekeepers.
- Develop a state managed pollinator protection plan.
- Develop and conduct investigative enforcement training for local California Agricultural Commissioner inspectors on new label use restrictions and regulations.
- Make presentations to growers, applicators, beekeepers, regulators and landowners statewide.
- Create and disseminate pamphlets, brochures, leaflets and online information.
- Identify pollinator bee/pesticide incidents and investigate cause.
- Develop rulemaking to align with the Presidents directive on pollinator protection.

Staff Comments. Staff is supportive of increased scrutiny of pesticides affecting pollinators, particularly given the extreme changes to hives and pervasiveness of pesticides in the bee population. However, given the percentage of hives and plants that may be impacted by pesticides, the department's proposal could be more robust. It would seem more productive, in addition to those activities suggested by the department, for the department to take a more pro-active approach to the protection of pollinators. The data is now available to show that the problem is current and of sufficient risk to move forward with a rulemaking package that is California-centric and stronger than the federal government's actions.

Staff recommends holding the item open for continued discussions with the department about its approach to: (1) increased label restrictions both in agricultural and commercial settings, including at individual consumer level, and (2) increased proactive regulations restricting the use of pollinator-impacting pesticides.

Staff supports increasing position authority and funding to meet California's pollinator challenges, not just those of the federal government. Additional funds could be directed to a research institution to provide the department with specific recommendations for a robust public policy approach to pollinators.

Staff Recommendation. Hold Open.

Vote:

Issue 2: Mitigation of Pesticide Impacts on Workers

Background. In 2014, two new laws led to an increased workload for Worker Health and Safety Branch. First, AB 101 (Committee on Budget), Chapter 354, Statutes of 2013, included budget bill language that set the minimum number of risk assessments completed by DPR each year to five. While this language was removed from subsequent budget acts, there is an expectation among stakeholders that DPR will continue to meet this goal. Prior to this, there was no specific requirement for DPR to meet a specific quota. Second, AB 304 (Williams), Chapter 584, Statutes of 2013, requires DPR to adopt mitigation measures for pesticides determined to be a toxic air contaminant within two years of the department determining that additional mitigation measures are necessary. DPR received three positions in the 2013-14 Budget Act (AB 101), to conduct five risk assessments per year. However, DPR did not receive resources for the corresponding resources needed for the increased mitigation measures that address the unacceptable exposures identified in the risk assessments.

Governor's Proposal. The Governor's budget proposes $482,000 from the DPR Fund and two permanent positions to address the growing need to develop strategies to mitigate pesticide impacts on workers and bystanders. This proposal includes ongoing contract funds for a facilitator ($20,000) to lead public meetings and for mitigation research ($150,000).

Staff Comments. This proposal will enable DPR to keep pace with the increased production of risk assessments and concomitant need for mitigation, in addition to the legal requirement to complete mitigation in two years for pesticides identified as toxic air contaminants. Further, it will allow the DPR to enter into contracts necessary to support the development and evaluation of practical and scientifically sound mitigation strategies to further protect fieldworkers, pesticide handlers, and bystanders.

Staff Recommendation. Approve as proposed.

Vote:

3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up, or oversees the cleanup of, contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded by fees paid by persons that generate, transport, store, treat, or dispose of hazardous wastes; environmental fees levied on most corporations; federal funds; and General Fund.

Governor's Budget. The Governor's budget includes $217 million from various funds for support of DTSC in 2016-17. This is a decrease of $12.5 million or 5.7 percent from the current–year level.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
General Fund	$ 26,632	$ 27,382	$ 29,347
Hazardous Waste Control Account	57,525	63,511	61,216
Site Remediation Account	24,019	11,047	10,503
Unified Program Account	1,064	1,224	1,229
Illegal Drug Lab Cleanup Account	818	810	828
Childhood Lead Poisoning Prevention Fund	40	53	51
California Used Oil Recycling Fund	244	408	410
Department of Pesticide Regulation Fund	34	46	45
Air Pollution Control Fund	32	44	43
Removal and Remedial Action Account	3,257	3,346	3,314
Expedited Site Remediation Trust Fund	-	3,425	-
Site Operation and Maintenance Account, Hazardous Substances Account	169	407	404
Toxic Substances Control Account	45,928	65,652	57,016
Federal Trust Fund	30,449	32,498	32,913
Reimbursements	12,821	13,075	13,075
Cleanup Loans and Environmental Assistance to Neighborhoods Account	259	1,000	1,000
Electronic Waste Recovery and Recycling Account, Integrated Waste Management Fund	1,974	2,204	2,226
State Certified Unified Program Agency Account	1,365	2,723	2,721
Birth Defects Monitoring Program Fund	171	136	146
Revolving Loans Fund	- 697	1,062	1,027
Total Expenditures (All Funds)	**$206,104**	**$230,053**	**$217,514**

VOTE-ONLY CALENDAR

1. **AB 276 Ability to Pay: Cost Recovery.** The budget requests $200,000 and two permanent positions ($180,000 Toxic Substances Control Account and $20,000 Hazardous Waste Control Account) to implement the expanded information request authority pursuant to AB 276 (Assembly Committee on Environmental Safety and Toxic Materials), Chapter 459, Statutes of 2015). AB 276 allows DTSC to require a potentially responsible party (PRP) to provide information regarding the party's ability to pay for a response action at a site where there has been, or may be, a release of hazardous waste, hazardous substances, or hazardous materials in the environment.

2. **Attorney General Independent Review and Panel Costs.** The budget requests an augmentation of $50,000 in Fiscal Year (FY) 2016-17 ($25,000 Toxic Substances Control Account and $25,000 Hazardous Waste Control Account). The request also includes $25,000 in FY 2017-18 split similarly between the two accounts. Funds will be used to reimburse the Attorney General for expenses associated with its support for the Independent Review Panel, which was established pursuant to Senate Bill 83 (Committee of Budget and Fiscal Review), Chapter 24, Statutes of 2015. The IRP is responsible for reviewing and making recommendations regarding improvements to the department's permitting, enforcement, public outreach, and fiscal management. The IRP consists of three appointed members.

3. **Biomonitoring.** The budget requests to extend for two additional years, two limited-term positions and $350,000 (Toxic Substances Control Account) in the Biomonitoring California Program. These two positions will continue to analyze specific toxic chemical contaminants in biological samples from ongoing population-based investigations. Biomonitoring California was established through SB 1379 (Perata and Ortiz), Chapter 599, Statutes of 2006. Biomonitoring California's principal mandates are to: (1) measure and report levels of specific environmental chemicals in blood and urine samples from a representative sample of Californians, (2) conduct community-based biomonitoring studies, and (3) help assess the effectiveness of public health and environmental programs in reducing chemical exposures.

4. **Treated Wood Waste.** The Governor's budget requests an augmentation $370,000 (Hazardous Waste Control Account) of for two years to implement SB 162 (Galgiani), Chapter 351, Statues of 2015, related to the management of treated wood waste. This proposal includes trailer bill language to extend the implementation period for an additional six months, to provide a full two years to implement the requirements of SB 162 to conduct a comprehensive evaluation of treated wood waste handlers, their compliance with the requirements, and the effectiveness of the standards. It requires DTSC to inspect at least 25 percent of treated wood waste generators and treated wood waste disposal facilities in conducting its evaluation.

5. **Argonaut Mine Dam Retrofit.** The budget requests $14.3 million (General Fund), one-time, to retrofit the Argonaut Mine Dam in Jackson, California. This follows various state and federal studies that concluded that the dam is structurally unstable and has a significant chance of complete failure with sustained rainfall.

6. Replacement of Laboratory Equipment. The budget requests $2 million (Hazardous Waste Control Account) on a one-time basis to procure laboratory and investigatory equipment used for conducting investigations in support of criminal, civil, and administrative enforcement of hazardous waste laws. Available funding is the result of a settlement agreement that specifies the use of these funds.

Staff Recommendation: Approve as proposed.

Vote:

Issue 1: Independent Review Panel (Informational)

Special Presentation by: Gideon Krakov, JD, Chair, Independent Review Panel

Background. The Independent Review Panel (IRP) was established within the DTSC pursuant to SB 83 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2015. The IRP is comprised of three members: an appointee of the Assembly Speaker with scientific experience related to toxic materials, an appointee of the Senate Committee on Rules who is a community representative, and an appointee of the Governor who is a local government management expert. The current IRP members are: Dr. Arezoo Campbell (scientist with experience related to toxic materials), Gideon Kracov, JD (community representative), and Mike Vizzier (local government management expert). The panel members are tasked with reviewing and making recommendations regarding improvements to DTSC's permitting, enforcement, public outreach, and fiscal management. The IRP also may make recommendations for other DTSC programs, may advise DTSC on its reporting obligations, and is required to advise DTSC on compliance with the mandate to institute quality government programs to achieve increased levels of environmental protection and public satisfaction.

On January 28, 2016, the IRP released its first report to the Legislature summarizing recommendations and data requests to DTSC in areas including: budget, permitting, enforcement, public outreach, and fiscal management. The report included the following recommendations:

- **Fiscal Management.** The IRP discusses DTSC's efforts, in response to a 2013 state audit that found a lack of due diligence on cost recovery, efforts to implement cost recovery changes to recoup its costs. The IRP recommends that DTSC report in its biennial report documentation on compliance with all goals and objectives.

- **Permitting.** The report highlights DTSC's permitting backlog and recommends that DTSC require adequate financial assurances be set aside for corrective action for existing hazardous waste releases and that DTSC obtain full cost recovery connected with its Hazardous Waste Facility Permit decisions. The IRP requests data from DTSC that includes a list of existing financial assurances for every hazardous waste facility permit site, and a list of all hazardous waste facility permittees that fall under AB 1075 (Alejo), Chapter 460, Statutes of 2015, violation categories.

- **Public Outreach.** The IRP recognizes that public participation is a cornerstone of DTSC's work, and that DTSC has a budget of $1.5 million for 22 positions for DTSC's public participation program. The IRP recommends making categories of information available on one tab on the DTSC website to make it more user-friendly, and to review decisions made during the past five years by two staff members who were discovered to have sent offensive emails.

Staff Comments. The Independent Review Panel Chair has been asked to provide:

- Overview of IRP's charge and actions to date.
- Key findings and recommendations issued so far.
- Broader observations about functionality of DTSC and prospects for successful reforms.

Staff Recommendation. Information Item.

Issue 2: Permitting Budget Proposals

Background. The DTSC issues hazardous waste facility permits to facilities that manage waste that is toxic, corrosive, reactive, and ignitable. When DTSC issues hazardous waste facility permits it establishes conditions that the facility must meet in addition to the applicable laws and regulations for the management of public waste. There are 119 facilities permitted to manage hazardous waste in California (91 operating facilities and 28 post closure facilities) with a total of 132 permits. Facility permits are issued for 10-year terms, and facilities are required to apply for renewal six months prior to a permit's expiration. If the permit renewal application is submitted on time, the facility may continue to operate under an expired permit, known as a "continued" permit until the final application is approved. As well as permit renewal applications, DTSC makes decisions on applications for new permits and permit modifications. The DTSC's goal is to make decisions on 90 percent of permit applications within an average of two years. Towards achieving this goal, DTSC developed and is implementing the permitting enhancement work plan to create and update processes, guidance, and tools to support consistent processing of permit applications and more timely permit decisions.

There are currently 37 facilities operating under continued permits that are under review by DTSC. In addition to these 37 permits, DTSC anticipates that it will receive 57 permit applications over four years beginning in 2015-16 and the number of applications per year is expected to vary between 10 and 16. In 2014-15 the Legislature approved eight two-year limited term positions to address a backlog of 24 hazardous waste facility permits. The department made decisions on five of the backlogged permits in 2014-15 and plans to make 12 more decisions in 2015-16 and seven more decisions in 2016-17. According to the department, these eight limited-term positions, combined with other departmental resources, allow it to make decisions on about eight permits per year in the future.

Governor's Proposal. The Governor's budget includes several proposals. These include:

> **February Proposal—Hazardous Waste Management Permitting Support.** The Governor proposes an increase of $1.2 million (Hazardous Waste Control Account) to make permanent eight limited–term positions that are set to expire at the end of the current year. These positions were previously provided to address a hazardous waste permit renewal backlog, as well as to update cost estimates associated with closing hazardous waste facilities.
>
> **April Proposal—Enhanced Permitting Capacity and Support**. The department requests $2.4 million from the Hazardous Waste Control Account, and 15 positions within the permitting division, to fully implement process improvements under the permit enhancement work plan. The proposal is intended to sustain timely permitting actions, mitigate the incidence of facilities operating for extended periods of time on expired permits, and improve enforcement.
>
> **April Proposal—Trailer Bill Language.** The department requests trailer bill language to eliminate the option to pay a flat fee for a permit application in lieu of a fee for service so that permit applicants pay the full costs associated with

permitting efforts. The Administration believes this will significantly reduce staff time on permit applications and align revenues with expenditures in the future.

LAO Analysis and Recommendations: The LAO analyzed the Governor's February proposal and provided the following analysis and recommendation:

> Based upon our own projections and DTSC's projections, the department will continue to have an ongoing backlog of permit applications even if the resources requested in the Governor's proposal are approved. The department projects it would need to make decisions on an average of 16 permit applications per year—instead of its estimated average of eight per year—in order to make timely decisions on renewals and process new and modified permits. Our own projections confirm that DTSC would need to roughly double the average number of decisions it makes per year, from 8 to 16, to address the existing backlog and move towards attaining its goal of making decisions on 90 percent of permit applications within an average of two years. The DTSC states that it is exploring options to fund the positions needed to complete an average of 16 permits per year, the level needed to ensure no future backlogs.
>
> **Analyst's Recommendation.** We recommend approval of the Governor's proposal to augment the budget by $1.2 million from the HCWA and convert 8 limited-term positions to permanent status. In our view, these positions are justified on a permanent basis to address ongoing workload. We further recommend that the department be required to report at budget hearings on: (1) the resources that DTSC would require in order to increase its average annual number of permit application decisions from 8 to 16 and thereby eliminate future backlogs; and, (2) the department's progress towards implementing the permitting enhancement work plan to create and update processes, guidance, and tools to support consistent processing of permit applications and more timely permit decisions. Specifically, the department should report on what efficiencies will be achieved by implementing the Permitting Enhancement Work Plan and whether it will result in faster permit decisions.

Staff Comments. Staff concurs with the LAO analysis regarding the February permitting proposal. The department's effort to reduce permitting backlogs and gaps, along with providing appropriate revenue sources is critical to the future of the department. Staff concurs with the concept of both proposals, and agrees with trailer bill language that would align staffing, revenues and expenditures. The subcommittee may wish to ask the department to address:

1. How these proposals, together, will align permitting with workload and the Independent Review Panel recommendations.
2. Whether there is a possibility, even in the short run, of a facility operating without a current permit and, if so, how the department will handle these incidents in the future.
3. What the trailer bill language will accomplish in terms of the structural deficit in the Hazardous Waste Control Account.

Staff Recommendation. Hold Open.

Issue 3: Program and Department Reform

Background. As discussed under the Independent Review Panel, the department is in the middle of a transformation that is intended to put it back on track to providing its basic statutory responsibilities—mostly permitting, tracking and regulating toxic and hazardous waste. The Legislature, over a number of years, has provided the public process by which change has occurred at the department, and continues to do so.

Governor's April Reform Proposals. The Governor's budget includes two proposals designed to improve the department's internal programs and external communication, as follows:

- **Strategic Program Development.** The Governor requests an augmentation of $747,000 ($347,000 from Hazardous Waste Control Account and $373,000 from the Toxic Substances Control Account), and conversion of five positions from limited-term to permanent. The department intends to have the five positions report, as a team, to the existing Special Assistant for Program Review. The team will work systematically through the department's core programs and support services to evaluate the strengths, weaknesses, opportunities, and threat in program and service functions. The team will prioritize areas or issues for development.

- **Office of Environmental Justice and Tribal Affairs.** The Governor requests an augmentation of $881,000 ($441,000 from Toxic Substances Control Account and $440,000 from Hazardous Waste Control Account), and six positions, to create the proposed Office of Environmental Justice and Tribal Affairs. The proposal is intended to strengthen the coordination of environmental justice and tribal affairs activities and to enhance engagement with impacted communities. The office will also identify and address gaps within its own programs that may contribute to unequal environmental protections or outcomes in these communities, and broaden the transparency of and access to DTSC programs.

Staff Comments. The department's efforts for reform are laudable but lack a public process that allows stakeholders, community members, and advocates a regular and accessible method for addressing concerns, particularly with permitting and exposure, outside the legislative process. The Independent Review Panel has identified $1.5 million and 22 positions within the DTSC public participation program.

Staff suggests the department comment on what would be different if there were a permanent board, much like the Air Resources Board or State Water Resources Control Board, to provide that permanent and public process for toxic and hazardous waste. Should a board concept be developed, how would the department effectively implement its strategic program development and Office of Environmental Justice and Tribal Affairs to support the director and board?

Staff Recommendation. Hold Open.

Vote:

3900 Air Resources Board (ARB)

In California, air quality regulation is divided between the ARB and 35 local air quality management districts. The local air districts manage the regulation of stationary sources of pollution (such as industrial facilities) and prepare local implementation plans to achieve compliance with the federal Clean Air Act. The ARB is responsible primarily for the regulation of mobile sources of pollution (such as automobiles) and for the review of local district programs and plans. Historically, the ARB's regulations focused on emissions that affect local or regional air quality, such as particulate matter and ozone-forming emissions. More recently, the ARB also began overseeing the state's efforts to reduce GHG emissions.

Governor's Budget. The Governor's budget proposes $956 million for ARB in 2015-16, a net increase of $397 million compared to estimated expenditures in the current year. This year-over-year increase is largely the result of increased greenhouse gas emission reduction proposals.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
Motor Vehicle Account, State Transportation Fund	$ 131,452	$ 133,665	$ 134,099
Air Pollution Control Fund	112,117	117,291	115,929
Vehicle Inspection and Repair Fund	16,483	16,708	16,716
Air Toxics Inventory and Assessment Account	994	980	976
Public Utilities Commission Utilities Reimbursement Account	-	339	189
Federal Trust Fund	4,677	16,839	16,888
Reimbursements	9,056	11,749	11,749
Oil, Gas, and Geothermal Administrative Fund	1,344	1,386	1,497
Nontoxic Dry Cleaning Incentive Trust Fund	413	404	415
Air Quality Improvement Fund	56,136	24,244	31,808
Enhanced Fleet Modernization Subaccount, High Polluter Repair or Removal Account	-	2,800	2,800
Greenhouse Gas Reduction Fund	130,177	187,111	573,167
Cost of Implementation Account, Air Pollution Control Fund	39,719	45,432	49,836
CA Ports Infrastructure, Security, and Air Quality Improvement Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006	2,983	411	301
Total Expenditures (All Funds)	**$505,551**	**$559,359**	**$956,370**

VOTE-ONLY CALENDAR

1. **Refrigerant Management Program—Technical Adjustment.** The budget request a net-zero redirection of $695,000, per year, collected from facilities subject to annual implementation fees under the AB 32 Refrigerant Management Program to fund four existing positions that are meeting the implementation needs of the program, and currently funded under the Cost of Implementation Account within the Air Pollution Control Fund. In addition to this next-zero redirection of funding for existing positions, ARB requests a net-zero redirection of $180,000 in contract funding for continued maintenance and support of the registration and reporting system.

2. **Air Quality Improvement Program (AQIP) Augmentation.** The budget requests an annual expenditure authority increase from $24.2 million to $31.7 million (Air Quality Improvement Fund) to align the average annual revenue of $30 million for this program. The AQIP funds air quality improvement projects related to fuel and vehicle technologies to reduce criteria pollutant, air toxic and greenhouse gas emissions.

3. **Realign Distributed Administration—Technical Adjustment.** The budget requests a technical adjustment to align administration and distributed administration program authority with administrative operating costs. The next-zero adjustment reflects a $48 million alignment within the budget display.

Staff Recommendation: Approve as proposed.

Vote:

Issue 1: Short-Lived Climate Pollutant and Post-2020 Budget Proposals

Background. The LAO has conducted an extensive review of the Governor's various proposals to achieve the Administration's post-2020 greenhouse gas (GHG) emission reduction goals. To that end, they offer the following background and analysis:

The ARB administers a wide variety of regulations intended to reduce GHG emissions and/or improve air quality. Some of these regulations include the Advanced Clean Cars program, Clean Truck and Bus standards, the refrigerant management program, and the landfill methane capture regulation. The ARB's regulatory activities are driven by federal law, state law, executive orders, and various agency planning efforts. Some of the key drivers are:

- **AB 32 GHG Emissions Limit.** As discussed earlier in this report, AB 32 established the goal of limiting GHG emissions to 1990 levels by 2020 and directed ARB to develop regulations to achieve this goal. It directed ARB to develop a Scoping Plan to identify the regulations and programs needed to achieve the emission targets cost-effectively and update the plan periodically.

- **Federal Air Quality Standards.** The federal Environmental Protection Agency sets air quality standards for specified "criteria" pollutants—such as ozone—pursuant to the federal Clean Air Act. Certain areas of the state do not meet the current federal standards. In addition, federal standards become increasingly stringent in 2023 and 2031.

- **Governor's 2030 and 2050 GHG Goals.** Two different executive orders establish the goals of reducing statewide emissions to 40 percent below 1990 levels by 2030 and 80 percent below 1990 levels by 2050. In addition, one of the executive orders directs ARB to update its Scoping Plan and implement measures, pursuant to statutory authority, to achieve the 2030 goal. A draft of ARB's Scoping Plan is expected to be released this spring and the plan is expected to be finalized this fall.

- **SLCP Strategy.** SB 605 (Lara), Chapter 523 of 2014, requires ARB to develop a strategy to reduce SLCPs—such as methane and fluorinated gases—by January 1, 2016. The ARB is expected to finalize the SLCP strategy in the spring of 2016.

A variety of fund sources are used for these regulatory activities and planning efforts, including the AB 32 Cost of Implementation Account (COIA), the Motor Vehicle Account, the Vehicle Inspection and Repair Fund, and the Air Pollution Control Fund.

Governor's Proposals. The Governor's budget includes several proposals funded by the COIA. These are in addition to several major programs funded by the GGRF. The COIA proposals include:

- **Clean Truck and Bus Standards.** Develop more stringent GHG and criteria pollutant standards for trucks and buses, as well as improve compliance monitoring for existing standards. For example, of the resources requested, two positions and $490,000 are requested to develop more stringent GHG standards to achieve the Governor's long-term GHG goals.

- **Advanced Clean Cars Program.** Develop regulations to increase the number of zero-emission vehicles and reduce criteria pollutants and GHGs from light duty vehicles.

- **SLCP Strategy.** Develop and implement policies to reduce methane and fluorinated gases, improve monitoring of fluorinated gases, and improve enforcement of existing and near-term SLCP strategies.

All of these activities would be funded from the COIA, which is supported by a regulatory fee paid by certain GHG emitters. The account generally supports administrative activities performed by state agencies related to GHG emission reductions. The board might have to increase the fee to pay for the additional costs associated with these proposals. (The fee is currently set at about 15 cents per metric ton of carbon dioxide equivalent.)

Summary of Governor's Proposals to Develop Regulations for Post-2020 GHG Goals

Proposal	Funding and Positions Requested	Primary Justification
Clean Bus and Truck Standards	$1.2 million and four positions	Governor's GHG goals, AB 32, and federal air standards
Advanced Clean Cars Program	$580,000 and four positions	Governor's GHG goals and federal air standards
SLCP (SB 605)	$1.4 million and five positions	SLCP strategy, AB 32, and Governor's GHG goals

GHG = greenhouse gas and SLCP = short-lived climate pollutant. Source: Legislative Analyst's Office.

Greenhouse Gas Emission Reduction Fund (GGRF) Proposal. In addition to the above COIA-funded proposals, the Governor's budget requests $40 million from the GGRF to support a grant program for new residential wood-burning device replacement incentives. The request includes two positions. This item was heard in on February 18 in full budget committee.

LAO Assessment and Recommendations. The LAO offers the following assessment and recommendations:

Certain Activities Do Not Appear Consistent With Current Statutory Direction. Assembly Bill 32 states that the 2020 GHG limit shall remain in effect unless otherwise amended or repealed. However, as shown in Figure 22, the Governor's more stringent 2030 and 2050 GHG targets are identified as a justification for parts of each request. Although the Legislature has adopted major policies intended to achieve substantial GHG reductions beyond 2020—such as establishing a 50 percent renewable portfolio standard and doubling energy efficiency savings in electricity and natural gas by 2030—we are not aware of any statutory direction for ARB to develop regulations to achieve more stringent post-2020 GHG targets.

Furthermore, the ARB indicates that resources are needed to develop new SLCP regulations identified in the SLCP strategy to achieve the intent of the legislation. Although SB 605 directs the administration to develop a strategy to reduce SLCPs, it does not direct the administration to implement the measures contained in the strategy (such as by developing regulations). Therefore, it is unclear whether the proposed activities to develop new regulations are consistent with statutory direction.

Resources to Develop Certain New Regulations Are Premature. Even if the Legislature determines that it would like to adopt the more stringent post-2020 GHG targets, the budget requests to develop specific regulations to achieve such targets are premature until more analysis has been done. As discussed above, the administration is developing a Scoping Plan to identify a cost-effective mix of policies that could be used to achieve the 2030 GHG target. However, a draft Scoping Plan has not been released. It is unclear whether the specific regulations identified in these proposals will be part of the final Scoping Plan. Thus, we find that it is premature to provide resources to develop these specific regulations.

Unclear Whether COIA Is an Appropriate Fund Source for Non-GHG Activities. All activities in these requests are funded from the COIA. However, it is unclear whether using the funds to support regulatory activities specifically intended to achieve federal air quality standards, but not GHG reductions, is an appropriate use of the funds.

LAO Recommendation. "We recommend modifying the Governor's proposal in two ways: (1) rejecting requests related to the administration's long-term GHG goals and implementing the SLCP strategy and (2) identifying alternative funding sources for air quality activities." Specifically, the LAO recommends:

Reject Requests Related to Long-Term GHG Goals and Implementing SLPC Strategy. The LAO recommends rejecting the proposed positions and funding intended to develop regulations to achieve the Governor's long-term GHG goals and implement the SLCP strategy. These activities appear to be inconsistent with current statutory direction and are premature. Specifically, we recommend reducing the Clean Bus and Truck proposal by the two positions and $490,000 identified by the administration as being related to long-term GHG goals. With respect to the Advanced Clean Cars request and the SB 605 request, the administration did not provide a breakdown of the positions and funding related primarily to the Governor's post-2020 GHG targets and implementing the SLCP strategy. Therefore, the LAO recommends the Legislature direct the administration to provide this information at budget hearings so that similar adjustments can be made.

Identify Alternative Funding Sources for Air Quality Activities. The LAO further recommends that the Legislature direct the administration to identify an alternate fund source for activities specifically related to achieving federal air quality standards.

Staff Comments. The LAO provides a good analysis of the issues surrounding SLCP and the regulatory approach provided by ARB. After the LAO analysis was completed, the Administration reported on strategies to achieve GHG emission reductions from SLCP, which have a number of co-benefits including the reduction of public health, air and water quality impacts. Regulation of this important set of criteria pollutants is critical to the state's overall approach to reducing the impacts of greenhouse gas emissions. The use of the cost of implementation fee is appropriate for the development of the regulations and programs, which would likely be then followed by use of GGRF for broad program support.

Staff Recommendations. (1) Approve as proposed with trailer bill language clarifying the statutory direction to ARB to include short-lived climate pollutants in its regulatory approach to reducing greenhouse gas emissions. (2) Continue to hold open all GGRF-funded proposals for May Revision (including the proposed woodsmoke grant program).

Vote:

Issue 2: Low Carbon Transportation Fuels (AB 692)

Background. AB 692 (Quirk), Chapter 588, Statutes of 2015, requires, beginning January 1, 2017, that at least three percent of the transportation fuel purchased by the state be procured from very low carbon transportation fuel sources. This percentage increases by one percentage point each year thereafter until 2024. Very low carbon transportation fuel has no more than 40 percent of the carbon intensity of the closest comparable petroleum fuel for that year, as measured by the methodology for the low carbon fuel standard (LCFS). (The LCFS is a regulatory program administered by ARB.) The legislation requires the Department of General Services (DGS) to coordinate with state agencies that are buyers of transportation fuel and submit an annual progress report to the Legislature.

Governor's Proposal. The Governor's budget does not propose any resources for DGS to implement AB 692.The ARB requests one permanent position and $145,000 annually to support additional workload related to AB 692. The ARB indicates that the additional position would assist with the following tasks: (1) develop and maintain knowledge on market dynamics affecting the availability and price of very low carbon fuels and provide consultation to DGS; (2) support DGS and other state agencies in identifying sources of very low carbon transportation fuels; and, (3) provide analytical support to evaluate the carbon intensity of new very low carbon fuels expected to enter the market as a result of AB 692.

LAO Analysis. The LAO provides the following analysis and recommendations:

- **Insufficient Workload Justification at This Time.** In the short run, the additional workload for ARB to implement AB 692 appears minor and absorbable. The board has been implementing the LCFS for several years and approves dozens of carbon intensity pathways for low carbon fuels in the state each year. Based on our conversations with DGS, it has already identified a likely supplier for the fuel needed to meet the 2017 purchasing requirement. Therefore, it is unclear why there would be significant additional workload for ARB. In the long run, there could be additional workload associated with identifying additional fuel sources or approving additional fuel pathways. However, the additional workload is uncertain at this time and, therefore, the request for additional resources is premature.

- **Recommend Rejecting Proposal.** We recommend that the Legislature reject the proposed position and $145,000 to implement AB 692 because there is insufficient workload justification at this time.

Staff Comments. Staff concurs with the LAO analysis. Though the legislation is laudable, the workload is not justified at this time.

Staff Recommendation. Reject proposal.

Vote:

3970 Department of Resources Recycling and Recovery (CalRecycle)

The Department of Resources Recycling and Recovery (CalRecycle) protects public health and safety and the environment through the regulation of solid waste facilities, including landfills, and promotes recycling of a variety of materials, including beverage containers, electronic waste, waste tires, used oil, and other materials. CalRecycle also promotes the following waste diversion practices: (1) source reduction, (2) recycling and composting, and (3) reuse. Additional departmental activities include research, permitting, inspection, enforcement, market development to promote recycling industries, and technical assistance to local agencies.

Governor's Budget. The Governor's budget includes $1.5 billion from various funds for support of CalRecycle in 2015-16. This is about the same level as current-year estimated expenditures.

EXPENDITURES BY PROGRAM (in thousands)

	Program	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
	Waste Reduction and Management	$224,534	$488,103	$216,596
	Loan Repayments	- 2,993	- 3,745	- 178
	Education and Environment Initiative	1,903	2,623	3,310
	Beverage Container Recycling and Litter Reduction	1,325,313	1,312,872	1,308,360
Total Expenditures (All Programs)		**$1,548,758**	**$1,799,853**	**$1,528,088**

VOTE-ONLY CALENDAR

1. **Extended Producer Responsibility Program Supervisor.** The budget requests $175,000 in (various carpet, paint and mattress special funds), and one position, for reorganization and more efficient supervision of staff involved in implementing CalRecycle's extended producer responsibility programs. Staff managing these programs is currently dispersed in multiple units throughout the department.

2. **Independent Hearing Officer.** The department requests one, permanent, attorney III position, and $176,000 annually (multiple special funds through distributed administration), to handle a significant increase in mandated informal hearings required to be conducted by the director or his/her designee.

Staff Recommendation: Approve as proposed.

Vote:

Issue 1: Beverage Container Recycling Program

Background. The Department of Resources, Recycling and Recovery (CalRecycle) oversees and provides guidelines for most household and commercial waste, including the garbage picked up outside homes and businesses, recycling and compost. CalRecycle's mission is to restore, protect, and manage the state's natural, historical, and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration, and respect for all the communities and interests involved. The largest single program at CalRecycle is the Beverage Container Recycling Program (BCRP).

The BCRP was established almost 30 years ago with the enactment of AB 2020 (Margolin), Chapter 624, Statutes of 1986. The BCRP is intended to be a self-funded program that encourages consumers to recycle certain beverage containers. The program accomplishes this goal by first requiring consumers to pay a deposit for each eligible container purchased. The program guarantees consumers repayment of that deposit—the California Redemption Value, or "CRV"—for each eligible container returned to a certified recycler. Statute includes two main goals for the program: (1) reducing litter and (2) achieving a recycling rate of 80 percent for eligible containers.

Despite paying the CRV deposit, not all consumers recycle their CRV-eligible containers. In 2013–14, for example, the Beverage Container Recycling Fund (BCRF) received roughly $1.2 billion in deposits, but only about $1 billion—over 80 percent—was spent on redemption payments. The BCRF retains unredeemed deposits, and state law requires that much of the unredeemed CRV be spent on specified recycling–related programs. These supplemental programs are not directly involved in the exchange of CRV, but they are intended to help achieve the programmatic goals of increased recycling and reduced litter. There are currently ten supplemental programs funded from the BCRF (including program administration). Such programs include subsidizing glass and plastic recycling, encouraging supermarket recycling collection sites, and providing grants for market development and other recycling–related activities. CalRecycle estimates that a total of $279 million will be spent on supplemental programs in 2015–16. The figure on the following page describes how the CRV works.

Quarterly Report on the BCRP. CalRecycle is required to report quarterly on the status of the BCRP in order to review the adequacy of resources in the Beverage Container Recycling Fund for purposes of making payments specified in Public Resources Code (PRC) Section 14581 and the processing fee offsets specified in PRC Section 14575. This statutorily-required report provides updates on the status of all five funds in the Beverage Container Recycling Program. This report also provides projections for sales, recycling volumes (returns), processing payments, processing fees, and processing fee offsets, by material type, and handling fees. Finally, this report provides an explanation of significant changes between the current projections and the projections presented in the previous year.

How the California Redemption Value (CRV) Recycling Program Works

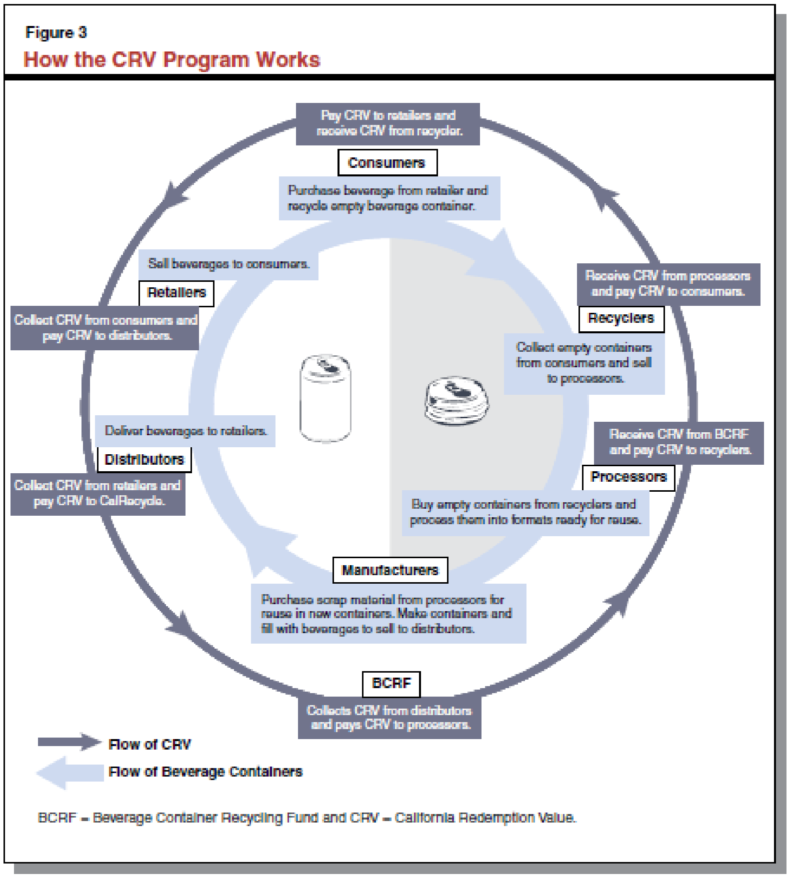

Figure 3
How the CRV Program Works

Source: Legislative Analyst's Office 2015

According to the most recent report, a combination of factors has imposed a strain on the Beverage Container Recycling Fund, resulting in an ongoing structural deficit. These factors include statutorily-prescribed payments established when the fund was running large surpluses, fraudulent activity, and ironically, the success of the program itself. In 2008-09, the recycling rate rose to 78 percent. Since then, the recycling rate has continued to increase. The current recycling rate is about 80 percent. Until now, the gap between expenditures and revenues has been temporarily bridged through repayments of loans, particularly to the General Fund, made from the fund when it was operating at a surplus. The final loan repayment, amounting to $82.3 million, was paid in full at the end of 2014-15.

Update from the Most Recent Quarterly Report. According to CalRecycle, the BCRP is currently operating with an approximately $100 million annual structural deficit as a result of the combination of historically high recycling rates, mandated program payments and general fund loans. This figure can fluctuate as much as tens of millions of dollars from quarter-to-quarter as a result of economic shifts and other factors (including scrap value rates). The structural deficit means that program expenditures exceed program revenues under the current mandated expenditure and revenue structure. Potential program reforms will be required to address the structural deficit of the Recycling Fund and ensure the integrity and long-term viability of the BCRP.

In order to address the structural deficit, CalRecycle implemented several program reforms, including reduced daily load limits for redemption at recycling centers, increased monitoring of the importation of out-of-state beverage containers, and elimination of the commingled rate at buyback centers. This last reform allowed for slightly lower per-pound refund rates for loads containing a combination of CRV and non-CRV material. However, actions taken thus far have secured only partial success; while the gap is smaller, the amount of money coming into the BCRF is still insufficient to cover the amount being paid out. In order to eliminate the structural deficit and achieve a secure financial future for the fund and the programs it supports, further measures will be necessary.

2014 State Auditor Report and Recommendations. A recent audit by the Bureau of State Audits (BSA), released in November 2014, confirmed both the positive impact of the first round of reforms and the need for more. The audit confirmed the BCRF structural deficit, then approximately $100 million, and recognized that changes such as reducing or eliminating administrative fees for beverage distributors, enacting changes to mandatory payments such as those for curbside programs or quality incentives to beverage program participants, or reducing or eliminating processing fee offsets, could improve the program's financial condition. The audit shows a decline in the projected average structural deficit, from $56 million in January 2015 to $27.9 million in 2014-15 through 2017-18, based on lower payouts, potentially stemming from the recent reforms, as well as higher revenues as beverage sales have increased with an improving economy.

The report made a series of recommendations, most of which the department has embraced. To ensure that it can demonstrate that its fraud prevention efforts are maximizing financial recoveries for the beverage program, BSA recommended CalRecycle modify and annually update its fraud management plan to include the following:

- Finalize a process to analyze the data the Department Food and Agriculture provided on out-of-state containers and act on the results to identify and prosecute those committing fraud.
- Develop fraud estimates—by type of fraudulent activity—that quantify the potential financial losses to the beverage program and the methodology CalRecycle used to develop these estimates.
- Identify the amount of actual fraud in the prior year by type of fraudulent activity, such as the financial losses resulting from the redemption of out-of-state beverage containers or the falsification of reports used to substantiate program payments.
- Identify the amount actually recovered for the beverage program in the form of cash for restitution and penalties resulting from fraud.
- Contract with the Board of Equalization (BOE) to determine the feasibility and cost of transferring its revenue collection duties and audit reviews to them.

- Should CalRecycle find that it is feasible and cost-effective, pursue legislative changes that enable the BOE to collect revenues for the beverage program at the point of sale and remit the money to the beverage fund.

Legislative Analyst's Office Review. In 2015, the LAO conducted a thorough review of the BCRP and determined that not only is the shortfall accurate, certain offsets place additional costs on the program and the effectiveness of some of the supplemental programs are unclear. The LAO review found the following:

> **High Recycling Rates and Spending on Supplemental Programs Create BCRF Shortfall.** The BCRF has operated under an annual structural deficit averaging about $90 million since 2008-09. According to CalRecycle estimates, the fund is currently forecast to have an operating deficit of about $60 million in 2015–16 and run an average deficit of $56 million from 2014-15 to 2017-18, absent any changes made to reduce expenditures or increase revenues. This deficit is largely due to increased recycling rates in recent years, which have resulted in a greater share of BCRF revenue being paid out for CRV. Moreover, some supplemental programs are paid on a per container basis, and therefore these expenditures increase as the number of containers redeemed increases. The combined effects of higher recycling rates—more spending on CRV payments and certain supplemental program expenditures—make it much more difficult for the BCRF to operate with a structural balance.

Beverage Container Recycling Fund Expenditures

Expenditures	2015-16 Projection
Revenues (California Redemption Payments)	$1,036.5
Supplemental Program Expenditures	
Processing fee offsets	75.4
Handling fees	55.3
CalRecycle administration	50.0
Administrative fees	44.7
Curbside supplemental payments	15.0
Payments to local governments	10.5
Plastic Market Development Payments	10.0
Quality Incentive Payments	10.0
Local Conservation Corps grants	6.4
Beverage Container Recycling Competitive Grants	1.5
Total Expenditures	**$1,315.3**
Deficit	***($278.8)***

Source: Legislative Analyst's Office 2015

For the last several years, the fund balance that accumulated when recycling rates were lower was able to support this expenditure level. However, the balance is being depleted further each year, and programmatic changes will need to be made in the next few years in order to keep the fund solvent and avoid statutorily required automatic funding cuts (referred to as "proportional reductions"). Acting sooner would provide the Legislature a greater number of options to address the deficit and allow for more flexibility when implementing any changes.

Offsets Are Major Cost to BCRF and Do Not Clearly Support Goals. The state subsidizes recycling by making "processing payments" from the BCRF to recyclers and processors. Processing payments are intended to cover the difference between a container's scrap value and the cost of recycling it (including a reasonable rate of return). These payments are funded from two sources: (1) "processing fees" paid by beverage manufacturers and (2) the BCRF supplemental program, referred to as "processing fee offsets," which reduces the amount of processing fees that manufacturers must pay. Processing fee offsets—the amount of processing payments covered by the BCRF—are projected to be $75 million in 2015–16.

It is unclear how current processing fee offsets provided to manufacturers incentivize increased recycling. Additionally, providing offsets does not require manufacturers to consider the lifecycle costs of the materials that they use in their products. By reducing the amount of processing fees, the offsets effectively subsidize materials that are relatively more expensive to recycle.

Effectiveness of Some Supplemental Programs Unclear. While supplemental programs might have merit, we find that many of the programs have not been evaluated for their effectiveness at improving recycling. This lack of evaluation makes it difficult to compare the relative cost–effectiveness of supplemental programs and to determine how they help to achieve program goals of increasing recycling and reducing litter. This information is critical in determining the best use of limited program dollars. In addition, the existing structure of "handling fee" payments currently made to certain recyclers does not maximize convenience for many consumers, and may raise convenience–zone recycler costs, resulting in higher handling fee payments from the BCRF. Finally, the department has not evaluated whether administrative fees—funds that beverage container distributors, processors, and recyclers receive to cover their administrative costs to participate in the BCRP—accurately reflect costs for these program participants.

2014 Proposal—Phase 2 Reform. In January 2014, the budget proposed ten programmatic changes that were expected to result in a net increase to the BCRF annual fund balance of $72.3 million in 2014-15, growing to $127 million when fully implemented in 2016-17. The changes would have both raised revenue and decreased overall program expenditures, while at the same time modestly increasing specific expenditures for fraud prevention, data collection, and expanded grant programs. The Administration projected that these changes would eliminate the program's structural deficit once fully implemented and avoid the need to implement proportional reductions.

2014 Budget and Trailer Bill Actions. The budget subcommittees did not approve trailer bill language and the budget proposals that would have provided the second phase of the BCRF reform. Instead, the Legislature approved trailer bill language to remove the Local Conservation

Corps (LCC) from the statutory provisions of the program funding and diversified the LCC funding similar to that proposed by the Governor under the program reform proposal.

The budget also included several positions to increase audit coverage of beverage manufacturers and distributors to better protect the integrity of the BCRF. The emphasis was on collecting revenues owed to CalRecycle and mitigating risk to the fund.

2015 Legislative Oversight and Actions. The Legislature took action in the 2015 budget to make additional changes to the BCRP, specifically to address issues raised by the Legislature and BSA related to audits and compliance. With these actions, the Legislature can more confidently address the structural deficit as described by the department. These actions included:

- **Targeted Activities to Improve Program Integrity.** $357,000 (BCRF) and three positions, and $717,000 (BCRF penalty account) and seven two-year, limited-term positions, to implement targeted activities to enhance program integrity, reduce expenditures, and mitigate potential program funding shortfalls. The budget converted eight existing limited-term positions to permanent for ongoing program certification workload.

- **Processor Oversight Activities.** $933,000 and ten two-year limited-term positions to establish a pilot program with dedicated on-site investigation resources at certified processor facilities. These positions will create a new pilot program to expand current fraud investigation activities on recyclers to processing facilities.

- **Rigid Plastic Packaging Container Program.** $296,000 (BCRF) and three positions, to conduct annual rigid plastic packaging container compliance certification reviews, pursuant to recently adopted regulations, and provide additional compliance assistance tools.

GOVERNOR'S PROPOSAL

Beverage Container Recycling Reform. The budget includes only minor proposals to continue efforts to reform the BCRP, despite the continued volatility in the fund and the department's strong effort to address specific fraud and audit requirements. These efforts have reduced the potential impact of fraud-related activities on the BCRF estimates. The budget does include a related proposal that may impact the department's ability to address specific deficiencies related to the BCRP. Specifically, the budget requests:

- **Minor Proposal—Position Request.** $110,000 (Beverage Container Recycling Fund) and one permanent associate governmental program analyst, beginning in 2016-17, to provide programmatic and fiduciary oversight of expenditures in the Beverage Container City/County Payment Program. This proposal is consistent with the CalRecycle approved corrective action plan, in response to a 2014 BSA report. The requested position would provide additional collaboration, training, and technical assistance to participants in the program to ensure successful reporting and submittal of expenditure reports. This change would align this program with other CalRecycle payment programs to provide fiduciary accountability.

- **Cap-and-Trade Expenditure Proposal.** $100 million (Greenhouse Gas Reduction Fund), conversion of nine positions to permanent, and an additional 17 positions to: (1) reduce methane emissions from landfills; and, (2) further greenhouse gas emission reductions in upstream management and manufacturing processes for organic and other recyclable materials. These programs support the expansion of existing, and the establishment of new, organic materials management facilities and recyclable commodities manufacturing facilities, as well as food waste prevention programs. The department's program (both loans and grants) are intended to result in commercial infrastructure for handling organic materials in food waste prevention projects (such as food rescue projects with food banks, food network projects that match generators with receivers, and to benefit food-insecure communities). Specific programs include in-vessel digestion facilities that produce biofuel and/or bioenergy to complement other alternative fuel programs in the state.

ISSUES TO CONSIDER

LAO Recommendations. The LAO makes several recommendations that would help right-size the BCRP and shift the focus to programs that have demonstrated success. In order to do this, the Legislature would need to make several statutory changes and prioritize supplemental programs funded by the BCRP. Specifically, the LAO recommends:

- **Shift Processing Costs to Manufacturers.** The LAO recommends shifting processing costs to manufacturers. This would reduce BCRF expenditures significantly, probably eliminating the structural deficit. It would also require producers to cover the recycling costs of their products, which means that these costs are incorporated or "internalized" into the total cost of the product when it is sold. Therefore, the price that consumers pay reflects the entire cost of the product—its production and disposal. Shifting costs to manufacturers could be done in two ways, either by eliminating processing fee offsets or by moving to a market–based system where manufacturers are responsible for the recycling of materials. While either approach could work, the LAO states that the market–based approach would have several potential advantages.

- **Improve Cost–Effectiveness of BCRP.** The LAO makes several recommendations designed to improve the cost–effectiveness of the BCRP: including (1) evaluating supplemental programs to determine how cost–effective they are at achieving recycling and litter reduction goals; (2) giving recyclers more flexibility in where they locate and piloting a new payment structure in order to improve convenience for consumers; and, (3) adjusting the administrative fee to reflect the actual costs of program participation. In combination, the LAO believes these recommendations would improve the program's financial sustainability at current and potentially higher future recycling rates.

Should the Legislature Re-Consider Trailer Bill Language to Reform the Program? The department's approach to the management of the BCRP, including responding to audits, focusing efforts to reduce fraud, and improving management of the fund overall, has resulted in a more robust forecasting of the BCRF. At this point, the department has produced nearly as much reform as it can without legislative change. The Legislature should consider whether the time has come for a more comprehensive approach to policy change, focusing on offsets, for the program overall.

Should the Legislature Consider Program Reform Offsets Using Greenhouse Gas Emission Reduction Funds? The department proposes to use most of the greenhouse gas emission funding allocated to the department for methane reduction and upstream management in recycling and composting programs. The Legislature could, to the extent possible, direct the department to adjust its budget proposal to provide as much co-benefits to the BCRP offset programs in order to shore up the BCRF long-term. As long as the department continues to use the funds to reduce greenhouse gases, this would be an allowable use of the fund.

Should the Legislature Consider Interim Pilot Projects? Certain jurisdictions feel they can achieve the goals of the recycling program in a more efficient and effective manner than the state. Given the likelihood that program reform will take multiple years, the Legislature should consider allowing temporary pilot programs to move forward to better inform the department as it reforms its overall recycling programs. This could be done in a manner so as not to harm the overall program, and with proper reporting and accountability.

Staff Comments: Staff has continued to work with the department to determine if there are reform proposals that would provide relief to the fund, while looking to the future of the program. The program has outgrown its original statute, which was designed to reduce litter, and should be revisited. Several options are available including: (1) approving minor changes such as proposed by the LAO, administration, or outside entities; (2) requiring the department to produce several reform options that integrate the BCRF into the overall recycling programs at the department; and, (3) asking an independent board or panel to review the current recycling programs overall, with the goal in mind to modernize the overall recycling programs, incorporating beverage container recycling as one of many commodities to recycle.

Staff Recommendation: Hold Open

Issue 2: Education and the Environment Initiative

Background. AB 1548 (Pavley), Chapter 665, Statutes of 2003, created the Office of Education and the Environment (OEE), within the former California Integrated Waste Management Board, and directed it to work in collaboration with the California Department of Education (CDE), the California Environmental Protection Agency, and the Natural Resources Agency, to develop a "model" environmental curriculum, known as the Education and Environment Initiative (EEI), for K-12 students. The intent of the law, as reiterated in SB 96 (Committee on Budget and Fiscal Review), Chapter 356, Statutes of 2013, was to provide that California students become environmentally-literate citizens. Between 2003 and 2009, OEE oversaw the creation of the EEI curriculum. In 2009, the State Board of Education approved the curriculum for use in all California public schools. The curriculum combines fundamental environmental principles and concepts with the traditional subject matter of science, history, social science, and English language arts. Statewide, the target audience is more than 150,000 teachers spread over 10,000 schools.

Since 2013, private sector philanthropists have shown their commitment to environmental literacy by contributing $2.6 million to assist OEE in fulfilling its mission of implementing the EEI curriculum and advance other state supported environmental literacy initiatives. The EEI curriculum was designed as a print product and relies on three things for teachers to use it in their classrooms: marketing and awareness, professional learning of teachers, and distribution of printed materials. Philanthropists are looking to the state to provide the basic infrastructure of printing the materials for teachers to use in their classrooms, while they continue to contribute to the other two areas, as well as to larger state environmental literacy initiatives.

Governor’s Proposal. The Governor requests $700,000 ($350,000 California Used Oil Recycling Fund and $350,000 California Tire Recycling Management Fund) in one-time funding to develop a sustainable funding strategy for the Education and the Environment Initiative (EEI) program and address increased demand for the EEI curriculum. This proposal also includes budget bill language (BBL) providing additional flexibility to the Environmental Education Account.

Staff Comments. Teacher demand for the state-created, EEI curriculum has expanded and this proposal would help CalRecycle facilitate use of the curriculum and foster environmental literacy among all California students. The Governor’s budget proposes an expenditure of $700,000 to pay for the printing costs of the EEI curriculum for the 2016-17 school year. However, this amount is $780,000 short of the cost needed for printing to fulfill teacher demands for the curriculum. If the state does not provide adequate funding for the printing of these materials, it could result in stagnation of the state’s flagship environmental literacy program. It is important to note that this level of funding (or more) will be needed for the next 3.5 years, which is the estimated time it will take to adopt the required environmental principals and concepts into textbooks. The subcommittee may wish to ask the department about these concerns.

Staff Recommendation. Approve as proposed, plus $780,000 additional funding for printing.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, April 21, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Catherine Freeman

OUTCOMES
ISSUES PROPOSED FOR DISCUSSION

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3930 DEPARTMENT OF PESTICIDE REGULATION

The California Department of Pesticide Regulation (CDPR) administers programs to protect public health and the environment from unsafe exposures to pesticides. The department (1) evaluates the public health and environmental impact of pesticide use; (2) regulates, monitors, and controls the sale and use of pesticides in the state; and (3) develops and promotes the use of reduced-risk practices for pest management. The department is funded primarily by an assessment on the sale of pesticides in the state.

Governor's Budget. The Governor's budget includes $97.1 million and 291 positions for the Department of Pesticide Regulation. This is an increase of about $6 million, mainly due to the shift of the cost of an approved information technology system to the budget year. Other funds include fees on registration of products, federal funds, and the California Environmental License Plate Fund.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
Department of Pesticide Regulation Fund	$ 84,543	$ 88,049	$ 94,082
California Environmental License Plate Fund	461	470	466
Federal Trust Fund	2,253	2,011	2,006
Reimbursements	417	600	600
Total Expenditures (All Funds)	**$87,674**	**$91,130**	**$97,154**

VOTE-ONLY CALENDAR

1. **Reappropriation of Pesticide Registration Data Management System.** The department requests a technical budget adjustment to the previously approved information technology project due to additional review, so the project requirements, before funding, could be encumbered against the system integrator contract, the main contract for the project. There is no change to the total funding requested for the project.

2. **Continuing the Air Monitoring Network.** The budget proposes ongoing resources of $468,000 (Department of Pesticide Regulation Fund), and 1.5 positions, including contract funds for laboratory sample analysis. This will make permanent the previously approved, limited-term project, to monitor ambient air pesticide concentrations (including soil fumigants), and calculate the human health risk from exposure to multiple pesticides for long time periods.

3. **Augmentation of the Food Safety Program.** The budget proposes $391,000 one-time and $313,000, ongoing (Department of Pesticide Regulation Fund), and three environmental scientist positions to address increased workload from pesticide residue detections.

Staff Recommendation: Approve as proposed.

Vote: 3-0 to approve.

Issue 1: Pollinator Protection Risk Evaluation

Background. A pesticide must be registered with the Department of Pesticide Regulation (DPR) before it can be used, possessed, or offered for sale in California. DPR is statutorily required to thoroughly evaluate the pesticides' toxic effects. One of the core functions of DPR is to ensure timely registration decisions while enhancing the protection of human health and the environment. In the last few years, both the U.S. Environmental Protection Agency (US EPA) and DPR have added new data requirements to allow assessment of the chronic risks of pesticide exposure to pollinators (honey and native bees). The new risk assessment framework is based on a tiered process, and focuses on the major routes of exposure (from overspray or direct contact with the pesticide on the plant surface). In June 2014, due to the significant decline of pollinators over the last several decades, President Obama issued a Presidential Memorandum "Creating a Federal Strategy to Promote the Health of Honey Bees and Other Pollinators." This strategy outlined a comprehensive approach to reducing the impact of multiple stressors on pollinator health, including pests and pathogens, and exposure to pesticides. Critical components of the strategy are to advance the science supporting regulatory decisions, as well as strategies for mitigation.

In the last year, California beekeepers lost 40 percent of their hives, nearly twice the national average. Wild bee populations have declined by 23 percent between 2003 and 2008 in the Central Valley and other key agricultural regions of the state. As an example, research suggests that widespread use of neonicotinoid (neonic) pesticides, which are a systemic pesticide designed to reduce or eliminate sap-eating pests (such as aphids), are negatively impacting hives in addition to other stressors. Although these products are used on a restricted basis in agricultural settings, they also can purchased by consumers for home and garden use, and are often found in pre-treated seedlings at home and garden stores. A November 2015 U.S. Geological Survey study, found residue from one of three types of neonics in a majority of bees sampled.

In addition to the data requirement and assessment process, the US EPA also instituted various regulations and label revisions to currently registered pesticide products in order to provide further protection for pollinators. DPR staff was, as of last year, redirected to review the label amendments to currently registered pollinator-impacting pesticides. Despite DPR's attempt to redirect resources to assist with the label revisions to pollinator labeling language required for currently registered pesticide products, DPR states that it cannot efficiently and effectively address this; and the new evaluation of new pesticide products containing new active ingredients, without new resources.

Governor's Proposal. The Governor's budget requests two positions and $335,000 in DPR Funds ($308,000 ongoing) to address the increasing workload with pollinator protection issues. One position will help evaluate and assess ecotoxicology studies and to establish new pollinator data requirements in collaboration with the U.S. Environmental Protection Agency (EPA). The second position will organize onsite field events for growers and beekeepers, develop a California-managed pollinator protection plan, conduct enforcement training, create and disseminate brochures and educational materials, evaluate rulemaking, and investigate pollinator/pesticide bee damage incidents and causes.

Specifically, the department plans to:

- Develop and conduct collaborative educational field events between growers and beekeepers.
- Develop a state managed pollinator protection plan.
- Develop and conduct investigative enforcement training for local California Agricultural Commissioner inspectors on new label use restrictions and regulations.
- Make presentations to growers, applicators, beekeepers, regulators and landowners statewide.
- Create and disseminate pamphlets, brochures, leaflets and online information.
- Identify pollinator bee/pesticide incidents and investigate cause.
- Develop rulemaking to align with the Presidents directive on pollinator protection.

Staff Comments. Staff is supportive of increased scrutiny of pesticides affecting pollinators, particularly given the extreme changes to hives and pervasiveness of pesticides in the bee population. However, given the percentage of hives and plants that may be impacted by pesticides, the department's proposal could be more robust. It would seem more productive, in addition to those activities suggested by the department, for the department to take a more pro-active approach to the protection of pollinators. The data is now available to show that the problem is current and of sufficient risk to move forward with a rulemaking package that is California-centric and stronger than the federal government's actions.

Staff recommends holding the item open for continued discussions with the department about its approach to: (1) increased label restrictions both in agricultural and commercial settings, including at individual consumer level, and (2) increased proactive regulations restricting the use of pollinator-impacting pesticides.

Staff supports increasing position authority and funding to meet California's pollinator challenges, not just those of the federal government. Additional funds could be directed to a research institution to provide the department with specific recommendations for a robust public policy approach to pollinators.

Staff Recommendation. Hold Open.

Vote: 3-0 to approve with two additional positions to expedite the Governor's proposal, draft budget bill language:

> Item 3939-001-0106. Of the amount provided in this item, two positions shall be available to the expedite the development of a pollinator protection plan, develop and conduct investigative enforcement training for new label use restrictions and regulations, identify pollinator bee and pesticide incidents and investigate cause, and to expedite the development of a rulemaking on pollinator protection.

Supplemental requiring reporting on the expedited actions at budget hearings next year.

Issue 2: Mitigation of Pesticide Impacts on Workers

Background. In 2014, two new laws led to an increased workload for Worker Health and Safety Branch. First, AB 101 (Committee on Budget), Chapter 354, Statutes of 2013, included budget bill language that set the minimum number of risk assessments completed by DPR each year to five. While this language was removed from subsequent budget acts, there is an expectation among stakeholders that DPR will continue to meet this goal. Prior to this, there was no specific requirement for DPR to meet a specific quota. Second, AB 304 (Williams), Chapter 584, Statutes of 2013, requires DPR to adopt mitigation measures for pesticides determined to be a toxic air contaminant within two years of the department determining that additional mitigation measures are necessary. DPR received three positions in the 2013-14 Budget Act (AB 101), to conduct five risk assessments per year. However, DPR did not receive resources for the corresponding resources needed for the increased mitigation measures that address the unacceptable exposures identified in the risk assessments.

Governor's Proposal. The Governor's budget proposes $482,000 from the DPR Fund and two permanent positions to address the growing need to develop strategies to mitigate pesticide impacts on workers and bystanders. This proposal includes ongoing contract funds for a facilitator ($20,000) to lead public meetings and for mitigation research ($150,000).

Staff Comments. This proposal will enable DPR to keep pace with the increased production of risk assessments and concomitant need for mitigation, in addition to the legal requirement to complete mitigation in two years for pesticides identified as toxic air contaminants. Further, it will allow the DPR to enter into contracts necessary to support the development and evaluation of practical and scientifically sound mitigation strategies to further protect fieldworkers, pesticide handlers, and bystanders.

Staff Recommendation. Approve as proposed.

Vote:3-0 to approve.

3960 Department of Toxic Substances Control

The Department of Toxic Substances Control (DTSC) regulates hazardous waste management, cleans up, or oversees the cleanup of, contaminated hazardous waste sites, and promotes the reduction of hazardous waste generation. The department is funded by fees paid by persons that generate, transport, store, treat, or dispose of hazardous wastes; environmental fees levied on most corporations; federal funds; and General Fund.

Governor's Budget. The Governor's budget includes $217 million from various funds for support of DTSC in 2016-17. This is a decrease of $12.5 million or 5.7 percent from the current–year level.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
General Fund	$ 26,632	$ 27,382	$ 29,347
Hazardous Waste Control Account	57,525	63,511	61,216
Site Remediation Account	24,019	11,047	10,503
Unified Program Account	1,064	1,224	1,229
Illegal Drug Lab Cleanup Account	818	810	828
Childhood Lead Poisoning Prevention Fund	40	53	51
California Used Oil Recycling Fund	244	408	410
Department of Pesticide Regulation Fund	34	46	45
Air Pollution Control Fund	32	44	43
Removal and Remedial Action Account	3,257	3,346	3,314
Expedited Site Remediation Trust Fund	-	3,425	-
Site Operation and Maintenance Account, Hazardous Substances Account	169	407	404
Toxic Substances Control Account	45,928	65,652	57,016
Federal Trust Fund	30,449	32,498	32,913
Reimbursements	12,821	13,075	13,075
Cleanup Loans and Environmental Assistance to Neighborhoods Account	259	1,000	1,000
Electronic Waste Recovery and Recycling Account, Integrated Waste Management Fund	1,974	2,204	2,226
State Certified Unified Program Agency Account	1,365	2,723	2,721
Birth Defects Monitoring Program Fund	171	136	146
Revolving Loans Fund	- 697	1,062	1,027
Total Expenditures (All Funds)	**$206,104**	**$230,053**	**$217,514**

VOTE-ONLY CALENDAR

1. **AB 276 Ability to Pay: Cost Recovery.** The budget requests $200,000 and two permanent positions ($180,000 Toxic Substances Control Account and $20,000 Hazardous Waste Control Account) to implement the expanded information request authority pursuant to AB 276 (Assembly Committee on Environmental Safety and Toxic Materials), Chapter 459, Statutes of 2015). AB 276 allows DTSC to require a potentially responsible party (PRP) to provide information regarding the party's ability to pay for a response action at a site where there has been, or may be, a release of hazardous waste, hazardous substances, or hazardous materials in the environment.

2. **Attorney General Independent Review and Panel Costs.** The budget requests an augmentation of $50,000 in Fiscal Year (FY) 2016-17 ($25,000 Toxic Substances Control Account and $25,000 Hazardous Waste Control Account). The request also includes $25,000 in FY 2017-18 split similarly between the two accounts. Funds will be used to reimburse the Attorney General for expenses associated with its support for the Independent Review Panel, which was established pursuant to Senate Bill 83 (Committee of Budget and Fiscal Review), Chapter 24, Statutes of 2015. The IRP is responsible for reviewing and making recommendations regarding improvements to the department's permitting, enforcement, public outreach, and fiscal management. The IRP consists of three appointed members.

3. **Biomonitoring.** The budget requests to extend for two additional years, two limited-term positions and $350,000 (Toxic Substances Control Account) in the Biomonitoring California Program. These two positions will continue to analyze specific toxic chemical contaminants in biological samples from ongoing population-based investigations. Biomonitoring California was established through SB 1379 (Perata and Ortiz), Chapter 599, Statutes of 2006. Biomonitoring California's principal mandates are to: (1) measure and report levels of specific environmental chemicals in blood and urine samples from a representative sample of Californians, (2) conduct community-based biomonitoring studies, and (3) help assess the effectiveness of public health and environmental programs in reducing chemical exposures.

4. **Treated Wood Waste.** The Governor's budget requests an augmentation $370,000 (Hazardous Waste Control Account) of for two years to implement SB 162 (Galgiani), Chapter 351, Statues of 2015, related to the management of treated wood waste. This proposal includes trailer bill language to extend the implementation period for an additional six months, to provide a full two years to implement the requirements of SB 162 to conduct a comprehensive evaluation of treated wood waste handlers, their compliance with the requirements, and the effectiveness of the standards. It requires DTSC to inspect at least 25 percent of treated wood waste generators and treated wood waste disposal facilities in conducting its evaluation.

5. **Argonaut Mine Dam Retrofit.** The budget requests $14.3 million (General Fund), one-time, to retrofit the Argonaut Mine Dam in Jackson, California. This follows various state and federal studies that concluded that the dam is structurally unstable and has a significant chance of complete failure with sustained rainfall.

6. Replacement of Laboratory Equipment. The budget requests $2 million (Hazardous Waste Control Account) on a one-time basis to procure laboratory and investigatory equipment used for conducting investigations in support of criminal, civil, and administrative enforcement of hazardous waste laws. Available funding is the result of a settlement agreement that specifies the use of these funds.

Staff Recommendation: Approve as proposed.

Vote: Motion to approve.

Items 1, 4, 5, 6: 3-0 to approve

Items 2,3: 2-1 (Nielsen, no) to approve.

Issue 1: Independent Review Panel (Informational)

Special Presentation by: Gideon Krakov, JD, Chair, Independent Review Panel

Background. The Independent Review Panel (IRP) was established within the DTSC pursuant to SB 83 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2015. The IRP is comprised of three members: an appointee of the Assembly Speaker with scientific experience related to toxic materials, an appointee of the Senate Committee on Rules who is a community representative, and an appointee of the Governor who is a local government management expert. The current IRP members are: Dr. Arezoo Campbell (scientist with experience related to toxic materials), Gideon Kracov, JD (community representative), and Mike Vizzier (local government management expert). The panel members are tasked with reviewing and making recommendations regarding improvements to DTSC's permitting, enforcement, public outreach, and fiscal management. The IRP also may make recommendations for other DTSC programs, may advise DTSC on its reporting obligations, and is required to advise DTSC on compliance with the mandate to institute quality government programs to achieve increased levels of environmental protection and public satisfaction.

On January 28, 2016, the IRP released its first report to the Legislature summarizing recommendations and data requests to DTSC in areas including: budget, permitting, enforcement, public outreach, and fiscal management. The report included the following recommendations:

- **Fiscal Management.** The IRP discusses DTSC's efforts, in response to a 2013 state audit that found a lack of due diligence on cost recovery, efforts to implement cost recovery changes to recoup its costs. The IRP recommends that DTSC report in its biennial report documentation on compliance with all goals and objectives.

- **Permitting.** The report highlights DTSC's permitting backlog and recommends that DTSC require adequate financial assurances be set aside for corrective action for existing hazardous waste releases and that DTSC obtain full cost recovery connected with its Hazardous Waste Facility Permit decisions. The IRP requests data from DTSC that includes a list of existing financial assurances for every hazardous waste facility permit site, and a list of all hazardous waste facility permittees that fall under AB 1075 (Alejo), Chapter 460, Statutes of 2015, violation categories.

- **Public Outreach.** The IRP recognizes that public participation is a cornerstone of DTSC's work, and that DTSC has a budget of $1.5 million for 22 positions for DTSC's public participation program. The IRP recommends making categories of information available on one tab on the DTSC website to make it more user-friendly, and to review decisions made during the past five years by two staff members who were discovered to have sent offensive emails.

Staff Comments. The Independent Review Panel Chair has been asked to provide:

- Overview of IRP's charge and actions to date.
- Key findings and recommendations issued so far.
- Broader observations about functionality of DTSC and prospects for successful reforms.

Staff Recommendation. Information Item.

Issue 2: Permitting Budget Proposals

Background. The DTSC issues hazardous waste facility permits to facilities that manage waste that is toxic, corrosive, reactive, and ignitable. When DTSC issues hazardous waste facility permits it establishes conditions that the facility must meet in addition to the applicable laws and regulations for the management of public waste. There are 119 facilities permitted to manage hazardous waste in California (91 operating facilities and 28 post closure facilities) with a total of 132 permits. Facility permits are issued for 10-year terms, and facilities are required to apply for renewal six months prior to a permit's expiration. If the permit renewal application is submitted on time, the facility may continue to operate under an expired permit, known as a "continued" permit until the final application is approved. As well as permit renewal applications, DTSC makes decisions on applications for new permits and permit modifications. The DTSC's goal is to make decisions on 90 percent of permit applications within an average of two years. Towards achieving this goal, DTSC developed and is implementing the permitting enhancement work plan to create and update processes, guidance, and tools to support consistent processing of permit applications and more timely permit decisions.

There are currently 37 facilities operating under continued permits that are under review by DTSC. In addition to these 37 permits, DTSC anticipates that it will receive 57 permit applications over four years beginning in 2015-16 and the number of applications per year is expected to vary between 10 and 16. In 2014-15 the Legislature approved eight two-year limited term positions to address a backlog of 24 hazardous waste facility permits. The department made decisions on five of the backlogged permits in 2014-15 and plans to make 12 more decisions in 2015-16 and seven more decisions in 2016-17. According to the department, these eight limited-term positions, combined with other departmental resources, allow it to make decisions on about eight permits per year in the future.

Governor's Proposal. The Governor's budget includes several proposals. These include:

> **February Proposal—Hazardous Waste Management Permitting Support.** The Governor proposes an increase of $1.2 million (Hazardous Waste Control Account) to make permanent eight limited–term positions that are set to expire at the end of the current year. These positions were previously provided to address a hazardous waste permit renewal backlog, as well as to update cost estimates associated with closing hazardous waste facilities.
>
> **April Proposal—Enhanced Permitting Capacity and Support**. The department requests $2.4 million from the Hazardous Waste Control Account, and 15 positions within the permitting division, to fully implement process improvements under the permit enhancement work plan. The proposal is intended to sustain timely permitting actions, mitigate the incidence of facilities operating for extended periods of time on expired permits, and improve enforcement.
>
> **April Proposal—Trailer Bill Language.** The department requests trailer bill language to eliminate the option to pay a flat fee for a permit application in lieu of a fee for service so that permit applicants pay the full costs associated with

permitting efforts. The Administration believes this will significantly reduce staff time on permit applications and align revenues with expenditures in the future.

LAO Analysis and Recommendations: The LAO analyzed the Governor's February proposal and provided the following analysis and recommendation:

> Based upon our own projections and DTSC's projections, the department will continue to have an ongoing backlog of permit applications even if the resources requested in the Governor's proposal are approved. The department projects it would need to make decisions on an average of 16 permit applications per year—instead of its estimated average of eight per year—in order to make timely decisions on renewals and process new and modified permits. Our own projections confirm that DTSC would need to roughly double the average number of decisions it makes per year, from 8 to 16, to address the existing backlog and move towards attaining its goal of making decisions on 90 percent of permit applications within an average of two years. The DTSC states that it is exploring options to fund the positions needed to complete an average of 16 permits per year, the level needed to ensure no future backlogs.
>
> **Analyst's Recommendation.** We recommend approval of the Governor's proposal to augment the budget by $1.2 million from the HCWA and convert 8 limited-term positions to permanent status. In our view, these positions are justified on a permanent basis to address ongoing workload. We further recommend that the department be required to report at budget hearings on: (1) the resources that DTSC would require in order to increase its average annual number of permit application decisions from 8 to 16 and thereby eliminate future backlogs; and, (2) the department's progress towards implementing the permitting enhancement work plan to create and update processes, guidance, and tools to support consistent processing of permit applications and more timely permit decisions. Specifically, the department should report on what efficiencies will be achieved by implementing the Permitting Enhancement Work Plan and whether it will result in faster permit decisions.

Staff Comments. Staff concurs with the LAO analysis regarding the February permitting proposal. The department's effort to reduce permitting backlogs and gaps, along with providing appropriate revenue sources is critical to the future of the department. Staff concurs with the concept of both proposals, and agrees with trailer bill language that would align staffing, revenues and expenditures. The subcommittee may wish to ask the department to address:

1. How these proposals, together, will align permitting with workload and the Independent Review Panel recommendations.
2. Whether there is a possibility, even in the short run, of a facility operating without a current permit and, if so, how the department will handle these incidents in the future.
3. What the trailer bill language will accomplish in terms of the structural deficit in the Hazardous Waste Control Account.

Staff Recommendation. Hold Open.

Issue 3: Program and Department Reform

Background. As discussed under the Independent Review Panel, the department is in the middle of a transformation that is intended to put it back on track to providing its basic statutory responsibilities—mostly permitting, tracking and regulating toxic and hazardous waste. The Legislature, over a number of years, has provided the public process by which change has occurred at the department, and continues to do so.

Governor's April Reform Proposals. The Governor's budget includes two proposals designed to improve the department's internal programs and external communication, as follows:

- **Strategic Program Development.** The Governor requests an augmentation of $747,000 ($347,000 from Hazardous Waste Control Account and $373,000 from the Toxic Substances Control Account), and conversion of five positions from limited-term to permanent. The department intends to have the five positions report, as a team, to the existing Special Assistant for Program Review. The team will work systematically through the department's core programs and support services to evaluate the strengths, weaknesses, opportunities, and threat in program and service functions. The team will prioritize areas or issues for development.

- **Office of Environmental Justice and Tribal Affairs.** The Governor requests an augmentation of $881,000 ($441,000 from Toxic Substances Control Account and $440,000 from Hazardous Waste Control Account), and six positions, to create the proposed Office of Environmental Justice and Tribal Affairs. The proposal is intended to strengthen the coordination of environmental justice and tribal affairs activities and to enhance engagement with impacted communities. The office will also identify and address gaps within its own programs that may contribute to unequal environmental protections or outcomes in these communities, and broaden the transparency of and access to DTSC programs.

Staff Comments. The department's efforts for reform are laudable but lack a public process that allows stakeholders, community members, and advocates a regular and accessible method for addressing concerns, particularly with permitting and exposure, outside the legislative process. The Independent Review Panel has identified $1.5 million and 22 positions within the DTSC public participation program.

Staff suggests the department comment on what would be different if there were a permanent board, much like the Air Resources Board or State Water Resources Control Board, to provide that permanent and public process for toxic and hazardous waste. Should a board concept be developed, how would the department effectively implement its strategic program development and Office of Environmental Justice and Tribal Affairs to support the director and board?

Staff Recommendation. Hold Open.

Vote:

3900 Air Resources Board (ARB)

In California, air quality regulation is divided between the ARB and 35 local air quality management districts. The local air districts manage the regulation of stationary sources of pollution (such as industrial facilities) and prepare local implementation plans to achieve compliance with the federal Clean Air Act. The ARB is responsible primarily for the regulation of mobile sources of pollution (such as automobiles) and for the review of local district programs and plans. Historically, the ARB's regulations focused on emissions that affect local or regional air quality, such as particulate matter and ozone-forming emissions. More recently, the ARB also began overseeing the state's efforts to reduce GHG emissions.

Governor's Budget. The Governor's budget proposes $956 million for ARB in 2015-16, a net increase of $397 million compared to estimated expenditures in the current year. This year-over-year increase is largely the result of increased greenhouse gas emission reduction proposals.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
Motor Vehicle Account, State Transportation Fund	$ 131,452	$ 133,665	$ 134,099
Air Pollution Control Fund	112,117	117,291	115,929
Vehicle Inspection and Repair Fund	16,483	16,708	16,716
Air Toxics Inventory and Assessment Account	994	980	976
Public Utilities Commission Utilities Reimbursement Account	-	339	189
Federal Trust Fund	4,677	16,839	16,888
Reimbursements	9,056	11,749	11,749
Oil, Gas, and Geothermal Administrative Fund	1,344	1,386	1,497
Nontoxic Dry Cleaning Incentive Trust Fund	413	404	415
Air Quality Improvement Fund	56,136	24,244	31,808
Enhanced Fleet Modernization Subaccount, High Polluter Repair or Removal Account	-	2,800	2,800
Greenhouse Gas Reduction Fund	130,177	187,111	573,167
Cost of Implementation Account, Air Pollution Control Fund	39,719	45,432	49,836
CA Ports Infrastructure, Security, and Air Quality Improvement Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006	2,983	411	301
Total Expenditures (All Funds)	**$505,551**	**$559,359**	**$956,370**

VOTE-ONLY CALENDAR

1. **Refrigerant Management Program—Technical Adjustment.** The budget request a net-zero redirection of $695,000, per year, collected from facilities subject to annual implementation fees under the AB 32 Refrigerant Management Program to fund four existing positions that are meeting the implementation needs of the program, and currently funded under the Cost of Implementation Account within the Air Pollution Control Fund. In addition to this next-zero redirection of funding for existing positions, ARB requests a net-zero redirection of $180,000 in contract funding for continued maintenance and support of the registration and reporting system.

2. **Air Quality Improvement Program (AQIP) Augmentation.** The budget requests an annual expenditure authority increase from $24.2 million to $31.7 million (Air Quality Improvement Fund) to align the average annual revenue of $30 million for this program. The AQIP funds air quality improvement projects related to fuel and vehicle technologies to reduce criteria pollutant, air toxic and greenhouse gas emissions.

3. **Realign Distributed Administration—Technical Adjustment.** The budget requests a technical adjustment to align administration and distributed administration program authority with administrative operating costs. The next-zero adjustment reflects a $48 million alignment within the budget display.

Staff Recommendation: Approve as proposed.

Vote:

Items 1, 2: 2-1 (Nielsen, no) to approve.

Item 3: 3-0 to approve

Issue 1: Short-Lived Climate Pollutant and Post-2020 Budget Proposals

Background. The LAO has conducted an extensive review of the Governor's various proposals to achieve the Administration's post-2020 greenhouse gas (GHG) emission reduction goals. To that end, they offer the following background and analysis:

> The ARB administers a wide variety of regulations intended to reduce GHG emissions and/or improve air quality. Some of these regulations include the Advanced Clean Cars program, Clean Truck and Bus standards, the refrigerant management program, and the landfill methane capture regulation. The ARB's regulatory activities are driven by federal law, state law, executive orders, and various agency planning efforts. Some of the key drivers are:
>
> - **AB 32 GHG Emissions Limit.** As discussed earlier in this report, AB 32 established the goal of limiting GHG emissions to 1990 levels by 2020 and directed ARB to develop regulations to achieve this goal. It directed ARB to develop a Scoping Plan to identify the regulations and programs needed to achieve the emission targets cost-effectively and update the plan periodically.
>
> - **Federal Air Quality Standards.** The federal Environmental Protection Agency sets air quality standards for specified "criteria" pollutants—such as ozone—pursuant to the federal Clean Air Act. Certain areas of the state do not meet the current federal standards. In addition, federal standards become increasingly stringent in 2023 and 2031.
>
> - **Governor's 2030 and 2050 GHG Goals.** Two different executive orders establish the goals of reducing statewide emissions to 40 percent below 1990 levels by 2030 and 80 percent below 1990 levels by 2050. In addition, one of the executive orders directs ARB to update its Scoping Plan and implement measures, pursuant to statutory authority, to achieve the 2030 goal. A draft of ARB's Scoping Plan is expected to be released this spring and the plan is expected to be finalized this fall.
>
> - **SLCP Strategy.** SB 605 (Lara), Chapter 523 of 2014, requires ARB to develop a strategy to reduce SLCPs—such as methane and fluorinated gases—by January 1, 2016. The ARB is expected to finalize the SLCP strategy in the spring of 2016.
>
> A variety of fund sources are used for these regulatory activities and planning efforts, including the AB 32 Cost of Implementation Account (COIA), the Motor Vehicle Account, the Vehicle Inspection and Repair Fund, and the Air Pollution Control Fund.

Governor's Proposals. The Governor's budget includes several proposals funded by the COIA. These are in addition to several major programs funded by the GGRF. The COIA proposals include:

- **Clean Truck and Bus Standards.** Develop more stringent GHG and criteria pollutant standards for trucks and buses, as well as improve compliance monitoring for existing standards. For example, of the resources requested, two positions and $490,000 are requested to develop more stringent GHG standards to achieve the Governor's long-term GHG goals.

- **Advanced Clean Cars Program.** Develop regulations to increase the number of zero-emission vehicles and reduce criteria pollutants and GHGs from light duty vehicles.

- **SLCP Strategy.** Develop and implement policies to reduce methane and fluorinated gases, improve monitoring of fluorinated gases, and improve enforcement of existing and near-term SLCP strategies.

All of these activities would be funded from the COIA, which is supported by a regulatory fee paid by certain GHG emitters. The account generally supports administrative activities performed by state agencies related to GHG emission reductions. The board might have to increase the fee to pay for the additional costs associated with these proposals. (The fee is currently set at about 15 cents per metric ton of carbon dioxide equivalent.)

Summary of Governor's Proposals to Develop Regulations for Post-2020 GHG Goals

Proposal	Funding and Positions Requested	Primary Justification
Clean Bus and Truck Standards	$1.2 million and four positions	Governor's GHG goals, AB 32, and federal air standards
Advanced Clean Cars Program	$580,000 and four positions	Governor's GHG goals and federal air standards
SLCP (SB 605)	$1.4 million and five positions	SLCP strategy, AB 32, and Governor's GHG goals

GHG = greenhouse gas and SLCP = short-lived climate pollutant. Source: Legislative Analyst's Office.

Greenhouse Gas Emission Reduction Fund (GGRF) Proposal. In addition to the above COIA-funded proposals, the Governor's budget requests $40 million from the GGRF to support a grant program for new residential wood-burning device replacement incentives. The request includes two positions. This item was heard in on February 18 in full budget committee.

LAO Assessment and Recommendations. The LAO offers the following assessment and recommendations:

> **Certain Activities Do Not Appear Consistent With Current Statutory Direction.** Assembly Bill 32 states that the 2020 GHG limit shall remain in effect unless otherwise amended or repealed. However, as shown in Figure 22, the Governor's more stringent 2030 and 2050 GHG targets are identified as a justification for parts of each request. Although the Legislature has adopted major policies intended to achieve substantial GHG reductions beyond 2020—such as establishing a 50 percent renewable portfolio standard and doubling energy efficiency savings in electricity and natural gas by 2030—we are not aware of any statutory direction for ARB to develop regulations to achieve more stringent post-2020 GHG targets.
>
> Furthermore, the ARB indicates that resources are needed to develop new SLCP regulations identified in the SLCP strategy to achieve the intent of the legislation. Although SB 605 directs the administration to develop a strategy to reduce SLCPs, it does not direct the administration to implement the measures contained in the strategy (such as by developing regulations). Therefore, it is unclear whether the proposed activities to develop new regulations are consistent with statutory direction.
>
> **Resources to Develop Certain New Regulations Are Premature.** Even if the Legislature determines that it would like to adopt the more stringent post-2020 GHG targets, the budget requests to develop specific regulations to achieve such targets are premature until more analysis has been done. As discussed above, the administration is developing a Scoping Plan to identify a cost-effective mix of policies that could be used to achieve the 2030 GHG target. However, a draft Scoping Plan has not been released. It is unclear whether the specific regulations identified in these proposals will be part of the final Scoping Plan. Thus, we find that it is premature to provide resources to develop these specific regulations.
>
> **Unclear Whether COIA Is an Appropriate Fund Source for Non-GHG Activities.** All activities in these requests are funded from the COIA. However, it is unclear whether using the funds to support regulatory activities specifically intended to achieve federal air quality standards, but not GHG reductions, is an appropriate use of the funds.

LAO Recommendation. "We recommend modifying the Governor's proposal in two ways: (1) rejecting requests related to the administration's long-term GHG goals and implementing the SLCP strategy and (2) identifying alternative funding sources for air quality activities." Specifically, the LAO recommends:

> **Reject Requests Related to Long-Term GHG Goals and Implementing SLPC Strategy.** The LAO recommends rejecting the proposed positions and funding intended to develop regulations to achieve the Governor's long-term GHG goals and implement the SLCP strategy. These activities appear to be inconsistent with current statutory direction and are premature. Specifically, we recommend reducing the Clean Bus and Truck proposal by the two positions and $490,000 identified by the administration as being related to long-term GHG goals. With respect to the Advanced Clean Cars request

and the SB 605 request, the administration did not provide a breakdown of the positions and funding related primarily to the Governor's post-2020 GHG targets and implementing the SLCP strategy. Therefore, the LAO recommends the Legislature direct the administration to provide this information at budget hearings so that similar adjustments can be made.

Identify Alternative Funding Sources for Air Quality Activities. The LAO further recommends that the Legislature direct the administration to identify an alternate fund source for activities specifically related to achieving federal air quality standards.

Staff Comments. The LAO provides a good analysis of the issues surrounding SLCP and the regulatory approach provided by ARB. After the LAO analysis was completed, the Administration reported on strategies to achieve GHG emission reductions from SLCP, which have a number of co-benefits including the reduction of public health, air and water quality impacts. Regulation of this important set of criteria pollutants is critical to the state's overall approach to reducing the impacts of greenhouse gas emissions. The use of the cost of implementation fee is appropriate for the development of the regulations and programs, which would likely be then followed by use of GGRF for broad program support.

Staff Recommendations. (1) Approve as proposed with trailer bill language clarifying the statutory direction to ARB to include short-lived climate pollutants in its regulatory approach to reducing greenhouse gas emissions. (2) Continue to hold open all GGRF-funded proposals for May Revision (including the proposed woodsmoke grant program).

Vote: Hold Open

Issue 2: Low Carbon Transportation Fuels (AB 692)

Background. AB 692 (Quirk), Chapter 588, Statutes of 2015, requires, beginning January 1, 2017, that at least three percent of the transportation fuel purchased by the state be procured from very low carbon transportation fuel sources. This percentage increases by one percentage point each year thereafter until 2024. Very low carbon transportation fuel has no more than 40 percent of the carbon intensity of the closest comparable petroleum fuel for that year, as measured by the methodology for the low carbon fuel standard (LCFS). (The LCFS is a regulatory program administered by ARB.) The legislation requires the Department of General Services (DGS) to coordinate with state agencies that are buyers of transportation fuel and submit an annual progress report to the Legislature.

Governor's Proposal. The Governor's budget does not propose any resources for DGS to implement AB 692.The ARB requests one permanent position and $145,000 annually to support additional workload related to AB 692. The ARB indicates that the additional position would assist with the following tasks: (1) develop and maintain knowledge on market dynamics affecting the availability and price of very low carbon fuels and provide consultation to DGS; (2) support DGS and other state agencies in identifying sources of very low carbon transportation fuels; and, (3) provide analytical support to evaluate the carbon intensity of new very low carbon fuels expected to enter the market as a result of AB 692.

LAO Analysis. The LAO provides the following analysis and recommendations:

- **Insufficient Workload Justification at This Time.** In the short run, the additional workload for ARB to implement AB 692 appears minor and absorbable. The board has been implementing the LCFS for several years and approves dozens of carbon intensity pathways for low carbon fuels in the state each year. Based on our conversations with DGS, it has already identified a likely supplier for the fuel needed to meet the 2017 purchasing requirement. Therefore, it is unclear why there would be significant additional workload for ARB. In the long run, there could be additional workload associated with identifying additional fuel sources or approving additional fuel pathways. However, the additional workload is uncertain at this time and, therefore, the request for additional resources is premature.

- **Recommend Rejecting Proposal.** We recommend that the Legislature reject the proposed position and $145,000 to implement AB 692 because there is insufficient workload justification at this time.

Staff Comments. Staff concurs with the LAO analysis. Though the legislation is laudable, the workload is not justified at this time.

Staff Recommendation. Reject proposal.

Vote: 3-0 to reject.

3970 Department of Resources Recycling and Recovery (CalRecycle)

The Department of Resources Recycling and Recovery (CalRecycle) protects public health and safety and the environment through the regulation of solid waste facilities, including landfills, and promotes recycling of a variety of materials, including beverage containers, electronic waste, waste tires, used oil, and other materials. CalRecycle also promotes the following waste diversion practices: (1) source reduction, (2) recycling and composting, and (3) reuse. Additional departmental activities include research, permitting, inspection, enforcement, market development to promote recycling industries, and technical assistance to local agencies.

Governor's Budget. The Governor's budget includes $1.5 billion from various funds for support of CalRecycle in 2015-16. This is about the same level as current-year estimated expenditures.

EXPENDITURES BY PROGRAM (in thousands)

	Program	Actual 2014-15*	Estimated 2015-16*	Proposed 2016-17*
	Waste Reduction and Management	$224,534	$488,103	$216,596
	Loan Repayments	- 2,993	- 3,745	- 178
	Education and Environment Initiative	1,903	2,623	3,310
	Beverage Container Recycling and Litter Reduction	1,325,313	1,312,872	1,308,360
Total Expenditures (All Programs)		**$1,548,758**	**$1,799,853**	**$1,528,088**

VOTE-ONLY CALENDAR

1. **Extended Producer Responsibility Program Supervisor.** The budget requests $175,000 in (various carpet, paint and mattress special funds), and one position, for reorganization and more efficient supervision of staff involved in implementing CalRecycle's extended producer responsibility programs. Staff managing these programs is currently dispersed in multiple units throughout the department.

2. **Independent Hearing Officer.** The department requests one, permanent, attorney III position, and $176,000 annually (multiple special funds through distributed administration), to handle a significant increase in mandated informal hearings required to be conducted by the director or his/her designee.

Staff Recommendation: Approve as proposed.

Vote:

Item 2: 2-1 (Nielsen, no) to approve.

Item 1: 3-0 to approve.

Issue 1: Beverage Container Recycling Program

Background. The Department of Resources, Recycling and Recovery (CalRecycle) oversees and provides guidelines for most household and commercial waste, including the garbage picked up outside homes and businesses, recycling and compost. CalRecycle's mission is to restore, protect, and manage the state's natural, historical, and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration, and respect for all the communities and interests involved. The largest single program at CalRecycle is the Beverage Container Recycling Program (BCRP).

The BCRP was established almost 30 years ago with the enactment of AB 2020 (Margolin), Chapter 624, Statutes of 1986. The BCRP is intended to be a self-funded program that encourages consumers to recycle certain beverage containers. The program accomplishes this goal by first requiring consumers to pay a deposit for each eligible container purchased. The program guarantees consumers repayment of that deposit—the California Redemption Value, or "CRV"—for each eligible container returned to a certified recycler. Statute includes two main goals for the program: (1) reducing litter and (2) achieving a recycling rate of 80 percent for eligible containers.

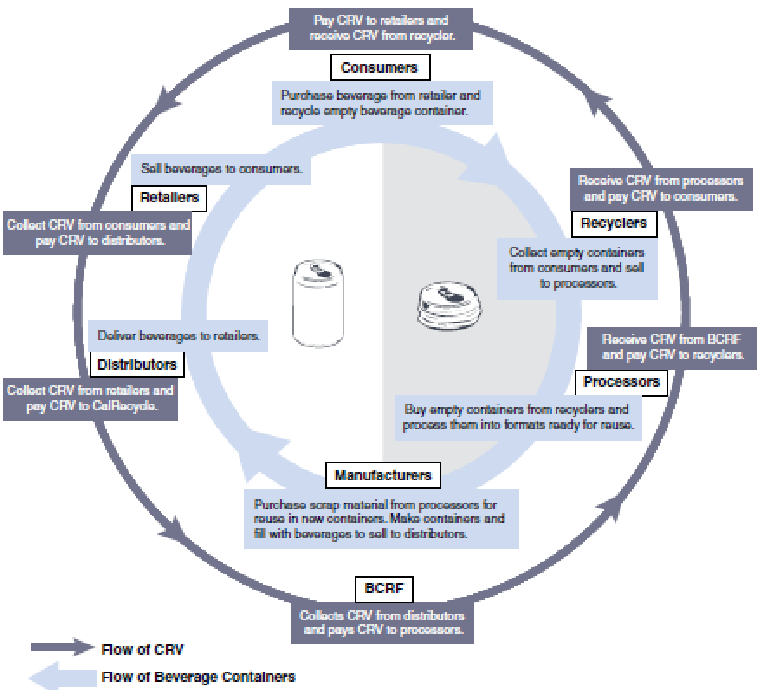
Despite paying the CRV deposit, not all consumers recycle their CRV-eligible containers. In 2013–14, for example, the Beverage Container Recycling Fund (BCRF) received roughly $1.2 billion in deposits, but only about $1 billion—over 80 percent—was spent on redemption payments. The BCRF retains unredeemed deposits, and state law requires that much of the unredeemed CRV be spent on specified recycling–related programs. These supplemental programs are not directly involved in the exchange of CRV, but they are intended to help achieve the programmatic goals of increased recycling and reduced litter. There are currently ten supplemental programs funded from the BCRF (including program administration). Such programs include subsidizing glass and plastic recycling, encouraging supermarket recycling collection sites, and providing grants for market development and other recycling–related activities. CalRecycle estimates that a total of $279 million will be spent on supplemental programs in 2015–16. The figure on the following page describes how the CRV works.

Quarterly Report on the BCRP. CalRecycle is required to report quarterly on the status of the BCRP in order to review the adequacy of resources in the Beverage Container Recycling Fund for purposes of making payments specified in Public Resources Code (PRC) Section 14581 and the processing fee offsets specified in PRC Section 14575. This statutorily-required report provides updates on the status of all five funds in the Beverage Container Recycling Program. This report also provides projections for sales, recycling volumes (returns), processing payments, processing fees, and processing fee offsets, by material type, and handling fees. Finally, this report provides an explanation of significant changes between the current projections and the projections presented in the previous year.

How the California Redemption Value (CRV) Recycling Program Works

Figure 3

How the CRV Program Works



BCRF = Beverage Container Recycling Fund and CRV = California Redemption Value.

Source: Legislative Analyst's Office 2015

According to the most recent report, a combination of factors has imposed a strain on the Beverage Container Recycling Fund, resulting in an ongoing structural deficit. These factors include statutorily-prescribed payments established when the fund was running large surpluses, fraudulent activity, and ironically, the success of the program itself. In 2008-09, the recycling rate rose to 78 percent. Since then, the recycling rate has continued to increase. The current recycling rate is about 80 percent. Until now, the gap between expenditures and revenues has been temporarily bridged through repayments of loans, particularly to the General Fund, made from the fund when it was operating at a surplus. The final loan repayment, amounting to $82.3 million, was paid in full at the end of 2014-15.

Update from the Most Recent Quarterly Report. According to CalRecycle, the BCRP is currently operating with an approximately $100 million annual structural deficit as a result of the combination of historically high recycling rates, mandated program payments and general fund loans. This figure can fluctuate as much as tens of millions of dollars from quarter-to-quarter as a result of economic shifts and other factors (including scrap value rates). The structural deficit means that program expenditures exceed program revenues under the current mandated expenditure and revenue structure. Potential program reforms will be required to address the structural deficit of the Recycling Fund and ensure the integrity and long-term viability of the BCRP.

In order to address the structural deficit, CalRecycle implemented several program reforms, including reduced daily load limits for redemption at recycling centers, increased monitoring of the importation of out-of-state beverage containers, and elimination of the commingled rate at buyback centers. This last reform allowed for slightly lower per-pound refund rates for loads containing a combination of CRV and non-CRV material. However, actions taken thus far have secured only partial success; while the gap is smaller, the amount of money coming into the BCRF is still insufficient to cover the amount being paid out. In order to eliminate the structural deficit and achieve a secure financial future for the fund and the programs it supports, further measures will be necessary.

2014 State Auditor Report and Recommendations. A recent audit by the Bureau of State Audits (BSA), released in November 2014, confirmed both the positive impact of the first round of reforms and the need for more. The audit confirmed the BCRF structural deficit, then approximately $100 million, and recognized that changes such as reducing or eliminating administrative fees for beverage distributors, enacting changes to mandatory payments such as those for curbside programs or quality incentives to beverage program participants, or reducing or eliminating processing fee offsets, could improve the program's financial condition. The audit shows a decline in the projected average structural deficit, from $56 million in January 2015 to $27.9 million in 2014-15 through 2017-18, based on lower payouts, potentially stemming from the recent reforms, as well as higher revenues as beverage sales have increased with an improving economy.

The report made a series of recommendations, most of which the department has embraced. To ensure that it can demonstrate that its fraud prevention efforts are maximizing financial recoveries for the beverage program, BSA recommended CalRecycle modify and annually update its fraud management plan to include the following:

- Finalize a process to analyze the data the Department Food and Agriculture provided on out-of-state containers and act on the results to identify and prosecute those committing fraud.

- Develop fraud estimates—by type of fraudulent activity—that quantify the potential financial losses to the beverage program and the methodology CalRecycle used to develop these estimates.

- Identify the amount of actual fraud in the prior year by type of fraudulent activity, such as the financial losses resulting from the redemption of out-of-state beverage containers or the falsification of reports used to substantiate program payments.

- Identify the amount actually recovered for the beverage program in the form of cash for restitution and penalties resulting from fraud.

- Contract with the Board of Equalization (BOE) to determine the feasibility and cost of transferring its revenue collection duties and audit reviews to them.

- Should CalRecycle find that it is feasible and cost-effective, pursue legislative changes that enable the BOE to collect revenues for the beverage program at the point of sale and remit the money to the beverage fund.

Legislative Analyst's Office Review. In 2015, the LAO conducted a thorough review of the BCRP and determined that not only is the shortfall accurate, certain offsets place additional costs on the program and the effectiveness of some of the supplemental programs are unclear. The LAO review found the following:

High Recycling Rates and Spending on Supplemental Programs Create BCRF Shortfall. The BCRF has operated under an annual structural deficit averaging about $90 million since 2008-09. According to CalRecycle estimates, the fund is currently forecast to have an operating deficit of about $60 million in 2015–16 and run an average deficit of $56 million from 2014-15 to 2017-18, absent any changes made to reduce expenditures or increase revenues. This deficit is largely due to increased recycling rates in recent years, which have resulted in a greater share of BCRF revenue being paid out for CRV. Moreover, some supplemental programs are paid on a per container basis, and therefore these expenditures increase as the number of containers redeemed increases. The combined effects of higher recycling rates—more spending on CRV payments and certain supplemental program expenditures—make it much more difficult for the BCRF to operate with a structural balance.

Beverage Container Recycling Fund Expenditures

Expenditures	2015-16 Projection
Revenues (California Redemption Payments)	$1,036.5
Supplemental Program Expenditures	
Processing fee offsets	75.4
Handling fees	55.3
CalRecycle administration	50.0
Administrative fees	44.7
Curbside supplemental payments	15.0
Payments to local governments	10.5
Plastic Market Development Payments	10.0
Quality Incentive Payments	10.0
Local Conservation Corps grants	6.4
Beverage Container Recycling Competitive Grants	1.5
Total Expenditures	**$1,315.3**
Deficit	***($278.8)***

Source: Legislative Analyst's Office 2015

For the last several years, the fund balance that accumulated when recycling rates were lower was able to support this expenditure level. However, the balance is being depleted further each year, and programmatic changes will need to be made in the next few years in order to keep the fund solvent and avoid statutorily required automatic funding cuts (referred to as “proportional reductions”). Acting sooner would provide the Legislature a greater number of options to address the deficit and allow for more flexibility when implementing any changes.

Offsets Are Major Cost to BCRF and Do Not Clearly Support Goals. The state subsidizes recycling by making “processing payments” from the BCRF to recyclers and processors. Processing payments are intended to cover the difference between a container’s scrap value and the cost of recycling it (including a reasonable rate of return). These payments are funded from two sources: (1) “processing fees” paid by beverage manufacturers and (2) the BCRF supplemental program, referred to as “processing fee offsets,” which reduces the amount of processing fees that manufacturers must pay. Processing fee offsets—the amount of processing payments covered by the BCRF—are projected to be $75 million in 2015–16.

It is unclear how current processing fee offsets provided to manufacturers incentivize increased recycling. Additionally, providing offsets does not require manufacturers to consider the lifecycle costs of the materials that they use in their products. By reducing the amount of processing fees, the offsets effectively subsidize materials that are relatively more expensive to recycle.

Effectiveness of Some Supplemental Programs Unclear. While supplemental programs might have merit, we find that many of the programs have not been evaluated for their effectiveness at improving recycling. This lack of evaluation makes it difficult to compare the relative cost–effectiveness of supplemental programs and to determine how they help to achieve program goals of increasing recycling and reducing litter. This information is critical in determining the best use of limited program dollars. In addition, the existing structure of “handling fee” payments currently made to certain recyclers does not maximize convenience for many consumers, and may raise convenience–zone recycler costs, resulting in higher handling fee payments from the BCRF. Finally, the department has not evaluated whether administrative fees—funds that beverage container distributors, processors, and recyclers receive to cover their administrative costs to participate in the BCRP—accurately reflect costs for these program participants.

2014 Proposal—Phase 2 Reform. In January 2014, the budget proposed ten programmatic changes that were expected to result in a net increase to the BCRF annual fund balance of $72.3 million in 2014-15, growing to $127 million when fully implemented in 2016-17. The changes would have both raised revenue and decreased overall program expenditures, while at the same time modestly increasing specific expenditures for fraud prevention, data collection, and expanded grant programs. The Administration projected that these changes would eliminate the program’s structural deficit once fully implemented and avoid the need to implement proportional reductions.

2014 Budget and Trailer Bill Actions. The budget subcommittees did not approve trailer bill language and the budget proposals that would have provided the second phase of the BCRF reform. Instead, the Legislature approved trailer bill language to remove the Local Conservation

Corps (LCC) from the statutory provisions of the program funding and diversified the LCC funding similar to that proposed by the Governor under the program reform proposal.

The budget also included several positions to increase audit coverage of beverage manufacturers and distributors to better protect the integrity of the BCRF. The emphasis was on collecting revenues owed to CalRecycle and mitigating risk to the fund.

2015 Legislative Oversight and Actions. The Legislature took action in the 2015 budget to make additional changes to the BCRP, specifically to address issues raised by the Legislature and BSA related to audits and compliance. With these actions, the Legislature can more confidently address the structural deficit as described by the department. These actions included:

- **Targeted Activities to Improve Program Integrity.** $357,000 (BCRF) and three positions, and $717,000 (BCRF penalty account) and seven two-year, limited-term positions, to implement targeted activities to enhance program integrity, reduce expenditures, and mitigate potential program funding shortfalls. The budget converted eight existing limited-term positions to permanent for ongoing program certification workload.

- **Processor Oversight Activities.** $933,000 and ten two-year limited-term positions to establish a pilot program with dedicated on-site investigation resources at certified processor facilities. These positions will create a new pilot program to expand current fraud investigation activities on recyclers to processing facilities.

- **Rigid Plastic Packaging Container Program.** $296,000 (BCRF) and three positions, to conduct annual rigid plastic packaging container compliance certification reviews, pursuant to recently adopted regulations, and provide additional compliance assistance tools.

GOVERNOR’S PROPOSAL

Beverage Container Recycling Reform. The budget includes only minor proposals to continue efforts to reform the BCRP, despite the continued volatility in the fund and the department’s strong effort to address specific fraud and audit requirements. These efforts have reduced the potential impact of fraud-related activities on the BCRF estimates. The budget does include a related proposal that may impact the department’s ability to address specific deficiencies related to the BCRP. Specifically, the budget requests:

- **Minor Proposal—Position Request.** $110,000 (Beverage Container Recycling Fund) and one permanent associate governmental program analyst, beginning in 2016-17, to provide programmatic and fiduciary oversight of expenditures in the Beverage Container City/County Payment Program. This proposal is consistent with the CalRecycle approved corrective action plan, in response to a 2014 BSA report. The requested position would provide additional collaboration, training, and technical assistance to participants in the program to ensure successful reporting and submittal of expenditure reports. This change would align this program with other CalRecycle payment programs to provide fiduciary accountability.

- **Cap-and-Trade Expenditure Proposal.** $100 million (Greenhouse Gas Reduction Fund), conversion of nine positions to permanent, and an additional 17 positions to: (1) reduce methane emissions from landfills; and, (2) further greenhouse gas emission reductions in upstream management and manufacturing processes for organic and other recyclable materials. These programs support the expansion of existing, and the establishment of new, organic materials management facilities and recyclable commodities manufacturing facilities, as well as food waste prevention programs. The department's program (both loans and grants) are intended to result in commercial infrastructure for handling organic materials in food waste prevention projects (such as food rescue projects with food banks, food network projects that match generators with receivers, and to benefit food-insecure communities). Specific programs include in-vessel digestion facilities that produce biofuel and/or bioenergy to complement other alternative fuel programs in the state.

ISSUES TO CONSIDER

LAO Recommendations. The LAO makes several recommendations that would help right-size the BCRP and shift the focus to programs that have demonstrated success. In order to do this, the Legislature would need to make several statutory changes and prioritize supplemental programs funded by the BCRP. Specifically, the LAO recommends:

- **Shift Processing Costs to Manufacturers.** The LAO recommends shifting processing costs to manufacturers. This would reduce BCRF expenditures significantly, probably eliminating the structural deficit. It would also require producers to cover the recycling costs of their products, which means that these costs are incorporated or "internalized" into the total cost of the product when it is sold. Therefore, the price that consumers pay reflects the entire cost of the product—its production and disposal. Shifting costs to manufacturers could be done in two ways, either by eliminating processing fee offsets or by moving to a market–based system where manufacturers are responsible for the recycling of materials. While either approach could work, the LAO states that the market–based approach would have several potential advantages.

- **Improve Cost–Effectiveness of BCRP.** The LAO makes several recommendations designed to improve the cost–effectiveness of the BCRP: including (1) evaluating supplemental programs to determine how cost–effective they are at achieving recycling and litter reduction goals; (2) giving recyclers more flexibility in where they locate and piloting a new payment structure in order to improve convenience for consumers; and, (3) adjusting the administrative fee to reflect the actual costs of program participation. In combination, the LAO believes these recommendations would improve the program's financial sustainability at current and potentially higher future recycling rates.

Should the Legislature Re-Consider Trailer Bill Language to Reform the Program? The department's approach to the management of the BCRP, including responding to audits, focusing efforts to reduce fraud, and improving management of the fund overall, has resulted in a more robust forecasting of the BCRF. At this point, the department has produced nearly as much reform as it can without legislative change. The Legislature should consider whether the time has come for a more comprehensive approach to policy change, focusing on offsets, for the program overall.

Should the Legislature Consider Program Reform Offsets Using Greenhouse Gas Emission Reduction Funds? The department proposes to use most of the greenhouse gas emission funding allocated to the department for methane reduction and upstream management in recycling and composting programs. The Legislature could, to the extent possible, direct the department to adjust its budget proposal to provide as much co-benefits to the BCRP offset programs in order to shore up the BCRF long-term. As long as the department continues to use the funds to reduce greenhouse gases, this would be an allowable use of the fund.

Should the Legislature Consider Interim Pilot Projects? Certain jurisdictions feel they can achieve the goals of the recycling program in a more efficient and effective manner than the state. Given the likelihood that program reform will take multiple years, the Legislature should consider allowing temporary pilot programs to move forward to better inform the department as it reforms its overall recycling programs. This could be done in a manner so as not to harm the overall program, and with proper reporting and accountability.

Staff Comments: Staff has continued to work with the department to determine if there are reform proposals that would provide relief to the fund, while looking to the future of the program. The program has outgrown its original statute, which was designed to reduce litter, and should be revisited. Several options are available including: (1) approving minor changes such as proposed by the LAO, administration, or outside entities; (2) requiring the department to produce several reform options that integrate the BCRF into the overall recycling programs at the department; and, (3) asking an independent board or panel to review the current recycling programs overall, with the goal in mind to modernize the overall recycling programs, incorporating beverage container recycling as one of many commodities to recycle.

Staff Recommendation: Hold Open

Issue 2: Education and the Environment Initiative

Background. AB 1548 (Pavley), Chapter 665, Statutes of 2003, created the Office of Education and the Environment (OEE), within the former California Integrated Waste Management Board, and directed it to work in collaboration with the California Department of Education (CDE), the California Environmental Protection Agency, and the Natural Resources Agency, to develop a "model" environmental curriculum, known as the Education and Environment Initiative (EEI), for K-12 students. The intent of the law, as reiterated in SB 96 (Committee on Budget and Fiscal Review), Chapter 356, Statutes of 2013, was to provide that California students become environmentally-literate citizens. Between 2003 and 2009, OEE oversaw the creation of the EEI curriculum. In 2009, the State Board of Education approved the curriculum for use in all California public schools. The curriculum combines fundamental environmental principles and concepts with the traditional subject matter of science, history, social science, and English language arts. Statewide, the target audience is more than 150,000 teachers spread over 10,000 schools.

Since 2013, private sector philanthropists have shown their commitment to environmental literacy by contributing $2.6 million to assist OEE in fulfilling its mission of implementing the EEI curriculum and advance other state supported environmental literacy initiatives. The EEI curriculum was designed as a print product and relies on three things for teachers to use it in their classrooms: marketing and awareness, professional learning of teachers, and distribution of printed materials. Philanthropists are looking to the state to provide the basic infrastructure of printing the materials for teachers to use in their classrooms, while they continue to contribute to the other two areas, as well as to larger state environmental literacy initiatives.

Governor's Proposal. The Governor requests $700,000 ($350,000 California Used Oil Recycling Fund and $350,000 California Tire Recycling Management Fund) in one-time funding to develop a sustainable funding strategy for the Education and the Environment Initiative (EEI) program and address increased demand for the EEI curriculum. This proposal also includes budget bill language (BBL) providing additional flexibility to the Environmental Education Account.

Staff Comments. Teacher demand for the state-created, EEI curriculum has expanded and this proposal would help CalRecycle facilitate use of the curriculum and foster environmental literacy among all California students. The Governor's budget proposes an expenditure of $700,000 to pay for the printing costs of the EEI curriculum for the 2016-17 school year. However, this amount is $780,000 short of the cost needed for printing to fulfill teacher demands for the curriculum. If the state does not provide adequate funding for the printing of these materials, it could result in stagnation of the state's flagship environmental literacy program. It is important to note that this level of funding (or more) will be needed for the next 3.5 years, which is the estimated time it will take to adopt the required environmental principals and concepts into textbooks. The subcommittee may wish to ask the department about these concerns.

Staff Recommendation. Approve as proposed, plus $780,000 additional funding for printing.

Vote: 2-1 (Nielsen, no) to approve staff recommendation.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, May 5, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultants: Catherine Freeman and Farra Bracht

ISSUES PROPOSED FOR VOTE-ONLY

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Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-651-1505. Requests should be made one week in advance whenever possible.

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VOTE-ONLY CALENDAR

ENVIRONMENTAL LICENSE PLATE FUND (MULTIPLE DEPARTMENTS)—HEARD ON MARCH 3

1. The Governor's budget proposes $38.8 million in expenditures and $42 million in revenues. After required transfers to the Motor Vehicle Account ($2.4 million), the amount available for expenditure is $39 million. The figure below outlines the Environmental License Plate Fund (ELPF) expenditure proposals for the current year and budget year. In addition, the Governor proposes trailer bill language to require the department to collect a permit application fee for processing permits under the California Endangered Species Act (CESA). The proposal includes a graduated fee schedule based on the cost of the project. Fund would be deposited into a new account at the department, the "Endangered Species Permitting Account," to be used, upon appropriation for the cost of processing the permit or to implement CESA.

Environmental License Plate Fund Shortfall Solution
2016-17 Proposed Expenditures
(Dollars in Thousands)

Function	2014-15 (Final)	2015-16 (Estimated)	2016-17 (Estimated)
Department of Fish and Wildlife	$15,511	$9,762	$15,652
Conservancies	$9,556	$11,492	$10,720
Secretary for Natural Resources	$3,419	$3,788	$4,299
Natural Resource Agency Departments	$4,651	$5,429	$4,396
Tahoe Regional Planning Agency	$3,998	$3,998	$0
Department of Parks and Recreation	$2,713	$0	$0
Cal-EPA boards and Departments	$1,242	$1,479	$1,471
Department of Education	$403	$410	$410
Total	**$41,493**	**$36,358**	**$36,948**

Staff Recommendation:

1. Approve funding as proposed.
2. Approve trailer bill with the following fee exceptions: (1) the project purpose is voluntary habitat restoration and the project is not required as mitigation; and, (2) the project is not part of a regulatory permit for non-habitat restoration or enhancement construction activity, a regulatory settlement, a regulatory enforcement action, or a court order. *This is intended to conform to the Assembly Budget Sub3 trailer bill clarification.*

Vote:

MARIJUANA CULTIVATION (MULTIPLE DEPARTMENTS)—HEARD ON MARCH 3

Medical Marijuana
Governor's Environmental Protection and Agriculture Proposals
(Dollars in Millions)

Purpose	2016-17 (Proposed)	2016-17 (Proposed)	Fund Source
Department of Fish and Wildlife	$7.6	$5.8	General Fund
State Water Resources Control Board	5.2 0.5	6.0 0.7	General Fund WDPF[1]
Department of Pesticide Regulation	0.7	0.7	DPR Fund[2]
Department of Food and Agriculture	3.3	3.3	MM Fund[3]
Total	**$17.3**	**$16.5**	

[1] Waste Discharge Permit fund
[2] Department of Pesticide Regulation Fund
[3] Medical Marijuana Regulation and Safety Act Fund

Staff Recommendation: Approve as proposed.

Vote:

(MULTIPLE) PROPOSITION 1 STATEWIDE OBLIGATIONS POT—HEARD ON MARCH 3

Governor's New Proposition 1 Proposals
2016-17 (Dollars in Millions)

Activity	Amount
Klamath River Hydroelectric Settlement	$250
Central Valley Project Improvement Act	90
Salton Sea Restoration Act	80
San Joaquin River Restoration Agreement	45
Total	**$465**

Staff Comments: As discussed at the hearing on March 3, concerns have been raised that not all program areas listed in the bond, specifically the Tahoe region, were funded in the final selection process.

Staff Recommendation: 1. Approve Governor's funding proposal, including administrative funding to the Natural Resources Agency and State Water Resources Control Board for Salton Sea Implementation. 2. Approve an additional $20 million (Proposition 1) for the Tahoe Environmental Improvement Program, directed to the Natural Resources Agency for grants. 3. *To conform to the Assembly, add annual reporting to the Legislature on Prop 1 implementation.*

Vote:

0540 SECRETARY FOR NATURAL RESOURCES (AND PARTNER AGENCIES)

1. **River Parkways, Urban Greening and Urban Streams.** The budget requests to appropriate the remaining funds for the river parkways, urban greening and urban streams programs, a total of $5.6 million (Proposition 12). In addition, the proposal would extend funding ($140,000) and authority for a position for five years to manage the grants associated with these programs.

2. **Implementation of SB 630 (Bi-State Regional Compact).** The budget proposes total funding of $950,000 to be drawn from the Lake Tahoe Science and Lake Improvement Account to implement SB 630 (Pavley), Chapter 762, Statutes of 2013, as follows: (1) the secretary requests $150,000 for the bi-state science-based advisory council; (2) the Tahoe Conservancy requests $400,000 for aquatic invasive species projects and improved public access to sovereign lands; and, (3) the State Water Board, for the Lahontan Water Board, requests $400,000 for near shore monitoring of water quality in Lake Tahoe.

Staff Recommendation: Approve as proposed.

Vote:

0555 SECRETARY FOR CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY (CAL-EPA)

1. **California Environmental Report System Application Support Resource.** The budget requests $127,000 from the Unified Program Account for one permanent position to accommodate maintenance and operations workload for the California Environmental Report System. Workload needs for this position request have been provided through contractor resources for the previous five years.

2. **California-Mexico Water Resources Improvement—Border Relations Council.** The budget requests $175,000 from the California Tire Recycling Management Fund for one permanent position, including $50,000 one-time in 2016-17 for contract funding, to support the California-Mexico Border Relations Council and its expanded roles and responsibilities, including the requirement to establish the new river water quality, public health, and river parkway development programs, pursuant to AB 965 (Eduardo Garcia), Chapter 668, Statutes of 2015. This proposal covers the anticipated increased workload within the office of the secretary, border and intergovernmental affairs section.

3. **Agency Cyber Security Workload Growth.** The budget requests $1.1 million from multiple special fund sources and four permanent positions, to accommodate workload growth associated with increased demands for securing the Cal-EPA's critical information technology assets from compromise or business impact, and ensuring the confidentiality, integrity, and privacy of confidential information.

Staff Recommendation: Approve as proposed.

Vote:

3340 CALIFORNIA CONSERVATION CORPS (CCC)—HEARD ON MARCH 17

1. **Residential Expansion**. The budget requests a five–year plan for major expansion of residential centers. The Administration's recent five-year infrastructure plan, which proposes state spending on infrastructure projects in all areas of state government through 2020-21, includes a major expansion of the CCC residential center program. Specifically, the plan proposes a combined total of $171 million over the next five years from the General Fund and lease-revenue bond funds to design and construct new CCC residential centers.

2. **Butte Fire Center.** The budget requests $2.6 million (General Fund), 12.5 positions, and 47 corpsmembers, to convert the former CalFIRE Magalia facility into a residential corpsmember facility serving Butte County.

3. **Auburn Campus: Kitchen, Multipurpose Room, and Dorm Replacement**. The budget requests $19.6 million from the General Fund for the construction phase of a new kitchen, multipurpose building and dormitory to replace the current facilities at the Auburn campus. This proposal is to complete the ongoing Auburn capital outlay project. This includes the spring finance letter requesting to reappropriate $1.3 million for working drawings phase.

4. **Fuel Reduction Program.** The budget requests $2.7 million in 2016-17 and $2.9 million in 2017-18 in State Responsibility Area Fire Prevention (SRA) funds, and position authority for up to five positions for program oversight and administration activities, effective January 1, 2017, through June 30, 2018, to continue the Fuel Reduction Program for two years.

5. **Vehicle Replacement Plan.** The budget requests a three-year increase in annual expenditure authority of $812,000 in the Collins Dugan Reimbursement Account in 2016-17, 2017-18, and 2018-19, to annually replace approximately thirty vehicles in its fleet.

6. **C3 Project Funding Augmentation.** The spring finance letter requests a one-time budget augmentation of $409,000 for 2016-17, funded by the Collins-Dugan Reimbursement Account Fund, for consultant services for project quality management.

7. **Minimum Wage Funding Increase and Technical Adjustment.** The spring finance letter requests $1.4 million ($394,000 General Fund, $494,000 Collins Dugan Reimbursement Account, $396,000 SRA Fund, $97,000 Proposition 39) in 2016-17 and ongoing to fully fund the corpsmembers' minimum wage increase of $1.00 per hour, effective January 1, 2016. In addition, CCC is requesting a technical adjustment to reduce its 2016-17 General Fund appropriation by $2.5 million, to correct the one-time cost adjustments in the January budget.

8. **Tahoe Base Center: Equipment Storage Relocation.** The spring finance letter requests to reappropriate $1.6 million for the working drawings and construction phases for the Tahoe Base Center project, due to unanticipated project delays.

Staff Recommendation: Approve as proposed.

Vote:

3360 California Energy Commission (CEC)—Heard on March 10

1. **Continued Support of Energy Infrastructure to Meet 21st Century Policy and Planning Objectives.** The budget requests the conversion of six limited-term positions to permanent to continue supporting the revival of energy data collection activities and the development of disaggregated energy demand forecasts, to implement and support statewide energy decisions at the CEC. Total funding request for this proposal is $724,000 from the Energy Resources Program Account (ERPA).

2. **Convert Limited-Term Positions to Permanent.** The Governor's budget requests the conversion of one limited-term position to permanent to continue ongoing implementation of the Acceptance Test Technician Certification Providers, at a cost of $107,000 (ERPA). The budget requests conversion of one position (international relations senior advisor) to permanent to continue coordination with other nations as it relates to greenhouse gas emission reductions, at a cost of $120,000 (ERPA).

3. **Adjustments to Electric Program Investment Charge (EPIC).** The budget requests an increase of $11.2 million (EPIC) for program and administration funds, as well as $4.5 million in one-time technical assistance for technical support activities, as directed by the California Public Utilities Commission (CPUC).

4. **One-Time Expenditure Authority for Unspent Public Interest Energy Research (PIER) Natural Gas Funds.** The budget requests approval of unspent funds from the PIER Natural Gas Fund as directed by the CPUC. The CPUC directs the CEC to submit a research plan to utilize $3.6 million in unspent funds, resulting from completed projects that came in under-budget.

5. **Public Goods Charge Ramp-Down.** The budget identifies the reduction of nine positions and $1.3 million from the Public Interest Research Development and Demonstration Fund, consistent with the sunset of the authority to collect the Public Goods Charge on January 1, 2012.

6. **Legislative Implementation.** The budget requests eight permanent positions and $500,000 in baseline technical support, for a total request of $1.6 million (ERPA), to support the implementation of AB 802 (Williams), Chapter 590, Statutes of 2015, which accelerates energy efficiency through benchmarking and customer data analysis. The budget also requests one permanent position and $135,000 (ERPA) to implement AB 865 (Alejo), Chapter 583, Statutes of 2015, which charges CEC with developing a diversity outreach program to qualified businesses.

Staff Recommendation: Approve as proposed.

Vote:

3480 DEPARTMENT OF CONSERVATION

1. **California Farmland Conservancy Program.** The budget requests a one-time local assistance appropriation of $1.2 million (Proposition 40). Funds will be used by the California Farmland Conservancy Program to provide grants to local governments and non-profit land trusts to permanently protect farmland from conversion to non-agricultural uses via permanent agricultural conservation easements.

2. **Oil and Gas Training Program.** Division of Oil, Gas, and Geothermal Resources (DOGGR) requests two permanent positions and a baseline appropriation increase of $1.3 million from the Oil, Gas and Geothermal Resources Fund (OGGAF), ongoing. Funding will be used to develop, implement, and conduct a comprehensive training program designed for DOGGR regulatory staff.

3. **AB 1420 Implementation.** The budget requests ten permanent positions and a baseline appropriation increase of $1.4 million ($1.2 million ongoing), from OGGAF. Positions and funding will be used to prevent possible pipeline releases by requiring that sensitive gas pipelines are tested on a periodic basis; pipelines are mapped accurately to determine potential threats; provide transparency to the public as to the location of gas pipelines relative to urban areas; and, to review and update existing regulations as required by AB 1420 (Salas), Chapter 601, Statutes of 2015.

4. **Orphan Well Remediation** The spring finance letter requests an increase of $1 million (OGGAF) to remediate hazardous orphaned wells. Additionally, the department requests provisional language to increase the expenditure limit on orphan well remediation. No position authority is requested.

5. **Technical Adjustments.** The spring finance letter requests: (1) re-appropriation of $10 million (OGGAF) shifting from data management to the Open Space Subvention Program at the Strategic Growth Council; and (2) reversion and reappropriation of $180,000 (Proposition 84) to the California Farmland Conservancy Program.

Staff Recommendation: Approve as proposed.

Vote:

3540 Department of Forestry and Fire Protection—Heard on March 17

1. **Capital Outlay.** The Governor's budget requests funding for the following capital outlay proposals: (1) relocate the Potrero Forest Fire Station ($400,000, General Fund); (2) phase five of the statewide communications system replacement ($1.6 million, General Fund); (3) Ishi Conservation Camp domestic drinking water system replacement ($871,000, General Fund); (4) replacement of water boilers at Fenner Canyon Conservation Camp ($376,000, General Fund); and reappropriation of funding for twenty major capital outlay projects.

2. **Information Technology and Information Security Staffing Modernization.** The budget requests $3 million ($2.8 million General fund and $228,000 Special Funds), and 14 positions, to address increasing demands of information technology systems.

3. **Public Information and Education (Drought).** The Governor's budget requests $1.6 million ($1.5 million General Fund and $127,000 Special Funds), and five positions, starting in 2016-17, to increase staffing for public information and education. This extends, in part, increased funding for drought-related public information.

4. **Drought.** The budget requests $77 million ($74 million General Fund and $3 million SRA Fire Prevention Fund), one-time, and 454.8 temporary help positions, to address heightened fire conditions due to drought.

5. **Fire Safety, Flame Retardants and Building Insulation.** The budgets requests $125,000 (Building Standards Administrative Special Revolving Fund), on a one-time basis, for a contract to review, research, test and implement proposed building standards for fire safety of retardants in building insulation.

6. **Board of Forestry Fire Protection Effectiveness Monitoring Services.** The budget requests $425,000 (Timber Regulation and Forest Restoration Fund), for two years, to improve effectiveness monitoring assistance from academic institutions to support the evaluation of the environmental protection of the Forest Practice Act and rules.

7. **Emergency Command Center Staffing.** The budget requests $17 million ($16.9 million General fund and $28,000 various special funds), and 61.6 permanent positions, along with 34.3 two-year, limited-duration temporary help positions, to increase Emergency Command Center (ECC) staffing. The positions are requested to improve intake of emergency calls and allocate and manage resources for emergencies.

8. **Situational Command Awareness Data Acquisition.** The Governor's budget requests $7.6 million ($7 million General Fund and $600,000 special funds) and 12.8 positions beginning in the budget year, growing to $13.2 million in two years, then leveling off to $7.6 million after year three, ongoing. The proposal includes a request for eight vehicles, including one for a battalion chief, for ongoing field level support. Additionally, the request will require the department to lease new office space in order to accommodate the additional Sacramento-based positions.

9. **Professional Standards Program.** The budget requests $4.4 million ($3.7 million ongoing) primarily from the General Fund, and 14 permanent positions to establish a professional standards program in headquarters, which would include a unit to provide additional oversight for internal investigations and adverse actions, as well as expand manager and supervisor training. The proposed positions would conduct administrative and background investigations, provide more training to managers and supervisors, and develop guidelines to promote consistent application of penalties.

10. **Mobile Equipment Replacement Budget.** The budget requests a one-time $6 million (General Fund) for mobile equipment replacement increase in 2016-17 to restore funding that was redirected in 2015-16 to purchase goods and services to address the removal of vegetation impacted by drought and pests.

11. **Mount Bullion Conservation Camp: Emergency Sewer System Replacement.** The budget requests $833,000 (Public Works Construction Fund) to replace sewage disposal system at Mount Bullion Conservation Camp in Mariposa County.

12. **Reappropriation of Various Minor Capital Outlay Projects.** The spring finance letter requests reappropriation of the minor appropriations from the budget acts of 2014 and 2015. This is a result of a delay of the La Cima Conservation Camp wastewater treatment system and the Columbia Air Attack Base facility improvement projects.

13. **Implementation of SB 295 and AB 864—Intrastate Pipeline Inspection Staffing.** The spring finance letter requests a $1,137 million spending authority increase to the California Hazardous Liquid Pipeline Safety Fund and 17 permanent positions support the Office of the State Fire Marshal Pipeline Safety Division. The proposal would provide for sufficient staffing levels to develop, implement, and oversee new requirements related to SB 295 (Jackson), Chapter 607, Statutes of 2015 and AB 864 (Williams), Chapter 592, Statutes of 2015. *Assembly action: The Assembly Budget Subcommittee adopted trailer bill language to add annual reporting requirements in the implementation of this proposal as well as a clarification of the definition of oil.*

Staff Recommendation: Approve as proposed including, for Item 13, the Assembly adopted trailer bill language to add annual reporting and definition clarification for intrastate pipeline inspection staffing.

Vote:

3560 State Lands Commission

1. **Abandonment of Becker Onshore Well.** The budget requests $200,000 Oil Spill Prevention and Administration Fund (OSPAF) in 2016-17, and $700,000 in 2017-18, to conduct Phase One activities related to the abandonment of the Becker onshore well. The well is part of the Summerland Oil Field developed in the late 1890s from shore and from wharfs that extended into the Pacific Ocean. This includes an adjustment made in in the spring finance letter.

2. **Marine Invasive Species Program Database and Workload.** The budget requests $400,000 and a continuing appropriation of $75,000 from the Marine Invasive Species Control Fund (MISCF) to develop, implement, and maintain an automated interactive public facing web-based data entry portal that will collect data on the ballast water and biofouling management practices of commercial ships that arrive at California ports. The budget also requests $135,000 (MISCF) to support one new senior environmental scientist position.

3. **Removal of Dennett Dam.** The budget requests $367,000 (General Fund) to remove Dennett Dam, located on the Tuolumne River in Stanislaus County. The funding request is contingent upon the Tuolumne River Preservation Trust providing an equal funding match.

4. **Selby Slag Remediation.** The budget requests $369,350 General Fund in FY 2016-17 to fund the state's obligation to pay a proportionate share of certain ongoing hazardous waste remediation costs at Selby, California. Pursuant to a 1989 Consent Judgment the state's share of the cost of remediation is 38 percent.

5. **Spatially Indexed Records System.** The budget requests $225,000 (General Fund) to prepare a spatially indexed records management system plan. The results of the planning phase of the project will ensure that staff and citizens will be able to access historical records, provide a method to efficiently locate and access records vital to the commission's mission to protect records in the event of a disaster.

6. **Yosemite Slough.** The budget requests $85,000 General Fund to fund the California State Land Commission's portion of 16 technical studies related to the remediation of Yosemite Slough in San Francisco.

Staff Recommendation: Approve as proposed.

Vote:

3600 Department of Fish and Wildlife—Major Proposals Heard on March 3

1. **Gray Lodge Wildife Area—Field 82.** The budget requests $108,000 from the Fish and Game Preservation Fund (FGPF), State Duck Stamp Account, for a project at the Gray Lodge Wildlife Area to provide habitat for nesting and brood-rearing waterfowl and other wetland dependent species.

2. **Implementation of AB 96—Ivory Sale and Importation.** The budget requests $1.8 million (General Fund) to implement enforcement of AB 96 (Atkins), Chapter 475, Statutes of 2015, banning illegal trade of elephant ivory and rhinoceros horns in California to protect African elephants and rhinoceros from extinction.

3. **Marine Resources Management and Assessment.** The budget requests an increase in spending authority of $443,000 per year from the Marine Invasive Species Control Fund (MISCF) for three years to improve resource assessment and increase the monitoring of critical marine species, which will result in significant short and long-term biological, economic, and social benefits to the people of California.

4. **Proposition 50 Local Assistance Grants.** The budget requests $2.1 million (Proposition 50) to award competitive grants that implement components of Water Security, Clean Drinking Water, Coastal and Beach Protection of 2002, the California Water Action Plan, and the Delta Stewardship Council's Delta Plan, consistent with the bond.

5. **Technical Adjustments, Reversions and Realignment of Funds.** The department requests a reversion of $3 million (Proposition 84) in order to provide for availability of funds in 2016-17. The budget proposes to realign the Fish and Game Preservation Fun dedicated accounts, resulting in a $6.2 million overall reduction, to better align the account's expenditure authority with revenues, to ensure the accounts remain structurally balanced. The budget requests an ongoing increase of $13.5 million in Federal Trust Fund authority beginning in 2016-17. This request will establish adequate authority for the department to receive and expend federal grant funds vital to the department's operation.

6. **Proposition 1 Local Assistance.** The budget requests $20 million (Proposition 1), one-time, to provide increased grant funding and for provisional language providing authority to award eligible grants from the 2015-16 grant solicitation cycle for watershed restoration projects.

Staff Recommendation: Approve as proposed with the following draft budget bill language:

Item 3600-001-0001. No later than September 30, 2016, the department shall convene a group of relevant budget and policy legislative staff, the Legislative Analyst’s office, and the Department of Finance, to discuss the department’s structural budget imbalances, as well as the historical causes of, and potential options for, addressing those imbalances.

Vote:

3640 WILDLIFE CONSERVATION BOARD (WCB)

1. **Proposition 1.** The budget requests a total of $41.9 million in local assistance project funding, that may also be made available for capital outlay. Of the total amount requested, $38.4 million is requested for the WCB to continue the implementation of the stream flow enhancement program and $3,500,000 is requested for the San Joaquin River Conservancy (SJRC), to continue implementation of the multi-benefit watershed protection and restoration program.

2. **San Joaquin River—Proposition 40 Capital Outlay.** The budget requests $2.5 million ($1.5 million in expenditure authority and $1 million in additional reimbursement authority) from Proposition 40 to allow the San Joaquin River Conservancy (SJRC) to implement its conservation, public access, recreation, and environmental restoration capital improvement programs.

3. **Wildlife Restoration Fund.** The budget requests $1 million from the Wildlife Restoration Fund for the purposes of the WCB's Public Access Program.

Staff Recommendation: Approve as proposed.

Vote:

3720 CALIFORNIA COASTAL COMMISSION

1. **Local Coastal Programs.** The budget requests: (1) the conversion of the Local Coastal Program (LCP) enhancement pilot to baseline funding with 25 permanent staff positions; and, (2) baseline funding of $3 million (General Fund) per year. This is in keeping with multiple years of recommendations by the Legislature to give the commission the ability to complete its statutory mandates.

2. **State Tax Return Voluntary Contributions.** The budget requests to allocate $430,000 from voluntary contributions on the state tax return to the "Protect Our Coast and Oceans Fund" to the commission as a one-time appropriation in 2016-17. Of this amount, $365,000 would be a one-year local assistance budget line item to provide Whale Tail grants. The remaining $65,000 would be a one-year state operations budget line item to support outreach and promotion for the "Protect Our Coast and Oceans" Fund.

3. **Reappropriation of Local Coastal Program Grants.** The budget requests reappropriation of local assistance funds included in the enacted budgets for 2013-14 and 2014-15 for Local Coastal Program (LCP) grants to local governments.

4. **Climate Resilience Projects.** The budget requests $500,000 Coastal Trust Fund for climate change adaptation and climate resiliency planning and project work. These funds were originally part of the enacted budget for 2014-15 as a transfer from the Environmental

License Plate Fund (ELPF) to the Coastal Trust Fund for these purposes. Due to shortfalls in the ELPF for 2014-15, the commission was directed to not to spend $500,000 in 2014-15.

5. **Relocation of South Coast District Office.** The spring finance letter requests $451,000 from the General Fund to be used for one-time moving and set up expenses for the relocation of the South Coast District Office in Long Beach and ongoing General Fund funding of $411,000 for increased rent. The owner of the building, where the South Coast District Office is currently housed, has given notice to the Department of General Services that the lease will not be renewed under any circumstances.

Staff Recommendation: Approve as proposed.

Vote:

(MULTIPLE) STATE CONSERVANCIES AND COMMISSIONS

1. **Coastal Conservancy (3760)—Coastal Access and Public Access Programs.** The budget requests $850,000 to the Coastal Conservancy: $500,000 from the Coastal Access Account and $350,000 from the California Beach and Coastal Enhancement Account for purposes of local assistance and capital outlay to continue implementation of the Conservancy's Public Access, Education and related programs.

2. **Coastal Conservancy (3760)—Bond Fund Appropriations.** The budget requests $5.4 million in bond funding from the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1) to the State Coastal Conservancy for the purposes of local assistance and capital outlay, program delivery, and planning and monitoring consistent with the bond act. The budget also requests reversion of the unencumbered balance from a previous appropriation from Proposition 84 and appropriation of $25 million to the Coastal Conservancy from the same fund, for purposes of local assistance and capital outlay, which includes $7 million in reimbursement authority.

3. **Santa Monica Mountains Conservancy (3810)—Bond Fund Appropriations.** The budget requests $200,000 (Conservancy Fund), $775,000 (Proposition 40), $300,000 (Proposition 50), and $1.1 million (Proposition 84) for the acquisition, enhancement, restoration, of natural lands, improvement of public recreation facilities and state operations. This includes technical adjustments requested in the spring finance letter.

4. **Los Angeles River Proposition 1 Funding.** The budget requests to appropriate $14.1 million Proposition 1 to the Santa Monica Mountains Conservancy and $20 million to the Rivers and Mountains Conservancy, from the Los Angeles River bond allocation. The Assembly budget committee instead allocated $50 million to the Santa Monica Mountains Conservancy and $50 million to the Lower Los Angeles and San Gabriel Rivers Conservancy. *Staff proposes this items be held open for conference committee.*

5. **Rivers and Mountains Conservancy (3825)—Proposition 50 and Proposition 84 Reversion and Reappropriations.** The spring finance letter requests reversion from a 2012-13 Prop 50 capital outlay appropriation and requests a new $168,000 Proposition 50 local assistance appropriation for 2016-17, with provisional language to allow the funds to be available for either local assistance or capital outlay, and available for encumbrance through June 30, 2019. The spring finance letter also requests a reversion of the unencumbered balance from 2015-16 Proposition 84 support appropriation to resolve a negative bond allocation balance.

6. **San Joaquin River Conservancy (3830)—Proposition 40 Funding for Program Delivery.** The budget requests approval to shift program delivery funding from Proposition 84 to Proposition 40, in order to enable the conservancy to maintain the current level of staffing for program delivery without creating a negative bond allocation.

7. **Baldwin Hills Conservancy (3835)—Proposition 40 Acquisition and Improvement Program.** The budget requests $6 million in local assistance funding to provide grants for acquisitions and capital improvements from Proposition 40, pursuant to the bond act in order to implementing the conservancy's mission of acquiring and developing open space in the Baldwin Hills area.

8. **San Diego River Conservancy (3845)—Reimbursement Authority.** The budget requests $1 million in reimbursement authority to fully implement projects consistent with the conservancy's mission, and funded by other state agency grants.

9. **Coachella Valley Mountains Conservancy (3850)—Propositions 12, 40 and 84 Reappropriations.** The conservancy requests reappropriations from the unexpended balances of 2013-14 capital appropriations to continue its approved mission.

10. **Coachella Valley Mountains Conservancy (3850)—Multi-Benefit Ecosystem and Watershed Protection and Restoration Project Grants Program.** The spring finance letter requests $6.8 million from Proposition 1 to implement the remaining years in its competitive Multi-Benefit Ecosystem and Watershed Protection and Restoration Project Grants Program, consistent with bond requirements.

11. **Sierra Nevada Conservancy (3855)—Proposition 84 Reversions and Spring Finance Letter New Appropriation.** The budget requests reversion of the remaining balances Proposition 84 and a new local assistance appropriation of $403,000 to be used to further the approved mission of the conservancy, consistent with bond requirements.

12. **Sierra Nevada Conservancy (3855)—Proposition 84 Reversions and Spring Finance Letter New Appropriation.** The spring finance letter requests an increase to its reimbursement authority from $50,000 by $400,000, for a total of $450,000, and two permanent positions to oversee a multi-year reimbursement contract with the Department of Housing and Community Development (HCD).

13. **Sacramento-San Joaquin Delta Conservancy (3875)—Augmentation to Support Administrations.** The budget requests a permanent baseline funding increase of $10,000 from the General Fund to cover an increase in workers' compensation insurance.

14. **Sacramento-San Joaquin Delta Conservancy (3875)— Implementation for Restoration Water Quality, and Economic Development Projects.** The budget requests an increase of $290,000 in its federal reimbursement authority to fully implement the projects funded by three Environmental Protection Agency grants and one economic development administration grant.

Staff Recommendation: Approve all but item 4 as proposed. Hold open Item 4 (Los Angeles River Proposition 1 Funding) for further discussion and review.

Vote:

3790 DEPARTMENT OF PARKS AND RECREATION—STATE OPERATIONS

1. **Goat Canyon Sedimentation Basin Maintenance.** The budget requests two-year funding of $1.9 million annually from the California Tire Recycling Management Fund beginning in 2016-17 to maintain the Goat Canyon Sediment Basins at Border Field State Park by excavating and processing sediment and trash, disposing trash and reject material, exporting sediment, testing and monitoring of contaminants and conditions, and maintenance of infrastructure.

2. **Hazardous Mine and Mill Remediation.** The budget requests one-time funding of $1.2 million from the State Parks and Recreation Fund (SPRF) for permit monitoring, study, evaluation, alternative analysis, and implementation of remedial actions to abate contamination resulting from historic mining activities at Malakoff Diggins State Historic Park. Malakoff Diggins State Historic Park is currently under order issued by the Central Valley Regional Water Quality Control Board to protect human health, the environment, and waters of the State.

3. **Local Assistance—Various Grant Funding and Operating Agreements.** Consistent with previous year appropriations, the budget requests funds in the amount of $118.9 million from special and federal funds for the Local Assistance Program to provide grants to various agencies consistent with approved program guidelines. Funds are available for encumbrance or expenditure through June 30, 2018.

4. **Operating Agreements.** The department requests approval to negotiate new or extend existing operating agreements for Dockweiler State Beach and Robert Crown Memorial State Beach consistent with statute.

5. **Quagga and Zebra Mussel Infestation Prevention Program.** The budget requests an increase in ongoing support funding of $186,000 from the Harbors and Watercraft Revolving Fund (HWRF) for program delivery of the Quagga and Zebra Mussel Infestation Prevention Grant Program. These funds will ensure successful administration of grants available to water body managers and owners of reservoirs that are open to the public and are currently un-infested by quagga and zebra mussels.

Staff Recommendation: Approve as proposed. The baseline funding, community outreach pilot, and public beach restoration program proposals will be heard after May Revision.

Vote.

3790 Department of Parks and Recreation—Capital Outlay Program

State Park	**Title/Summary**	**Amount** (Dollars in Thousands)
1. Angel Island State Park	East Garrison Mooring Field. Requests funding for the construction phase of this continuing project from the Harbors and Watercraft Revolving Fund (HWRF). This existing project will improve safety and convenience of recreational boaters by restoring the abandoned mooring field at the East Garrison location of the park and will clean up the site by removing debris from the bay floor, as needed. This project will construct up to 32 mooring buoys.	$582 (HWRF)
2. Malibu Creek State Park	New Stokes Creek Bridge. Requests funding for the working drawings phase of this continuing project from available Proposition 84 funds. This existing project will replace an existing, undersized arch culvert with a bridge to restore a secondary escape route for park visitors in the event of fire or other emergencies and provide a dedicated service entrance for park staff to access the district office, thereby eliminating the need to travel through the campground. In addition to increasing public safety, this project would also eliminate a significant portion of the park's deferred maintenance backlog, prevent ongoing damage to the existing road and restore the creek to its natural configuration.	$233 (Prop 84)
3. Reappropriation	Capital Outlay Program. Requests reappropriation of the existing Capital Outlay appropriation for the preliminary plans phase of the Old Sacramento State Historic Park Boiler Shop Renovation project. Due to the acquisition process of this property, the renovation project has yet to start. The preliminary plans phase will begin once the acquisition transfer and settlement agreement is in place; currently anticipated to occur in Fall 2016.	$726 (multiple funds)
4. Statewide: Off-Highway Vehicle (OHV) Minor Capital Outlay Program.	Requests funding from the Off-Highway Vehicle Trust Fund for the OHV minor capital outlay program. This will fund three minor projects at various State Vehicular Recreation Areas. These projects will provide for enhancements or improvements to address critical issues impacting health and safety that include park operations; public recreation and access; energy efficiency; and resource protection and restoration. The projects will enable or enhance program delivery.	$1,716 (OHV Trust Fund)
5. Topanga State Park	Rebuild Trippet Ranch Parking Lot. Requests funding from available Proposition 84 funds for preliminary plans phase to rehabilitate the Trippet Ranch parking lot and surrounding area damaged by erosion and storm water. This project will reduce the safety risk to the public, reduce maintenance costs, and better support interpretive uses of the historic zone.	$316 (Prop 84)

State Park	**Title/Summary**	**Amount** (Dollars in Thousands)
6. El Capitan State Beach	Entrance Improvements. Requests funding from available Proposition 84 funds for th epreliminary plans phase to address safety and operational issues at the park entrance. This project will provide an alternate safe route for pedestrians and bicyclists; provide increased space for today's larger vehicles on the park road and entrance area; replace a culvert with a bridge to allow the endangered steelhead trout a barrier free passage; and replace the aging and damaged entrance kiosk.	$358 (Prop 84)
7. McGrath State Beach	Campground Relocation and Wetlands Restoration. Requests funding from available Proposition 40 funds for preliminary plans phase to relocate the existing campground, maintenance yard, employee housing, campfire center, and day use parking. The campground and associated facility relocation/rehabilitation, including utility infrastructure replacement, is required due to yearly flooding, resulting in loss of major revenue generation and disruption of access to the operational and visitor use facilities. This project will assist in avoiding significant costs for ongoing clean-up and repair of deteriorating facilities due to regular flood damage.	$1,029 (Prop 40)
8. Prairie City State Vehicular Recreation Area	Initial Erosion Control. Requests funding from the Off-Highway Vehicle Trust Fund for the preliminary plans phase to address erosion issues caused by storm water runoff. This project will include the installation of sediment basins, storm water spray fields, drainage crossings, and riparian areas. In addition, there will be drainage control measures including culverts, diversion ditches, and swales. The project will meet Best Management Practices (BMPs) for storm water management pursuant to the federal Clean Water Act. A comprehensive Watershed Assessment Study, performed through a separate effort, will be used as a detailed guide in implementing this project.	$275 (OHV Trust Fund)
9. McArthur-Burney Falls Memorial State Park	Group Camp Development. Requests reimbursement authority for preliminary plans and working drawings phases to develop two adjoining group camps. Development of the group camps is expected to increase the park's group camping capacity by a total of 100 campers. This new project is to be fully reimbursed with non-state funds from Pacific Gas and Electric (PG&E) obligations.	$62 (Reimb.)
10. Statewide: Minor Capital Outlay Program	Requests funding from available Proposition 84 funds for the state park system minor capital outlay program. This will fund one minor project in Sinkyone Wilderness State Park to replace dilapidated and failing vault toilets. These improvements are needed to address health and safety concerns related to sewage disposal and limit ongoing special repair/deferred maintenance costs.	$395 (multiple funds)

State Park	**Title/Summary**	**Amount** (Dollars in Thousands)
11. Statewide: Rec Trails Minor Capital Outlay Program	Requests funding from available Proposition 84 funds for the recreational trails minor capital outlay program. This will fund three minor projects at various state park units. These projects will provide for enhancements or improvements to address critical safety issues that include park operations, public recreation and access, and resource protection and restoration. The projects will enable or enhance program delivery.	$900 (Prop 84)

Staff Recommendation: Approve as proposed.

Vote:

Issue 1: Aliso Canyon and Natural Gas Management Spring Finance Letter Proposals

BACKGROUND

In late October 2015, a leak was discovered expelling natural gas from a well at the Aliso Canyon Natural Gas Storage Facility (Aliso Canyon) in Los Angeles County. The well, which was being used for injection and storage of gas by its operator, Southern California Gas Company (SoCalGas), was located in close proximity to residential neighborhoods. The Porter Ranch Community, one of the closest, experienced some of the most severe effects.

SoCalGas, in conjunction with state oversight agencies, attempted to plug the leak using conventional methods. However, these initial efforts were not successful, and in early December, a more complex solution (i.e. the drilling of a relief well) was initiated. In the meantime, SoCalGas provided temporary housing and filtration/purification systems for the neighboring communities.

As part of the state's response to Aliso Canyon, the Governor issued an Emergency Proclamation in January 2016, to direct multiple oversight agencies to focus on the following main activities: (1) addressing the immediate threat to public health and safety by directing efforts to plug the leak; (2) ensuring that accountability falls on the operators of the facility; (3) taking steps to prevent a similar event from occurring in the future; and, (4) implementing the necessary actions to ensure energy reliability.

In February 2016, the leak was declared under control and by March, residents had returned to their homes. Questions remain, however, about the state's role in regulation of natural gas facilities, the health and environmental impacts of natural gas emissions, and the ability of the state to provide safe and reliable energy.

Several state agencies have jurisdiction over natural gas reliability and safety, and events such as the Aliso Canyon leak, including the following:

- **Office of Emergency Services (OES).** Provides incident command structure, including a physical post on-site role to coordinate local, state and federal response and information sharing.

- **Division of Oil, Gas and Geothermal Resources (DOGGR).** Regulates natural gas injection wells, investigates leaks, and provides the follow-up on-site monitoring and testing to ensure the well is operating within state rules. AB 1420 (Salas), Chapter 601, Statutes of 2015, requires DOGGR to test certain pipelines less than four inches in diameter and in urban areas.

- **California Air Resources Board.** Regulates air quality, including monitoring and emission controls, for public and environmental health, and for greenhouse gas emission reductions.

- **Division of Occupational Safety and Health.** Regulates and ensures on-site worker safety at the facility.

- **California Public Utilities Commission (CPUC).** Provides ratemaking oversight for investor-owned utilities (IOUs), including SoCalGas, and determines costs for responding to, and repairing the leak. Regulates intra-state utility pipelines.

- **Federal Energy Regulatory Commission (FERC).** Regulates many aspects of interstate gas transmission pipeline operations.

GOVERNOR'S PROPOSALS

Air Resources Board (ARB)—Neighboring Air Quality Monitoring Near Oil and Gas Operations. The ARB is requesting a total of $2.3 million from the Oil, Gas and Geothermal Administrative Fund (OGGAF) to support neighborhood air quality monitoring near oil and gas facilities. This cost includes $579,000 for four new permanent full-time air pollution specialists, a one-time equipment request of $1.4 million and an additional $340,000/year for equipment maintenance and consumables to support air monitoring of toxic compounds, methane, particulate matter, and meteorological parameters, at and around, communities near oil and gas-related facilities. The resources will enable short-term (three to four months per site) community monitoring near oil and gas activities and source testing to identify potential areas of elevated risk. The information will inform health risk assessments as well as the need for further mitigation. The monitoring resources will also enable the ARB to more effectively and quickly deploy short-term monitoring capabilities in response to unanticipated events, such as the natural gas leak at Aliso Canyon. Additionally, the ARB also requests trailer bill language (TBL) authorizing the use of the Oil, Gas and Geothermal Resources Fund (OGGAF).

Office of Environmental Health Hazard Assessment—Neighboring Air Quality Monitoring Near Oil and Gas Operations. The Office of Environmental Health Hazard Assessment (OEHHA) is requesting a total of $350,000 and two new permanent full-time positions, to be funded by direct appropriation from the OGGAF to support the ARB in its proposed project to monitor neighborhood air quality near oil and gas facilities. This cost includes $300,000 for the positions and $50,000 per year in contracts. The resources will enable OEHHA to support ARB in the identification of chemical hazards and the characterization of potential risks in California communities related to ongoing oil and gas production activities and from unanticipated events such as the natural gas leak at Aliso Canyon. Additionally, OEHHA also requests TBL authorizing the use of the OGGAF.

Department of Conservation, Division of Oil, Gas, and Geothermal Resources (DOGGR)—Underground Gas Storage Regulation. The DOC requests 20 permanent positions and a baseline appropriation increase of $4,172,000 ($3,269,000 ongoing) from OGGAF. Many of the gas storage facilities have been in operation for decades, and the aging wells and infrastructure need to be constantly monitored, inspected, and evaluated for potential threats to health and safety. The leak at the Aliso Canyon gas storage facility has highlighted some shortcomings in the existing regulations and associated oversight of gas storage facilities and operations. The new regulations will focus on the integrity of the wells, reservoir, and facilities, requiring all aspects of the gas storage operations are in compliance and the operations are safe. The emergency regulations address: (1) requiring complete project data from operators of underground storage facilities; (2) requiring the department to impose minimum and maximum reservoir pressure limits; (3) requiring operators of natural gas storage facilities to monitor wells for the presence of gas in the annuli (any void between any piping, tubing or casing and the piping) of well casings by monitoring annular pressure and gas flow in the well; (4) require functional testing of all surface and subsurface safety valve systems, master valves, and pipeline isolation valves; (5) require operators to inspect wellhead assembly and attached pipelines for each well used in gas storage projects; and, (6) require operators to develop comprehensive risk management plans to be subject to department approval.

Department of Conservation—Oil and Gas Studies. The DOC requests a two-year, limited-term, appropriation of $2.95 million in 2016-17, and $2.5 million in 2017-18 from OGGAF. Funding will be used to contract for services to conduct and complete additional independent scientific studies. In accordance with recommendations from the California Council on Science and Technology (CCST), the department proposes to: (1) identify opportunities for water conservation and reuse in the oil and gas industry; (2) determine if there is a relationship between wastewater injection and earthquakes in California; (3) evaluate the potential for subsidence due to oil and gas operations; (4) provide for ongoing topical analysis and consultation with the Lawrence Livermore National Lab (under current contract with the department) to provide DOGGR with technical support in evaluating oil field operations and testing; and, (5) contract with the Department of Toxic Substances Control to conduct a waste study for the purposes of identifying oil production wastes that may be impacted by or contain well stimulation chemicals to determine whether they exhibit hazardous waste characteristics.

California Energy Commission—Natural Gas Electricity System Interactions and Grid Reliability. This proposal requests baseline authority for three permanent positions, one-time contract funds of $1 million for technical assistance, and ongoing contract funds of $150,000, for a total request of $1.7 million from the Public Interest Research, Development, and Demonstration Fund to improve the Energy Commission's technical ability to monitor, model, and analyze the interaction of California's electricity and natural gas systems for grid reliability. This includes pipeline and system dispatch modeling, underground storage operations, forward price monitoring and financial risk assessment, and relationships between weather and gas balances as they influence electric reliability. It will allow the Energy Commission to fulfill its reliability contingency planning authority for the natural gas system, as it has for the electricity system. Authority for a two-year encumbrance period for the one-time technical assistance funds is also requested.

This proposal also requests TBL that repeals the annual fund transfer of $10 million from the Public interest Research, Development, and Demonstration Fund to the Alternative and Renewable Fuel and Vehicle Technology Fund, authorized by Health and Safety Code Section 44273.

California Public Utilities Commission—Expanded Gas Storage/Transmission Infrastructure Review. The CPUC requests funding of $1.5 million (Public Utilities Commission Utilities Reimbursement Account) for ten new permanent full-time positions: three senior utilities engineers - specialist, one public utilities regulatory analyst v, two public utilities regulatory analyst iv, and four utilities engineers. These new positions will address numerous urgent tasks related to the natural gas leak at the Aliso Canyon Gas Storage Field, including investigating its causes, implementing measures to prevent future leaks, increasing inspection levels and performing leak surveys, staffing related rulemakings and enforcement actions, analyzing larger issues of gas supply and reliability (including the role of gas storage), supporting and participating in proceedings at other state and federal agencies, and providing technical advice to commissioners. The CPUC also submitted a separate proposal to add a new Division of Safety Advocates that will be discussed under the department's other budget proposals.

ISSUES FOR LEGISLATIVE CONSIDERATION

The gas leak at Aliso Canyon illustrates challenges when an energy commodity is de-regulated and the responsibility for safety, reliability and emission controls are spread out amongst multiple state agencies. Unlike electricity, where every kilowatt of generation is tracked, natural gas is treated more as a commodity similar to petroleum. Little scrutiny is given to out-of-state production and transmission, and even within the state, regulation of emission and safety procedures raise concerns. The following are issues the Legislature may wish to consider:

Accountability and Reporting. There is no single point of contact within the Administration who can provide a continuity of information from the point natural gas enters the state, to the injection of gas into storage fields, extraction from those fields, and then finally the venting or combustion of the gas into energy. As gas travels through the state, it falls under the jurisdictions of no less than five state and federal agencies, for safety, reliability and for emission controls.

Working Together. As we move forward from the disaster at Aliso Canyon, it is clear that the state must do a better job of coordinating state agencies as it manages the transmission and production of natural gas, for safety, reliability and for emission controls. Regulators from the ARB focus on emission concerns, while DOGGR regulates the injection into wells. The federal government regulates the safety of transmission (though it is California's first responders who are called in case of emergency), and, finally, the CPUC is involved in the back-end of safety as it considers costs to the consumers within its jurisdiction as a ratemaking entity. During the Aliso Canyon event, only the Office of Emergency Services (OES) was able to provide multi-agency direction. On an ongoing basis, OES is not an appropriate lead agency.

The state has multiple, ongoing, multi-agency teams that provide services to a broad array of regulated entities. For example, the state's timber harvest plan reviews are conducted jointly with the departments of Forestry and Fire Protection, Fish and Wildlife and Regional Water Quality Control Boards. It would be prudent to consider how, within the context of natural gas transmission and production, state and federal agencies should work with the regulated entities and with each other to ensure the highest quality of work, in the most efficient manner, for the public good.

Addressing Gaps in Safety, Reliability and Emissions: Multiple state and federal agencies regulate the safety of natural gas within the state.

- **Interstate Pipeline Transmission.** The primary federal regulatory responsibility for interstate pipeline safety rests with the Pipeline and Hazardous Materials Safety Administration (PHMSA) within the Department of Transportation.

- **Intrastate Pipeline Transmission.** The safety of intrastate transmission pipeline lines is the responsibility of state regulators who generally delegate safety responsibility to the owner of the pipeline. In many cases these pipelines are owned and operated by investor-owned utilities, but other intra-state pipelines are owned and operated by private companies and not subject to CPUC regulation. The State Fire Marshall, under the Hazardous Liquid Pipeline Safety Act of 1981, exercises exclusive safety regulatory and enforcement authority over intrastate hazardous liquid pipelines but not for non-liquid hazardous material pipelines.

- **Injection into and Containment within Holding Fields and Tanks.** Regulation of injection of natural gas into storage wells and the containment of the wells within the fields is responsibility of DOGGR.

- **Emissions.** The ARB, in conjunction with regional semi-autonomous air boards, is responsible for regulating emissions within the state. Natural gas contributes to ozone through the production process and to greenhouse gas emissions through leakage, both of which are regulated by ARB.

Best Practices in Procurement and Storage. While there are any number of best practices for individual procedures in the handling of natural gas, there is no single entity that can certify that a cubic foot of natural gas entering and used within the state has been developed and transported using best practices. On the electricity side, there are several checks to ensure that cleaner electricity is certified for use within the state's renewable portfolio standard (RPS), but there is no similar standard for natural gas. Within the natural gas procurement, there is no RPS, and therefore no standards that the state uses to determine if the gas procured has followed the safest route and procedures from cradle to grave.

Expending Existing funding. There are various available to the state to assist the state following the reduction of the flow of natural gas resulting from the leak at Aliso Canyon. These include: (1) greenhouse gas emission reduction funds both allocated for state programs and directly to the IOUs; and, (2) fund collected in balancing accounts for energy efficiency held by the IOUs.

Clarifying well exemptions. Concerns have been raised about the role of hydraulic fracturing in the failure of the well at the Aliso Canyon natural gas storage facility. The failure of the well resulted in the release of an estimated 100,000 metric tons of methane, a potent greenhouse gas and short-lived climate pollutant, and other gases resulting in significant public and environmental health and safety and climate impacts. Given the age of gas storage wells at most gas storage facilities in the state, and the state's recognition of the high potential risks associated with these facilities, it is important that all activities that put the integrity of gas storage wells potentially at risk be conducted under the oversight of the state's regulator.

Staff Comments. The Governor's proposal is a positive step moving toward a better understanding of natural gas safety concerns, particularly where the state has clear and existing jurisdiction. Both the reality of the state's previous efforts to address natural gas safety and reliability, and public expectations of these basic responsibilities, has raised concerns about the system. The proposals put forth by the Administration seem to address the *basic responsibility* of government in regulating potentially dangerous materials, whether to individual public health or the environment. The state, given the seriousness of the issues Aliso Canyon, brought forward, in terms of public health and environmental safety of the entirety of the system, should move beyond basic responsibility and should provide the Legislature with options to improve how we monitor and regulate natural gas transmission and storage.

The legislature may wish to consider the budget bill, trailer bill and supplemental reporting language to clarify the proposal and to provide accountability to the public as the Administration moves forward with implementation of these proposals.

Staff Recommended Actions.

1. Approve the funding and proposals as requested, subject to the passage of statute to provide accountability and reporting to the Legislature.

2. Approve draft trailer bill language to provide accountability and transparency as follows:

    a. Establish a single point of contact within Secretary for Natural Resources, to be responsible for natural gas safety, appointed by the Governor and subject to Senate confirmation.

    b. Provide mechanisms for state agencies to work together, similar to timber harvest plans, that would ensure efficiency and coverage of all aspects of natural gas transmission and storage.

    c. Provide for reporting, on an annual basis, on the Administration's efforts to improve natural gas safety within the state.

3. Provide a contract to the California Center for Science and Technology (who have previously provided the Legislature with reports on natural gas extraction) to study natural gas transmission and storage within the state, and the regulation therein, in coordination with the California Energy Commission, to provide the Legislature with recommendations regarding: (1) gaps in regulation that could impact public and environmental health and safety; (2) areas where market mechanisms are not sufficient to protect public health and safety; (3) how the state could require best practices from cradle to grave in the natural gas system; and, (4) where the state should focus increased enforcement of the system.

Vote:

8570 California Department of Food and Agriculture

The California Department of Food and Agriculture (CDFA) serves Californians by promoting and protecting a safe, healthy food supply, and enhancing local and global agricultural trade, through efficient management, innovation, and sound science, with a commitment to environmental stewardship. The goals of CDFA are to: (1) promote and protect the diverse local and global marketability of the California agricultural brand which represents superior quality, value, and safety; (2) optimize resources through collaboration, innovation, and process improvements; (3) connect rural and urban communities by supporting and participating in educational programs that emphasize a mutual appreciation of the value of diverse food and agricultural production systems; (4) improve regulatory efficiency through proactive coordination with stake holders; and, (5) invest in employee development and succession planning efforts.

Governor's Budget. The Governor's budget includes $439 million ($80.6 million General Fund) for support of the CDFA, a decrease of approximately $10 million, mainly due to one-time costs.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
General Fund	$ 69,477	$ 90,070	$ 80,659
Motor Vehicle Account, State Transportation Fund	7,565	7,801	9,504
Department of Agriculture Account, Department of Food and Agriculture Fund	132,599	148,003	146,885
California Agricultural Export Promotion Account	16	10	10
Fair and Exposition Fund	1,527	1,318	1,317
Drainage Management Subaccount	23	1,178	1,178
Harbors and Watercraft Revolving Fund	4,813	4,914	5,764
Milk Producers Security Trust Fund	6	-	-
Federal Trust Fund	78,365	110,218	90,568
Reimbursements	12,554	18,162	18,170
Pierces Disease Management Account	4,246	3,300	3,294
Antiterrorism Fund	549	552	551
Analytical Laboratory Account, Department of Food and Agriculture Fund	488	534	516
Specialized License Plate Fund	240	509	492
Greenhouse Gas Reduction Fund	11,872	62,152	76,598
Cost of Implementation Account, Air Pollution Control Fund	72	147	156
Medical Marijuana Regulation and Safety Act Fund	-	-	3,355
Municipal Shelter Spay-Neuter Fund	194	194	-
Prevention of Animal Homelessness and Cruelty Fund	-	-	194
Total Expenditures (All Funds)	**$324,606**	**$449,062**	**$439,211**

VOTE-ONLY CALENDAR

1. **Avian Influenza Prevention and Response.** The budget requests one permanent position and $192,000 in 2016-17, and $167,000 ongoing, General Fund, for the Animal Health and Food Safety Services Division to meet current and continued threats to animal health and the food supply posed by highly pathogenic avian influenza outbreaks.

2. **Citrus Pest and Disease Prevention Program.** The budget requests an increase of $1 million (Department of Food and Agriculture Fund) in 2016-17 and 2017-18 respectively to enhance the Asian Citrus Psyllid and Huangiongbing Mitigation Project. The increased authority will allow the department to add funds to existing commercial pesticide applicator contracts to initiate suppression and control activities in newly detected areas and initiate new contracts in areas as the program expands.

3. **Use of Antimicrobial Drugs on Livestock (SB 27).** The budget requests eight permanent positions and $1.4 million (General Fund) ongoing for the Animal Health and Food Safety Services and Inspection services Divisions to implement SB 27 (Hill), Chapter 758, Statutes of 2015. SB 27 introduces new limits on antibiotic use in livestock; provides for antimicrobial availability through licensed retail stores and/or new regulations that address access; requires that CDFA develop antimicrobial stewardship guidelines including antibiotic selection and administering policy for veterinarians and best management practices for veterinarians, farmers and ranchers; requires CDFA to track antimicrobial sales as well as collect information about farm practices; comprehensively sample pathogens to analyze for resistance trends; and prepare a report for the Legislature by 2019.

4. **Prevention of Animal Homelessness and Cruelty Program (AB 485).** The budget requests $194,000 in Prevention of Animal Homelessness and Cruelty Fund authority to implement the provisions of AB 485 (Williams), Chapter 557, Statutes of 2015, which allows a taxpayer to designate that a specified amount in excess of their tax liability be transferred to the fund to be distributed to eligible animal control agencies and shelters for the sole purpose of supporting spay and neuter activities that would result in the prevention and elimination of cat and dog cruelty and homelessness.

Staff Recommendation: Approve as proposed.

Vote:

Issue 1: Nutritional Incentive Matching Grant Program

Background. AB 1321 (Ting), Chapter 442, Statutes of 2015, created a program within the Office of Farm to Fork at the California Department of Food and Agriculture (CDFA) to award grants to certified farmers' markets that increase the amount of nutrition benefits available to low-income consumers when purchasing California fresh fruits, nuts, and vegetables. AB 1321 specified that grants would not be issued by CDFA until sufficient funds are available. The 2015 Budget Conference Committee approved $2.5 million in funding for this program, but it was stricken from the final budget agreement.

The program allows up to one-third of grant funds to be awarded to small business that provide matching nutritional incentives, in order to reach low-income Californians residing in areas with limited access to farmers markets. The program prioritizes disadvantaged communities with a high prevalence of diabetes and obesity to ensure a focus on expanding access to fresh, health food. The state anticipates receiving federal matching funds for this program.

The program is modeled after the Market Match program, launched in 2009 to "match" or double the amount of nutrition benefits available to low-income families for purchasing fresh, locally-grown fruits and vegetables at farmers' markets. Market Match has since leveraged $450,000 in incentives to create over $2 million in revenue for participating California growers. From 2009 to 2012, Market Match increased CalFresh redemption at participating farmers' markets from 132 percent to 700 percent. This increase generated a six-fold return on investment in sales, with 69 percent of farmers reporting new shoppers and 67 percent reporting earning more income.

Governor's Proposal. The Governor's January budget did not include funding for this program.

Staff Comments. Given the signing of AB 1321 and the interest of both the Legislature and Administration in this program, it is unclear why no funds were included in the budget for this purpose. This program clearly provides for improved healthy food choices for low-income individuals and families, and promotes education about farming and food through access to farmers markets and small businesses associated with the program.

A $5 million state investment in the program, matched by $5 million in federal funds, could generate an additional $60 million in sales, hundreds of new farm jobs, and boost healthy food access to $45 million for almost 300,000 low-income California families.

The Subcommittee may wish to ask the department to comment on the effectiveness of the program absent a proposal from the Governor.

Staff Recommendation. Approve $5 million (General Fund) to CDFA for the Nutrition Incentive Matching Grant Program.

8660 California Public Utilities Commission

Vote-Only Calendar

1. **AB 693 Multifamily Affordable Housing Solar Roofs Program (previously heard on March 10, 2016).** The budget proposes $262,000 from the Public Utilities Commission Reimbursement Account (PUCURA) and 1.75 permanent positions, annually through fiscal year 2030, to administer and evaluate the Multifamily Affordable Solar Roofs Program as required by AB 693 (Eggman), Chapter 582, Statutes of 2015. The program would provide monetary incentives (annually, $100 million or 10 percent, whichever is less, of the investor-owned utilities cap-and-trade allowance revenues) for the installation of qualified solar energy systems on multifamily affordable housing properties. AB 693 requires the CPUC to decide the most appropriate program administration structure for the program and to complete assessments of the program every third year, so that the CPUC can evaluate and adjust the program so that the program goals are being met. The proposed staff would provide analysis and support for a commission rulemaking, and manage program implementation and administration.

2. **SB 793 Green Tariff Renewables (previously heard on March 10, 2016).** The budget proposes $160,000 from PUCURA for three years to fund limited-term staff to administer the Green Tariff Shared Renewables (GTSR) program as modified by SB 793 (Wolk), Chapter 587, Statutes of 2015. SB 43 (Wolk), Chapter 413, Statutes of 2013, established GTSR and the CPUC recently finalized the first stage of implementation. The first GTSR customers for each utility began enrolling in the first quarter of 2016. SB 793 requires the CPUC to create a nonbinding estimate of reasonably anticipated GTSR bill credits and bill charges for a period of up to 20 years. The requested budget authority will facilitate the administration of this program, and help to provide transparency and predictability of charges and credits associated with the provision of green tariff and enhanced community renewable options.

3. **SB 541 For-Hire Transportation Carriers: CPUC Enforcement (previously heard on March 10, 2016).** The budget proposes $372,000 from PUCURA for two years for a $250,000 contract and limited-term staffing to implement SB 541 (Hill), Chapter 718, Statutes of 2015. CPUC has authority over 11,000 non-rail passenger carriers and 1,000 household goods movers, and is required to license carriers, and investigate and enforce safety and consumer protection laws for passenger stage corporations, transportation charter-party carriers, private carriers of passengers, and household goods carriers. A 2014 State Auditor report found that the CPUC's transportation enforcement branch does not adequately ensure that passenger carriers comply with state law. SB 541 requires the CPUC to hire an independent entity to assess the agency's capabilities, in consultation with carrier trade associations, related to specific goals and to report its findings to the Legislature. The additional staff resources are intended to administer the contract, develop outreach, and address the report's findings.

4. **SB 350 Clean Energy and Pollution Reduction Act and AB 802 Energy Efficiency (Enacted Legislation) (previously heard on March 10, 2016).** The budget proposes $3.35 million annually from the PUCURA for 23 permanent positions to implement SB 350 (de León), Chapter 547, Statutes of 2015, and AB 802 (Williams), Chapter 590, Statutes of 2015, which will result in new areas of work including the development of an integrated resources planning (IRP) process and modeling capabilities and electrification of the entire transportation sector; and work in the areas of energy efficiency (EE) and renewable portfolio standard (RPS). Some of the key changes of these two pieces of legislation are:

   - Encourages widespread transportation electrification, such as funding electric vehicle charging infrastructure.
   - Requires doubling of EE savings from electricity and natural gas end users by 2030 and expands California's definition of energy efficiency.
   - Increases target to obtain 40 percent of total retail electricity sales from renewable resources by December 31, 2024; 45 percent by December 31, 2027; and 50 percent by December 31, 2030 (from 33 percent by 2020).
   - Requires resource optimization and for CPUC to adopt processes for investor-owned utilities and publically-owned utilities to file integrated resource plans to ensure utilities are meeting RPS requirements, helping the state meet its greenhouse gas (GHG) targets, and minimizing costs for ratepayers, and ensuring system reliability.
   - Expresses intent for regional expansion of the California Independent System Operator (CAISO).
   - Considers disadvantaged communities in the CPUC decision-making process.

   These changes will result in new workload for CPUC that includes the expansion of renewable procurement and energy efficiency targets; creates a new integrated resource planning structure; establishes new policies and procedures for transportation electrification; manage the regionalization of the CAISO; consider impacts on disadvantaged communities; provide oversight, as well as legal, technical and policy support, for a minimum of five new and four amended rulemaking proceedings as well as for an expected 5-10 new utility applications annually, and facilitate the processing of a minimum of 350 advice letters. Without additional resources, the ability of CPUC to manage the increase in proceedings and oversight will be hampered and other workload may suffer as well. The Legislative Analyst's Office has not raised any concerns with this request for funding and positions.

5. **Ongoing Implementation of SB 1414 Demand Response Programs (April Finance Letter).** The Administration requests ongoing funding of $131,000 from the PUCURA and to convert the current limited-term position doing this work to a permanent position to continue the implementation of certain provisions of SB 1414 (Wolk), Chapter 627, Statutes of 2014. SB 1414 requires the CPUC to develop and implement consumer protection rules for residential customers who participate in demand response programs.

6. **eFiling Administration Support (eFAST) Platform Creation and Business Configuration Projects (previously heard on March 10, 2016).** The budget proposes $5.35 million in 2016-17 from various CPUC funds for a one-time software customization (for a total IT contract of $7.1 million over 2016-17 and 2017-18, and 6.3 permanent positions in 2016-17, and an additional 3.7 positions in 2017-18 for a total of 10 positions on an on-going basis. The proposed funding will be distributed across 10 funds. With this proposal the CPUC intends to implement a standard, enterprise-wide technology platform, known as eFiling Administration Support (eFAST) which will serve as the hub for customer interaction. This platform will provide the foundation for and automate:

   - Maintaining customer accounts and contacts.
   - Receipt, processing, and disposition of documents and data.
   - Submittal of inquiries and follow-up responses.
   - Receipt of payments for various fees and programs.
   - Scaling, configuring and deploying for future business applications.

   CPUC uses many manual processes to perform its work. These processes can be time consuming, costly, and can impede transparency and result in delays. Automating some of these processes would be an improvement at CPUC.

7. **Human Resources Workforce Planning and Development (previously heard on March 10, 2016).** The budget proposes $672,000 annually for workforce and succession planning and training to fund two permanent positions and four two-year limited-term positions from funding sources distributed across CPUC special funds. This request emerged from analysis of past training needs assessment reports from 2005 and 2011, and an analysis of the work output over the 2014-15 year. Further, the CPUC's overall training needs assessment identified, through internal and external reports, the number of staff necessary to effectively execute the critical training/employee development needs in support of the CPUC's mission. CPUC asserts that in order to mitigate workforce performance issues and to continue building an effective and efficient CPUC, a strong and specialized learning and development unit is necessary. This unit is focused on recruitment, development, and retention of employees. Deliverables from this proposal include a strategic workforce and succession plan; training modules and pop-up learning events; a leadership program; recruitment efforts to bring on and train entry-level employees; reduced dependence on retired annuitants; and the development of a library of core training. In addition, CPUC will conduct an “engagement survey” to assess its progress in this area.

8. **AB 1266 Electric and Gas Corporations—Excess Compensation (previously heard on March 10, 2016):** The budget proposes $160,000 annually from the PUCURA for two new permanent half-time positions for proceedings and reviews of excess compensation, as required by AB 1266 (Gonzalez), Chapter 599, Statutes of 2015.

   Every three years, all utilities regulated by the CPUC are required to undergo a general rate case to request funding for distribution and generation costs associated with their service. CPUC reviews executive compensation as part of this process. AB 1266 prohibits an electrical or gas corporation from recovering from taxpayers' expenses for excess compensation (greater than $1 million) paid to an officer of the utility for five years following a triggering event occurring after January 1, 2013, unless approved by the CPUC. The bill requires an electrical or gas corporation to file an application to the CPUC prior to paying or seeking recovery of excess compensation. CPUC is required to open a proceeding to evaluate the application and issue a written determination whether excess compensation should be recovered in rates or, if previously authorized in rates, should be refunded to taxpayers.

9. **Rail Transit Safety (April Finance Letter).** The Administration proposes an increase of $701,000 from the Public Transportation Account for five permanent positions (three inspectors, a supervisor, and an analyst) and four Department of General Services truck leases to allow the CPUC's safety inspection and accident investigation levels to keep up with the significant expansion of rail transit systems. The rail transit safety branch currently has a total of eight positions that help to ensure that rail transit agencies construct, maintain, and operate their lines to promote and safeguard the health and safety of its employees, passengers, and the public. The number of rail transit systems has increased from 12 in 2009 to 14 in 2015, statewide ridership has increased significantly over the same period of time, and fatalities have increased. In addition, ten rail transit lines are currently under construction. These inspectors are necessary to keep up with significant system growth and expansion which will likely continue as additional funds are made available in the future for transit projects. The CPUC anticipates that up to 80 percent of the requested funds will be reimbursable with federal funds.

Staff Recommendation: Approve all of the above vote-only issues as budgeted.

Vote:

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Issue 1: Division of Safety Advocates

Background. Most utility infrastructure was installed decades ago and is now reaching the end of its useful life. In recent years, failures of utility systems in California have highlighted the need to proactively evaluate critical infrastructure and to identify needed maintenance and funding beyond what has been requested in routine utility rate applications.

The CPUC currently reviews safety as part of its constitutional mandate to set rates within the investor-owned utilities within the state. The CPUC requires IOUs to establish safety protocols and is responsible for ensuring those orders are completed. The CPUC currently has established a safety and enforcement division (SED) with over 200 positions. According to the CPUC, these positions focus on compliance and do not intervene in ratemaking proceedings. Specifically, according to the budget proposal, "SED only serves in an advocacy function in orders instituting investigations, in which it effectively becomes the prosecutor against the utility whose alleged misconduct is the subject of the proceeding." Much of the role of the SED is auditing IOU safety statements and practices.

The Office of Ratepayer Advocates (ORA) provides analysis of CPUC proceedings but is not directly mandated to intervene on risk assessment and safety issues, though it has, in the past, included discussion of safety in its commentary during proceedings.

Governor's Proposal. The spring finance letter requests 11 permanent positions and $1.7 million (Public Utilities Commission Reimbursement Account), to be used to create the Division of Safety Advocates, an independent division within the CPUC. Similar to when the CPUC established the Public Staff Division in 1984 (statutorily created as Office of Ratepayer Advocates in 1996) in response to unprecedented utility requests for general rate increases, the CPUC requests to establish a Division of Safety Advocates in response to unprecedented failures of utility infrastructure over the past five years. The CPUC has described the proposal as establishing a safety intervenor in proceedings before the commission.

According to the CPUC's interpretation, Senate Bill 636 (Hill), Chapter 548, Statutes of 2014, prohibits the commission staff cannot serve in both advisory and advocacy capacities in the same proceeding. Thus, in proceedings where SED serves in an advisory capacity, it cannot independently present testimony or evidence on general safety issues. Similarly, the commission's various industry divisions may be able to identify safety concerns in various proceedings, but generally are not parties; they provide staff support to the administrative law judge. "Given the complex and technical nature of many proceedings, having SED and/or other industry division staff (such as energy division staff, for example) serve as an advocate would limit the commissioners' and administrative law judges' ability to receive technical support and advice."

The CPUC states, "Although the CPUC's SED staff may serve as advisory staff to the judge, this information is not part of the evidentiary record, thus the judge cannot rely on it for the truth of the matter. Again, this is similar to why, in 1984, the Commission created what is now known as ORA. At that time, the utilities were collectively requesting over $13 billion in rate increases. The ORA was formed to provide testimony and develop the record to ensure that Californians received utility service at just and reasonable rates."

"To date, intervenors have focused on safety only to the extent it impacts rates and costs. No party presents testimony that reviews proposals based only on safety irrespective of the cost impact. Therefore, the commission's ability to proactively consider safety matters is limited. Accordingly, in 2014, the commission created a new regulatory model for evaluating safety proposals and assessing risk within the general rate case process.

"ORA's role is to advocate for the lowest rates for customers of the regulated utilities, consistent with safe and reliable service levels. While ORA is mandated to represent customers primarily on cost of service issues, it must also consider the safety and reliability of the utility service. Although ORA recognizes the foundational requirement that utility operations must be safe and that utilities must have adequate funding to operate safely, ORA's mandate to keep rates low is fundamentally at odds with the need to increase expenditures on safety-related investments."

Staff Comments. The CPUC's effort to ensure safety is laudable. The proposal before the budget committee, however, is major change in policy at the CPUC, and an expansion of its existing mandates. Establishing a safety intervenor would be unprecedented without statutory direction and has implications for how the state handles safety issues during proceedings at the commission. The CPUC has stated that: (1) the idea of a safety intervenor has been discussed for several years; (2) the idea of a safety intervenor may be temporary, until such expertise is found outside the CPUC such as in other ratemaking cases with outside intervenors; and, (3) the ORA, the Legislatively established rate intervenor, cannot appropriately intervene on safety issues.

Staff has several concerns about the proposal and issues for legislative consideration.

Why Not a Policy Bill? Though trailer bill has been used to establish policy in many arenas, in this case there have been several bills that have moved through the legislative process that are directly related to safety and reform of the CPUC. Given these bills, it is unclear why we would make this kind of policy change in the budget process without input from experts within the Legislature and stakeholders.

Should We be Using Existing Resources? The budget proposal analysis provided by the CPUC offers a second alternative, in which the commission would increase the use of existing resources. Given that the state is embarking on a new method of intervening in ratemaking cases, should the Administration and Legislature consider other options such as adding to the mandates of the ORA or, separately, mandating that SED staff who are actively working in the field be tapped for proceedings on a rotating basis, given their real-world experience? The ORA, contrary to what the CPUC has stated in its budget proposal, has advocated in the past for increased rates when it felt the proceeding warranted additional costs to ratepayers, and could do so again should its mandate be clarified to include safety.

Will the Safety Intervenor Have any Influence? By focusing on rate cases—the end of the risk assessment process—a safety intervenor is placed in the position of either taking the side of the ratepayer advocate or the utility. Instead of influencing a utility's rate case application, the safety intervenor may not be able to add as much value as the title might suggest.

Should the CPUC be Focusing on Safety Assurance? The SED provides the CPUC with audits, investigations, and data analysis regarding safety within the IOUs. Significant proceedings with safety impacts should be audited by the existing SED. Should the CPUC use its existing resources more effectively?

To Whom is the Safety Intervenor Accountable? The budget proposal suggests the new division head/intervenor will be accountable to the CPUC, but will replicate, in part, the model of the ORA. If this is the case, it is not clear why the CPUC has not suggested an appointed position, confirmable by the Senate, to give the Legislature and public the accountability that it desires after years of safety concerns at the IOUs.

Staff Recommendation. Hold Open

Vote:

Issue 2: Information Technology Restructuring (April Finance Letter)

Governor's Proposal: The April finance letter requests $3.4 million distributed across 12 CPUC funds and 24 permanent positions for its information technology service branch.

Background: Over the past two decades, the CPUC's operational IT needs have grown dramatically, while a commensurate investment has not been made in IT staff. As a result, CPUC has insufficient IT staff resources to support its mission-critical programs, provide public transparency, and ensure information security. An internal redirect of $1.9 million in the last two prior fiscal years allowed it to procure IT services, however there is still a backlog of IT projects and the CPUC's approach to information security continues to be largely tactical and reactive. Important strategic work, such as completing an inventory of information assets or developing a risk management and privacy plan, has been delayed or deferred. The delays in completing this work put the CPUC out of compliance with state information security requirements, and put its business and consumer data at risk.

CPUC's IT branch currently has 45 authorized positions. The 24 additional positions (including one office technician) would work in seven key IT areas at the CPUC as described below:

- **IT service desk** configures and supports all staff electronic devices. (Three positions).
- **Information security** ensures compliance with security and privacy policies, standards, and procedures issued by the California Information Security Office. (Five positions).
- **Enterprise services and infrastructure** works to ensure the speed, capacity, and reliability of IT systems and storage. (Four positions).
- **Application and project portfolios** includes services for application development, design, systems analysis, coding and maintenance. (Six positions).
- **Mobility support** enables staff to work from anywhere as is often required for field staff.
- **IT acquisitions** is responsible for IT procurement and contract management and workload has grown substantially in the last five years. (Four positions).
- **Enterprise architecture** is a new function to improve the effective and efficient management and oversight of the application of IT to the operation of state agencies. (One position.)

Staff Question:

1. Given the salaries of IT staff in the San Francisco Bay Area, will CPUC be able to fill these positions if they are located there? Has CPUC considered alternatives to filling these positions in San Francisco, such as locating some of the proposed IT staff in Sacramento?

Staff Comments: At current IT staffing levels, the CPUC cannot keep pace with its growing operational workload and it lacks the IT resources to appropriately support its mission-critical programs and information security, provide public transparency, and inform decision-makers.

Staff Recommendation: Approve as proposed

Vote:

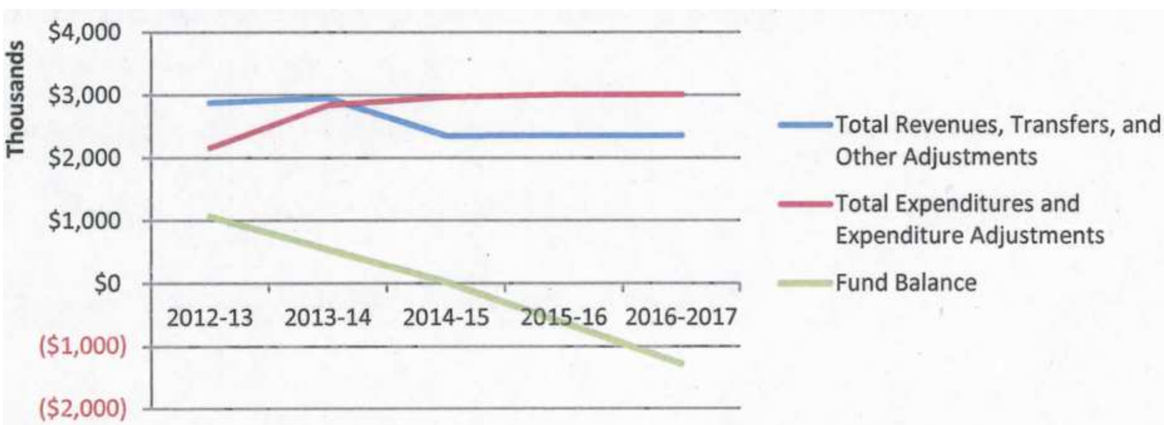
Issue 3: Transportation Rate Fund Trailer Bill Language (April Finance Letter)

Governor's Proposal: The April finance letter requests the Public Utilities (PU) Code be amended to increase the maximum fee to that can be charged to household goods movers from 0.7 percent to 1.0 percent to maintain solvency in the Transportation Rate Fund.

Background: The Public Utilities Commission Transportation Rate Fund (Fund 0412) is used to fund CPUC's work to license and regulate household goods movers (1,045 movers as of March 31, 2016) that move household goods and personal belonging over the public highways in California. The fund supports 15 positions that perform this work. The fund's main source of revenue is quarterly fees household goods movers pay to the CPUC. The PU Code Section 5003.2 currently sets the maximum rate for this quarterly fee at 0.7 percent of household goods mover's gross revenue (set in 2006), which is the rate the CPUC has charged since 2006.

Quarterly fees are based on gross reported household good's movers' incomes, and revenue has decreased in recent years. In addition, in 2013-14, expenditures increased significantly (by about $650,000) due to a change in how CPUC overhead for increases in employee compensation and other adjustments is allocated, rather than as a result of program growth. As shown in the figure below, these changes are resulting in expenditures exceeding revenues.

Transportation Rate Fund Revenues Have Declined and Expenditures Have Increased



Staff Comments: Staff has no concerns with the proposal, but notes that some portion of the household goods carrier market is unlicensed which may have contributed to the decline in revenues. CPUC has an effort underway to reengage management at Yelp, Craigslist, and other online bulletin boards to reduce postings from unlicensed moving companies, to use these boards as leads to unlicensed, carriers, and to increase litigation against such carriers. The CPUC will also provide additional tools to investigators to increase the number of sting operations, particularly in local jurisdictions where the district attorney is willing to prosecute criminal cases.

Staff Recommendation: Approve as proposed.

Vote:

Issue 4: Ongoing Implementation of AB 327 (April Finance Letter)

Governor's Proposal: The April finance letter requests ongoing funding of $527,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and to convert five limited-term public utility regulatory analyst positions to permanent to support the continued implementation of select provisions of AB 327 (Perea), Chapter 611, Statutes of 2013.

Background: AB 327 restructured the rate design for residential electric customers, created a net energy metering (NEM) program, and specified that the CPUC may require the procurement of eligible renewable energy resources in amounts greater than what is required in statute. The 2014 Budget Act provided 11 two-year limited term positions to implement AB 327.

According to the request, the five positions are for work that is anticipated to go on into the foreseeable future. AB 327 fundamentally changed the work under these programs and will require monitoring and additional proceedings to address changes required due to technical innovations or market events.

Staff Comment: Based on additional information CPUC provided about the anticipated workload of each of the five positions, request for permanent positions is justified for four of the five positions. For one of the requested positions, the ongoing workload will only last three to five years.

Staff Recommendation: Approve, as proposed, for four of the five positions permanent funding and positions and approve limited-term funding for the fifth position of only three years.

Vote:

Issue 5: Additional Funds Needed for Legal Costs

Governor's Proposal: The April finance letter requests $6.0 million from the PUCURA to retain the services of outside counsel so that the CPUC can cooperate with the two criminal investigations that are currently underway.

Background: There are currently two criminal investigations looking into alleged improper communications between certain CPUC staff with regulated entities. One investigation was opened by the State Attorney General's office and the second was opened by the Federal U.S. Attorney. The CPUC is cooperating with both agencies and has retained outside counsel to handle these matters. The CPUC entered into two contracts with outside legal firms. Thus far the CPUC's outside counsel has exhausted the original approved contract of $6,291,000 in total.

The total costs for work done under the two contracts will be $12.3 million (this includes the original $6.3 million). The total costs for DLA Piper alone will be $10.3 million. The total costs for Leone & Alberts alone will be $2.1 million. Leone & Alberts deals with public records requests related to the two criminal investigations. (The CPUC handles all other public records requests in-house.) DLA Piper represents the CPUC in cooperating with two separate criminal investigations, one federal and one state. DLA Piper's services include court appearances, court filings, negotiations, responding to discovery, document production, witness preparation, and legal advice.

The criminal and civil investigations of the CPUC by state and federal agencies are ongoing and expanding in scope. From the initial two subpoenas and search warrant, the CPUC is now responding to a total of eight subpoenas and three search warrants from state and federal criminal investigators. A substantial amount of legal resources has been required to interview witnesses, research and review millions of documents, and in all other ways, comply with all applicable legal documents in the representation of CPUC. This is expected to continue.

Staff Comment: According to the CPUC, it is not using these funds to represent any individual employees.

Staff Recommendation: Approve as proposed.

Issue 6: SB 178 Cleanup: Proposed Trailer Bill Language

Proposal: Trailer bill language is proposed to amend Section 1546.2 of the Penal Code that would clarify that nothing limits the authority of the CPUC Commission or the California Energy Commission to obtain any energy or water supply and consumption information pursuant to the powers granted to them under the Public Utilities Code or the Public Resources Code and other applicable state laws.

Background: SB 178 (Leno), Chapter 651, Statutes of 2015, created the California Electronic Communications Privacy Act (CalECPA), which generally requires law enforcement entities to obtain a search warrant before accessing data on an electronic device or from an online service provider.

Staff Comment: The proposed trailer bill language makes it clear that the general references to a "government entity" in SB 178 do not limit the CPUC or the California Energy Commission from obtaining any energy or water supply and consumption information pursuant to the powers granted to them under the Public Utilities Code or the Public Resources Code and other applicable state laws.

Staff Recommendation: Approve the proposed placeholder trailer bill language.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, May 5, 2016
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultants: Catherine Freeman and Farra Bracht

Outcomes

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VOTE-ONLY CALENDAR

ENVIRONMENTAL LICENSE PLATE FUND (MULTIPLE DEPARTMENTS)—HEARD ON MARCH 3

1. The Governor's budget proposes $38.8 million in expenditures and $42 million in revenues. After required transfers to the Motor Vehicle Account ($2.4 million), the amount available for expenditure is $39 million. The figure below outlines the Environmental License Plate Fund (ELPF) expenditure proposals for the current year and budget year. In addition, the Governor proposes trailer bill language to require the department to collect a permit application fee for processing permits under the California Endangered Species Act (CESA). The proposal includes a graduated fee schedule based on the cost of the project. Fund would be deposited into a new account at the department, the "Endangered Species Permitting Account," to be used, upon appropriation for the cost of processing the permit or to implement CESA.

Environmental License Plate Fund Shortfall Solution
2016-17 Proposed Expenditures
(Dollars in Thousands)

Function	2014-15 (Final)	2015-16 (Estimated)	2016-17 (Estimated)
Department of Fish and Wildlife	$15,511	$9,762	$15,652
Conservancies	$9,556	$11,492	$10,720
Secretary for Natural Resources	$3,419	$3,788	$4,299
Natural Resource Agency Departments	$4,651	$5,429	$4,396
Tahoe Regional Planning Agency	$3,998	$3,998	$0
Department of Parks and Recreation	$2,713	$0	$0
Cal-EPA boards and Departments	$1,242	$1,479	$1,471
Department of Education	$403	$410	$410
Total	**$41,493**	**$36,358**	**$36,948**

Staff Recommendation:

1. Approve funding as proposed.
2. Approve trailer bill with the following fee exceptions: (1) the project purpose is voluntary habitat restoration and the project is not required as mitigation; and, (2) the project is not part of a regulatory permit for non-habitat restoration or enhancement construction activity, a regulatory settlement, a regulatory enforcement action, or a court order. *This is intended to conform to the Assembly Budget Sub3 trailer bill clarification.*

Vote: Motion to approve staff recommendation. 2-1 (Nielsen, no)

MARIJUANA CULTIVATION (MULTIPLE DEPARTMENTS)—HEARD ON MARCH 3

Medical Marijuana
Governor's Environmental Protection and Agriculture Proposals
(Dollars in Millions)

Purpose	2016-17 (Proposed)	2016-17 (Proposed)	Fund Source
Department of Fish and Wildlife	$7.6	$5.8	General Fund
State Water Resources Control Board	5.2 0.5	6.0 0.7	General Fund WDPF[1]
Department of Pesticide Regulation	0.7	0.7	DPR Fund[2]
Department of Food and Agriculture	3.3	3.3	MM Fund[3]
Total	**$17.3**	**$16.5**	

[1] Waste Discharge Permit fund
[2] Department of Pesticide Regulation Fund
[3] Medical Marijuana Regulation and Safety Act Fund

Staff Recommendation: Approve as proposed.

Vote: Motion to approve. 3-0

(MULTIPLE) PROPOSITION 1 STATEWIDE OBLIGATIONS POT—HEARD ON MARCH 3

Governor's New Proposition 1 Proposals
2016-17 (Dollars in Millions)

Activity	Amount
Klamath River Hydroelectric Settlement	$250
Central Valley Project Improvement Act	90
Salton Sea Restoration Act	80
San Joaquin River Restoration Agreement	45
Total	**$465**

Staff Comments: As discussed at the hearing on March 3, concerns have been raised that not all program areas listed in the bond, specifically the Tahoe region, were funded in the final selection process.

Staff Recommendation: 1. Approve Governor's funding proposal, including administrative funding to the Natural Resources Agency and State Water Resources Control Board for Salton Sea Implementation. 2. Approve an additional $20 million (Proposition 1) for the Tahoe Environmental Improvement Program, directed to the Natural Resources Agency for grants. 3. *To conform to the Assembly, add annual reporting to the Legislature on Prop 1 implementation.*

Vote:

Split Vote: Salton Sea, CVPIA, Tahoe $20 million (3-0)//Klamath River and San Joaquin River 2-1 (Nielsen, no)

0540 Secretary for Natural Resources (and Partner Agencies)

1. **River Parkways, Urban Greening and Urban Streams.** The budget requests to appropriate the remaining funds for the river parkways, urban greening and urban streams programs, a total of $5.6 million (Proposition 12). In addition, the proposal would extend funding ($140,000) and authority for a position for five years to manage the grants associated with these programs.

2. **Implementation of SB 630 (Bi-State Regional Compact).** The budget proposes total funding of $950,000 to be drawn from the Lake Tahoe Science and Lake Improvement Account to implement SB 630 (Pavley), Chapter 762, Statutes of 2013, as follows: (1) the secretary requests $150,000 for the bi-state science-based advisory council; (2) the Tahoe Conservancy requests $400,000 for aquatic invasive species projects and improved public access to sovereign lands; and, (3) the State Water Board, for the Lahontan Water Board, requests $400,000 for near shore monitoring of water quality in Lake Tahoe.

Staff Recommendation: Approve as proposed.

Vote: Motion to approve. 3-0

0555 Secretary for California Environmental Protection Agency (Cal-EPA)

1. **California Environmental Report System Application Support Resource.** The budget requests $127,000 from the Unified Program Account for one permanent position to accommodate maintenance and operations workload for the California Environmental Report System. Workload needs for this position request have been provided through contractor resources for the previous five years.

2. **California-Mexico Water Resources Improvement—Border Relations Council.** The budget requests $175,000 from the California Tire Recycling Management Fund for one permanent position, including $50,000 one-time in 2016-17 for contract funding, to support the California-Mexico Border Relations Council and its expanded roles and responsibilities, including the requirement to establish the new river water quality, public health, and river parkway development programs, pursuant to AB 965 (Eduardo Garcia), Chapter 668, Statutes of 2015. This proposal covers the anticipated increased workload within the office of the secretary, border and intergovernmental affairs section.

3. **Agency Cyber Security Workload Growth.** The budget requests $1.1 million from multiple special fund sources and four permanent positions, to accommodate workload growth associated with increased demands for securing the Cal-EPA's critical information technology assets from compromise or business impact, and ensuring the confidentiality, integrity, and privacy of confidential information.

Staff Recommendation: Approve as proposed.

Vote: Motion to approve. 2-1 (Nielsen, no)

3340 CALIFORNIA CONSERVATION CORPS (CCC)—HEARD ON MARCH 17

1. **Residential Expansion**. The budget requests a five–year plan for major expansion of residential centers. The Administration's recent five-year infrastructure plan, which proposes state spending on infrastructure projects in all areas of state government through 2020-21, includes a major expansion of the CCC residential center program. Specifically, the plan proposes a combined total of $171 million over the next five years from the General Fund and lease-revenue bond funds to design and construct new CCC residential centers.

2. **Butte Fire Center.** The budget requests $2.6 million (General Fund), 12.5 positions, and 47 corpsmembers, to convert the former CalFIRE Magalia facility into a residential corpsmember facility serving Butte County.

3. **Auburn Campus: Kitchen, Multipurpose Room, and Dorm Replacement**. The budget requests $19.6 million from the General Fund for the construction phase of a new kitchen, multipurpose building and dormitory to replace the current facilities at the Auburn campus. This proposal is to complete the ongoing Auburn capital outlay project. This includes the spring finance letter requesting to reappropriate $1.3 million for working drawings phase.

4. **Fuel Reduction Program.** The budget requests $2.7 million in 2016-17 and $2.9 million in 2017-18 in State Responsibility Area Fire Prevention (SRA) funds, and position authority for up to five positions for program oversight and administration activities, effective January 1, 2017, through June 30, 2018, to continue the Fuel Reduction Program for two years.

5. **Vehicle Replacement Plan.** The budget requests a three-year increase in annual expenditure authority of $812,000 in the Collins Dugan Reimbursement Account in 2016-17, 2017-18, and 2018-19, to annually replace approximately thirty vehicles in its fleet.

6. **C3 Project Funding Augmentation.** The spring finance letter requests a one-time budget augmentation of $409,000 for 2016-17, funded by the Collins-Dugan Reimbursement Account Fund, for consultant services for project quality management.

7. **Minimum Wage Funding Increase and Technical Adjustment.** The spring finance letter requests $1.4 million ($394,000 General Fund, $494,000 Collins Dugan Reimbursement Account, $396,000 SRA Fund, $97,000 Proposition 39) in 2016-17 and ongoing to fully fund the corpsmembers' minimum wage increase of $1.00 per hour, effective January 1, 2016. In addition, CCC is requesting a technical adjustment to reduce its 2016-17 General Fund appropriation by $2.5 million, to correct the one-time cost adjustments in the January budget.

8. **Tahoe Base Center: Equipment Storage Relocation.** The spring finance letter requests to reappropriate $1.6 million for the working drawings and construction phases for the Tahoe Base Center project, due to unanticipated project delays.

Staff Recommendation: Approve as proposed.

Vote: Motion to approve Items 1, 2, 3, 5, 6 and 8: 3-0

Motion to approve Items 4 and 7: 2-1 (Nielsen, no)

3360 California Energy Commission (CEC)—Heard on March 10

1. **Continued Support of Energy Infrastructure to Meet 21st Century Policy and Planning Objectives.** The budget requests the conversion of six limited-term positions to permanent to continue supporting the revival of energy data collection activities and the development of disaggregated energy demand forecasts, to implement and support statewide energy decisions at the CEC. Total funding request for this proposal is $724,000 from the Energy Resources Program Account (ERPA).

2. **Convert Limited-Term Positions to Permanent.** The Governor's budget requests the conversion of one limited-term position to permanent to continue ongoing implementation of the Acceptance Test Technician Certification Providers, at a cost of $107,000 (ERPA). The budget requests conversion of one position (international relations senior advisor) to permanent to continue coordination with other nations as it relates to greenhouse gas emission reductions, at a cost of $120,000 (ERPA).

3. **Adjustments to Electric Program Investment Charge (EPIC).** The budget requests an increase of $11.2 million (EPIC) for program and administration funds, as well as $4.5 million in one-time technical assistance for technical support activities, as directed by the California Public Utilities Commission (CPUC).

4. **One-Time Expenditure Authority for Unspent Public Interest Energy Research (PIER) Natural Gas Funds.** The budget requests approval of unspent funds from the PIER Natural Gas Fund as directed by the CPUC. The CPUC directs the CEC to submit a research plan to utilize $3.6 million in unspent funds, resulting from completed projects that came in under-budget.

5. **Public Goods Charge Ramp-Down.** The budget identifies the reduction of nine positions and $1.3 million from the Public Interest Research Development and Demonstration Fund, consistent with the sunset of the authority to collect the Public Goods Charge on January 1, 2012.

6. **Legislative Implementation.** The budget requests eight permanent positions and $500,000 in baseline technical support, for a total request of $1.6 million (ERPA), to support the implementation of AB 802 (Williams), Chapter 590, Statutes of 2015, which accelerates energy efficiency through benchmarking and customer data analysis. The budget also requests one permanent position and $135,000 (ERPA) to implement AB 865 (Alejo), Chapter 583, Statutes of 2015, which charges CEC with developing a diversity outreach program to qualified businesses.

Staff Recommendation: Approve as proposed.

Vote: Motion to approve Item 5: 3-0

Motion to approve Items 1, 2, 3, 4 and 6: 2-1 (Nielsen, no)

3480 DEPARTMENT OF CONSERVATION

1. **California Farmland Conservancy Program.** The budget requests a one-time local assistance appropriation of $1.2 million (Proposition 40). Funds will be used by the California Farmland Conservancy Program to provide grants to local governments and non-profit land trusts to permanently protect farmland from conversion to non-agricultural uses via permanent agricultural conservation easements.

2. **Oil and Gas Training Program.** Division of Oil, Gas, and Geothermal Resources (DOGGR) requests two permanent positions and a baseline appropriation increase of $1.3 million from the Oil, Gas and Geothermal Resources Fund (OGGAF), ongoing. Funding will be used to develop, implement, and conduct a comprehensive training program designed for DOGGR regulatory staff.

3. **AB 1420 Implementation.** The budget requests ten permanent positions and a baseline appropriation increase of $1.4 million ($1.2 million ongoing), from OGGAF. Positions and funding will be used to prevent possible pipeline releases by requiring that sensitive gas pipelines are tested on a periodic basis; pipelines are mapped accurately to determine potential threats; provide transparency to the public as to the location of gas pipelines relative to urban areas; and, to review and update existing regulations as required by AB 1420 (Salas), Chapter 601, Statutes of 2015.

4. **Orphan Well Remediation** The spring finance letter requests an increase of $1 million (OGGAF) to remediate hazardous orphaned wells. Additionally, the department requests provisional language to increase the expenditure limit on orphan well remediation. No position authority is requested.

5. **Technical Adjustments.** The spring finance letter requests: (1) re-appropriation of $10 million (OGGAF) shifting from data management to the Open Space Subvention Program at the Strategic Growth Council; and (2) reversion and reappropriation of $180,000 (Proposition 84) to the California Farmland Conservancy Program.

Staff Recommendation: Approve as proposed.

Vote: **Motion to approve Items 1, 3, 4 and 5. 3-0**

Motion to approve Item 2: 2-1 (Nielsen, no)

3540 Department of Forestry and Fire Protection—Heard on March 17

1. **Capital Outlay.** The Governor's budget requests funding for the following capital outlay proposals: (1) relocate the Potrero Forest Fire Station ($400,000, General Fund); (2) phase five of the statewide communications system replacement ($1.6 million, General Fund); (3) Ishi Conservation Camp domestic drinking water system replacement ($871,000, General Fund); (4) replacement of water boilers at Fenner Canyon Conservation Camp ($376,000, General Fund); and reappropriation of funding for twenty major capital outlay projects.

2. **Information Technology and Information Security Staffing Modernization.** The budget requests $3 million ($2.8 million General fund and $228,000 Special Funds), and 14 positions, to address increasing demands of information technology systems.

3. **Public Information and Education (Drought).** The Governor's budget requests $1.6 million ($1.5 million General Fund and $127,000 Special Funds), and five positions, starting in 2016-17, to increase staffing for public information and education. This extends, in part, increased funding for drought-related public information.

4. **Drought.** The budget requests $77 million ($74 million General Fund and $3 million SRA Fire Prevention Fund), one-time, and 454.8 temporary help positions, to address heightened fire conditions due to drought.

5. **Fire Safety, Flame Retardants and Building Insulation.** The budgets requests $125,000 (Building Standards Administrative Special Revolving Fund), on a one-time basis, for a contract to review, research, test and implement proposed building standards for fire safety of retardants in building insulation.

6. **Board of Forestry Fire Protection Effectiveness Monitoring Services.** The budget requests $425,000 (Timber Regulation and Forest Restoration Fund), for two years, to improve effectiveness monitoring assistance from academic institutions to support the evaluation of the environmental protection of the Forest Practice Act and rules.

7. **Emergency Command Center Staffing.** The budget requests $17 million ($16.9 million General fund and $28,000 various special funds), and 61.6 permanent positions, along with 34.3 two-year, limited-duration temporary help positions, to increase Emergency Command Center (ECC) staffing. The positions are requested to improve intake of emergency calls and allocate and manage resources for emergencies.

8. **Situational Command Awareness Data Acquisition.** The Governor’s budget requests $7.6 million ($7 million General Fund and $600,000 special funds) and 12.8 positions beginning in the budget year, growing to $13.2 million in two years, then leveling off to $7.6 million after year three, ongoing. The proposal includes a request for eight vehicles, including one for a battalion chief, for ongoing field level support. Additionally, the request will require the department to lease new office space in order to accommodate the additional Sacramento-based positions.

9. **Professional Standards Program.** The budget requests $4.4 million ($3.7 million ongoing) primarily from the General Fund, and 14 permanent positions to establish a professional standards program in headquarters, which would include a unit to provide additional oversight for internal investigations and adverse actions, as well as expand manager and supervisor training. The proposed positions would conduct administrative and background investigations, provide more training to managers and supervisors, and develop guidelines to promote consistent application of penalties.

10. **Mobile Equipment Replacement Budget.** The budget requests a one-time $6 million (General Fund) for mobile equipment replacement increase in 2016-17 to restore funding that was redirected in 2015-16 to purchase goods and services to address the removal of vegetation impacted by drought and pests.

11. **Mount Bullion Conservation Camp: Emergency Sewer System Replacement.** The budget requests $833,000 (Public Works Construction Fund) to replace sewage disposal system at Mount Bullion Conservation Camp in Mariposa County.

12. **Reappropriation of Various Minor Capital Outlay Projects.** The spring finance letter requests reappropriation of the minor appropriations from the budget acts of 2014 and 2015. This is a result of a delay of the La Cima Conservation Camp wastewater treatment system and the Columbia Air Attack Base facility improvement projects.

13. **Implementation of SB 295 and AB 864—Intrastate Pipeline Inspection Staffing.** The spring finance letter requests a $1,137 million spending authority increase to the California Hazardous Liquid Pipeline Safety Fund and 17 permanent positions support the Office of the State Fire Marshal Pipeline Safety Division. The proposal would provide for sufficient staffing levels to develop, implement, and oversee new requirements related to SB 295 (Jackson), Chapter 607, Statutes of 2015 and AB 864 (Williams), Chapter 592, Statutes of 2015. *Assembly action: The Assembly Budget Subcommittee adopted trailer bill language to add annual reporting requirements in the implementation of this proposal as well as a clarification of the definition of oil.*

Staff Recommendation: Approve as proposed including, for **Item 13, the Assembly adopted trailer bill language to add annual reporting and definition clarification for intrastate pipeline inspection staffing.**

Vote:

Motion to approve Items 1, 3, 7, 10, 11, 12: 3-0

Motion to approve Items 2, 4, 5, 6, 13: 2-1 (Nielsen, no)

Motion to approve Item 8: 2-0 (Nielsen not voting)

Item 9 Held open

3560 State Lands Commission

1. **Abandonment of Becker Onshore Well.** The budget requests $200,000 Oil Spill Prevention and Administration Fund (OSPAF) in 2016-17, and $700,000 in 2017-18, to conduct Phase One activities related to the abandonment of the Becker onshore well. The well is part of the Summerland Oil Field developed in the late 1890s from shore and from wharfs that extended into the Pacific Ocean. This includes an adjustment made in in the spring finance letter.

2. **Marine Invasive Species Program Database and Workload.** The budget requests $400,000 and a continuing appropriation of $75,000 from the Marine Invasive Species Control Fund (MISCF) to develop, implement, and maintain an automated interactive public facing web-based data entry portal that will collect data on the ballast water and biofouling management practices of commercial ships that arrive at California ports. The budget also requests $135,000 (MISCF) to support one new senior environmental scientist position.

3. **Removal of Dennett Dam.** The budget requests $367,000 (General Fund) to remove Dennett Dam, located on the Tuolumne River in Stanislaus County. The funding request is contingent upon the Tuolumne River Preservation Trust providing an equal funding match.

4. **Selby Slag Remediation.** The budget requests $369,350 General Fund in FY 2016-17 to fund the state's obligation to pay a proportionate share of certain ongoing hazardous waste remediation costs at Selby, California. Pursuant to a 1989 Consent Judgment the state’s share of the cost of remediation is 38 percent.

5. **Spatially Indexed Records System.** The budget requests $225,000 (General Fund) to prepare a spatially indexed records management system plan. The results of the planning phase of the project will ensure that staff and citizens will be able to access historical records, provide a method to efficiently locate and access records vital to the commission’s mission to protect records in the event of a disaster.

6. **Yosemite Slough.** The budget requests $85,000 General Fund to fund the California State Land Commission's portion of 16 technical studies related to the remediation of Yosemite Slough in San Francisco.

Staff Recommendation: Approve as proposed.

Vote: **Motion to approve Items 1, 3, 4, 5, 6: 3-0**

Motion to approve Item 2: 2-1 (Nielsen, no)

3600 Department of Fish and Wildlife—Major Proposals Heard on March 3

1. **Gray Lodge Wildife Area—Field 82.** The budget requests $108,000 from the Fish and Game Preservation Fund (FGPF), State Duck Stamp Account, for a project at the Gray Lodge Wildlife Area to provide habitat for nesting and brood-rearing waterfowl and other wetland dependent species.

2. **Implementation of AB 96—Ivory Sale and Importation.** The budget requests $1.8 million (General Fund) to implement enforcement of AB 96 (Atkins), Chapter 475, Statutes of 2015, banning illegal trade of elephant ivory and rhinoceros horns in California to protect African elephants and rhinoceros from extinction.

3. **Marine Resources Management and Assessment.** The budget requests an increase in spending authority of $443,000 per year from the Marine Invasive Species Control Fund (MISCF) for three years to improve resource assessment and increase the monitoring of critical marine species, which will result in significant short and long-term biological, economic, and social benefits to the people of California.

4. **Proposition 50 Local Assistance Grants.** The budget requests $2.1 million (Proposition 50) to award competitive grants that implement components of Water Security, Clean Drinking Water, Coastal and Beach Protection of 2002, the California Water Action Plan, and the Delta Stewardship Council's Delta Plan, consistent with the bond.

5. **Technical Adjustments, Reversions and Realignment of Funds.** The department requests a reversion of $3 million (Proposition 84) in order to provide for availability of funds in 2016-17. The budget proposes to realign the Fish and Game Preservation Fun dedicated accounts, resulting in a $6.2 million overall reduction, to better align the account's expenditure authority with revenues, to ensure the accounts remain structurally balanced. The budget requests an ongoing increase of $13.5 million in Federal Trust Fund authority beginning in 2016-17. This request will establish adequate authority for the department to receive and expend federal grant funds vital to the department's operation.

6. **Proposition 1 Local Assistance.** The budget requests $20 million (Proposition 1), one-time, to provide increased grant funding and for provisional language providing authority to award eligible grants from the 2015-16 grant solicitation cycle for watershed restoration projects.

Staff Recommendation: Approve as proposed with the following draft budget bill language:

Item 3600-001-0001. No later than September 30, 2016, the department shall convene a group of relevant budget and policy legislative staff, the Legislative Analyst’s office, and the Department of Finance, to discuss the department’s structural budget imbalances, as well as the historical causes of, and potential options for, addressing those imbalances.

Vote:

Motion to approve Items 1, 4, 5, 6 and budget bill language: 3-0

Motion to approve Items 2 and 3: 2-1 (Nielsen, no)

3640 WILDLIFE CONSERVATION BOARD (WCB)

1. **Proposition 1.** The budget requests a total of $41.9 million in local assistance project funding, that may also be made available for capital outlay. Of the total amount requested, $38.4 million is requested for the WCB to continue the implementation of the stream flow enhancement program and $3,500,000 is requested for the San Joaquin River Conservancy (SJRC), to continue implementation of the multi-benefit watershed protection and restoration program.

2. **San Joaquin River—Proposition 40 Capital Outlay.** The budget requests $2.5 million ($1.5 million in expenditure authority and $1 million in additional reimbursement authority) from Proposition 40 to allow the San Joaquin River Conservancy (SJRC) to implement its conservation, public access, recreation, and environmental restoration capital improvement programs.

3. **Wildlife Restoration Fund.** The budget requests $1 million from the Wildlife Restoration Fund for the purposes of the WCB's Public Access Program.

Staff Recommendation: Approve as proposed.

Vote: Motion to approve: 2-1 (Nielsen, no)

3720 CALIFORNIA COASTAL COMMISSION

1. **Local Coastal Programs.** The budget requests: (1) the conversion of the Local Coastal Program (LCP) enhancement pilot to baseline funding with 25 permanent staff positions; and, (2) baseline funding of $3 million (General Fund) per year. This is in keeping with multiple years of recommendations by the Legislature to give the commission the ability to complete its statutory mandates.

2. **State Tax Return Voluntary Contributions.** The budget requests to allocate $430,000 from voluntary contributions on the state tax return to the "Protect Our Coast and Oceans Fund" to the commission as a one-time appropriation in 2016-17. Of this amount, $365,000 would be a one-year local assistance budget line item to provide Whale Tail grants. The remaining $65,000 would be a one-year state operations budget line item to support outreach and promotion for the "Protect Our Coast and Oceans" Fund.

3. **Reappropriation of Local Coastal Program Grants.** The budget requests reappropriation of local assistance funds included in the enacted budgets for 2013-14 and 2014-15 for Local Coastal Program (LCP) grants to local governments.

4. **Climate Resilience Projects.** The budget requests $500,000 Coastal Trust Fund for climate change adaptation and climate resiliency planning and project work. These funds were originally part of the enacted budget for 2014-15 as a transfer from the Environmental License Plate Fund (ELPF) to the Coastal Trust Fund for these purposes. Due to shortfalls in the ELPF for 2014-15, the commission was directed to not to spend $500,000 in 2014-15.

5. **Relocation of South Coast District Office.** The spring finance letter requests $451,000 from the General Fund to be used for one-time moving and set up expenses for the relocation of the South Coast District Office in Long Beach and ongoing General Fund funding of $411,000 for increased rent. The owner of the building, where the South Coast District Office is currently housed, has given notice to the Department of General Services that the lease will not be renewed under any circumstances.

Staff Recommendation: Approve as proposed.

Vote: Motion to approve Items 2 and 3: 3-0

Motion to approve Items 1, 4, 5: 2-1 (Nielsen, no)

(MULTIPLE) STATE CONSERVANCIES AND COMMISSIONS

1. **Coastal Conservancy (3760)—Coastal Access and Public Access Programs.** The budget requests $850,000 to the Coastal Conservancy: $500,000 from the Coastal Access Account and $350,000 from the California Beach and Coastal Enhancement Account for purposes of local assistance and capital outlay to continue implementation of the Conservancy's Public Access, Education and related programs.

2. **Coastal Conservancy (3760)—Bond Fund Appropriations.** The budget requests $5.4 million in bond funding from the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1) to the State Coastal Conservancy for the purposes of local assistance and capital outlay, program delivery, and planning and monitoring consistent with the bond act. The budget also requests reversion of the unencumbered balance from a previous appropriation from Proposition 84 and appropriation of $25 million to the Coastal Conservancy from the same fund, for purposes of local assistance and capital outlay, which includes $7 million in reimbursement authority.

3. **Santa Monica Mountains Conservancy (3810)—Bond Fund Appropriations.** The budget requests $200,000 (Conservancy Fund), $775,000 (Proposition 40), $300,000 (Proposition 50), and $1.1 million (Proposition 84) for the acquisition, enhancement, restoration, of natural lands, improvement of public recreation facilities and state operations. This includes technical adjustments requested in the spring finance letter.

4. **Los Angeles River Proposition 1 Funding.** The budget requests to appropriate $14.1 million Proposition 1 to the Santa Monica Mountains Conservancy and $20 million to the

Rivers and Mountains Conservancy, from the Los Angeles River bond allocation. The Assembly budget committee instead allocated $50 million to the Santa Monica Mountains Conservancy and $50 million to the Lower Los Angeles and San Gabriel Rivers Conservancy. *Staff proposes this items be held open for conference committee.*

5. **Rivers and Mountains Conservancy (3825)—Proposition 50 and Proposition 84 Reversion and Reappropriations.** The spring finance letter requests reversion from a 2012-13 Prop 50 capital outlay appropriation and requests a new $168,000 Proposition 50 local assistance appropriation for 2016-17, with provisional language to allow the funds to be available for either local assistance or capital outlay, and available for encumbrance through June 30, 2019. The spring finance letter also requests a reversion of the unencumbered balance from 2015-16 Proposition 84 support appropriation to resolve a negative bond allocation balance.

6. **San Joaquin River Conservancy (3830)—Proposition 40 Funding for Program Delivery.** The budget requests approval to shift program delivery funding from Proposition 84 to Proposition 40, in order to enable the conservancy to maintain the current level of staffing for program delivery without creating a negative bond allocation.

7. **Baldwin Hills Conservancy (3835)—Proposition 40 Acquisition and Improvement Program.** The budget requests $6 million in local assistance funding to provide grants for acquisitions and capital improvements from Proposition 40, pursuant to the bond act in order to implementing the conservancy's mission of acquiring and developing open space in the Baldwin Hills area.

8. **San Diego River Conservancy (3845)—Reimbursement Authority.** The budget requests $1 million in reimbursement authority to fully implement projects consistent with the conservancy's mission, and funded by other state agency grants.

9. **Coachella Valley Mountains Conservancy (3850)—Propositions 12, 40 and 84 Reappropriations.** The conservancy requests reappropriations from the unexpended balances of 2013-14 capital appropriations to continue its approved mission.

10. **Coachella Valley Mountains Conservancy (3850)—Multi-Benefit Ecosystem and Watershed Protection and Restoration Project Grants Program.** The spring finance letter requests $6.8 million from Proposition 1 to implement the remaining years in its competitive Multi-Benefit Ecosystem and Watershed Protection and Restoration Project Grants Program, consistent with bond requirements.

11. **Sierra Nevada Conservancy (3855)—Proposition 84 Reversions and Spring Finance Letter New Appropriation.** The budget requests reversion of the remaining balances Proposition 84 and a new local assistance appropriation of $403,000 to be used to further the approved mission of the conservancy, consistent with bond requirements.

12. **Sierra Nevada Conservancy (3855)—Proposition 84 Reversions and Spring Finance Letter New Appropriation.** The spring finance letter requests an increase to its reimbursement authority from $50,000 by $400,000, for a total of $450,000, and two

permanent positions to oversee a multi-year reimbursement contract with the Department of Housing and Community Development (HCD).

13. **Sacramento-San Joaquin Delta Conservancy (3875)—Augmentation to Support Administrations.** The budget requests a permanent baseline funding increase of $10,000 from the General Fund to cover an increase in workers' compensation insurance.

14. **Sacramento-San Joaquin Delta Conservancy (3875)— Implementation for Restoration Water Quality, and Economic Development Projects.** The budget requests an increase of $290,000 in its federal reimbursement authority to fully implement the projects funded by three Environmental Protection Agency grants and one economic development administration grant.

Staff Recommendation: Approve all but item 4 as proposed. Hold open Item 4 (Los Angeles River Proposition 1 Funding) for further discussion and review.

Vote:

Motion to approve Items 2, 11, 12, 13, 14: 3-0

Motion to approve Items 1, 3, 5, 6, 7, 8, 9, 10: 2-1 (Nielsen, no)

Item 4 Held Open

3790 DEPARTMENT OF PARKS AND RECREATION—STATE OPERATIONS

1. **Goat Canyon Sedimentation Basin Maintenance.** The budget requests two-year funding of $1.9 million annually from the California Tire Recycling Management Fund beginning in 2016-17 to maintain the Goat Canyon Sediment Basins at Border Field State Park by excavating and processing sediment and trash, disposing trash and reject material, exporting sediment, testing and monitoring of contaminants and conditions, and maintenance of infrastructure.

2. **Hazardous Mine and Mill Remediation.** The budget requests one-time funding of $1.2 million from the State Parks and Recreation Fund (SPRF) for permit monitoring, study, evaluation, alternative analysis, and implementation of remedial actions to abate contamination resulting from historic mining activities at Malakoff Diggins State Historic Park. Malakoff Diggins State Historic Park is currently under order issued by the Central Valley Regional Water Quality Control Board to protect human health, the environment, and waters of the State.

3. **Local Assistance—Various Grant Funding and Operating Agreements.** Consistent with previous year appropriations, the budget requests funds in the amount of $118.9 million from special and federal funds for the Local Assistance Program to provide grants to various agencies consistent with approved program guidelines. Funds are available for encumbrance or expenditure through June 30, 2018.

4. **Operating Agreements.** The department requests approval to negotiate new or extend existing operating agreements for Dockweiler State Beach and Robert Crown Memorial State Beach consistent with statute.

5. **Quagga and Zebra Mussel Infestation Prevention Program.** The budget requests an increase in ongoing support funding of $186,000 from the Harbors and Watercraft Revolving Fund (HWRF) for program delivery of the Quagga and Zebra Mussel Infestation Prevention Grant Program. These funds will ensure successful administration of grants available to water body managers and owners of reservoirs that are open to the public and are currently un-infested by quagga and zebra mussels.

Staff Recommendation: Approve as proposed. The baseline funding, community outreach pilot, and public beach restoration program proposals will be heard after May Revision.

Vote.

Motion to approve Items 2, 3, 4, 5: 3-0

Motion to approve Item 1: 2-1 (Nielsen, no)

3790 Department of Parks and Recreation—Capital Outlay Program

State Park	Title/Summary	Amount (Dollars in Thousands)
1. Angel Island State Park	East Garrison Mooring Field. Requests funding for the construction phase of this continuing project from the Harbors and Watercraft Revolving Fund (HWRF). This existing project will improve safety and convenience of recreational boaters by restoring the abandoned mooring field at the East Garrison location of the park and will clean up the site by removing debris from the bay floor, as needed. This project will construct up to 32 mooring buoys.	$582 (HWRF)
2. Malibu Creek State Park	New Stokes Creek Bridge. Requests funding for the working drawings phase of this continuing project from available Proposition 84 funds. This existing project will replace an existing, undersized arch culvert with a bridge to restore a secondary escape route for park visitors in the event of fire or other emergencies and provide a dedicated service entrance for park staff to access the district office, thereby eliminating the need to travel through the campground. In addition to increasing public safety, this project would also eliminate a significant portion of the park's deferred maintenance backlog, prevent ongoing damage to the existing road and restore the creek to its natural configuration.	$233 (Prop 84)
3. Reappropriation	Capital Outlay Program. Requests reappropriation of the existing Capital Outlay appropriation for the preliminary plans phase of the Old Sacramento State Historic Park Boiler Shop Renovation project. Due to the acquisition process of this property, the renovation project has yet to start. The preliminary plans phase will begin once the acquisition transfer and settlement agreement is in place; currently anticipated to occur in Fall 2016.	$726 (multiple funds)
4. Statewide: Off-Highway Vehicle (OHV) Minor Capital Outlay Program.	Requests funding from the Off-Highway Vehicle Trust Fund for the OHV minor capital outlay program. This will fund three minor projects at various State Vehicular Recreation Areas. These projects will provide for enhancements or improvements to address critical issues impacting health and safety that include park operations; public recreation and access; energy efficiency; and resource protection and restoration. The projects will enable or enhance program delivery.	$1,716 (OHV Trust Fund)
5. Topanga State Park	Rebuild Trippet Ranch Parking Lot. Requests funding from available Proposition 84 funds for preliminary plans phase to rehabilitate the Trippet Ranch parking lot and surrounding area damaged by erosion and storm water. This project will reduce the safety risk to the public, reduce maintenance costs, and better support interpretive uses of the historic zone.	$316 (Prop 84)

State Park	**Title/Summary**	**Amount** (Dollars in Thousands)
6. El Capitan State Beach	Entrance Improvements. Requests funding from available Proposition 84 funds for th epreliminary plans phase to address safety and operational issues at the park entrance. This project will provide an alternate safe route for pedestrians and bicyclists; provide increased space for today's larger vehicles on the park road and entrance area; replace a culvert with a bridge to allow the endangered steelhead trout a barrier free passage; and replace the aging and damaged entrance kiosk.	$358 (Prop 84)
7. McGrath State Beach	Campground Relocation and Wetlands Restoration. Requests funding from available Proposition 40 funds for preliminary plans phase to relocate the existing campground, maintenance yard, employee housing, campfire center, and day use parking. The campground and associated facility relocation/rehabilitation, including utility infrastructure replacement, is required due to yearly flooding, resulting in loss of major revenue generation and disruption of access to the operational and visitor use facilities. This project will assist in avoiding significant costs for ongoing clean-up and repair of deteriorating facilities due to regular flood damage.	$1,029 (Prop 40)
8. Prairie City State Vehicular Recreation Area	Initial Erosion Control. Requests funding from the Off-Highway Vehicle Trust Fund for the preliminary plans phase to address erosion issues caused by storm water runoff. This project will include the installation of sediment basins, storm water spray fields, drainage crossings, and riparian areas. In addition, there will be drainage control measures including culverts, diversion ditches, and swales. The project will meet Best Management Practices (BMPs) for storm water management pursuant to the federal Clean Water Act. A comprehensive Watershed Assessment Study, performed through a separate effort, will be used as a detailed guide in implementing this project.	$275 (OHV Trust Fund)
9. McArthur-Burney Falls Memorial State Park	Group Camp Development. Requests reimbursement authority for preliminary plans and working drawings phases to develop two adjoining group camps. Development of the group camps is expected to increase the park's group camping capacity by a total of 100 campers. This new project is to be fully reimbursed with non-state funds from Pacific Gas and Electric (PG&E) obligations.	$62 (Reimb.)
10. Statewide: Minor Capital Outlay Program	Requests funding from available Proposition 84 funds for the state park system minor capital outlay program. This will fund one minor project in Sinkyone Wilderness State Park to replace dilapidated and failing vault toilets. These improvements are needed to address health and safety concerns related to sewage disposal and limit ongoing special repair/deferred maintenance costs.	$395 (multiple funds)

State Park	Title/Summary	Amount (Dollars in Thousands)
11. Statewide: Rec Trails Minor Capital Outlay Program	Requests funding from available Proposition 84 funds for the recreational trails minor capital outlay program. This will fund three minor projects at various state park units. These projects will provide for enhancements or improvements to address critical safety issues that include park operations, public recreation and access, and resource protection and restoration. The projects will enable or enhance program delivery.	$900 (Prop 84)

Staff Recommendation: Approve as proposed.

Vote: Motion to approve: 3-0

Issue 1: Aliso Canyon and Natural Gas Management Spring Finance Letter Proposals

BACKGROUND

In late October 2015, a leak was discovered expelling natural gas from a well at the Aliso Canyon Natural Gas Storage Facility (Aliso Canyon) in Los Angeles County. The well, which was being used for injection and storage of gas by its operator, Southern California Gas Company (SoCalGas), was located in close proximity to residential neighborhoods. The Porter Ranch Community, one of the closest, experienced some of the most severe effects.

SoCalGas, in conjunction with state oversight agencies, attempted to plug the leak using conventional methods. However, these initial efforts were not successful, and in early December, a more complex solution (i.e. the drilling of a relief well) was initiated. In the meantime, SoCalGas provided temporary housing and filtration/purification systems for the neighboring communities.

As part of the state's response to Aliso Canyon, the Governor issued an Emergency Proclamation in January 2016, to direct multiple oversight agencies to focus on the following main activities: (1) addressing the immediate threat to public health and safety by directing efforts to plug the leak; (2) ensuring that accountability falls on the operators of the facility; (3) taking steps to prevent a similar event from occurring in the future; and, (4) implementing the necessary actions to ensure energy reliability.

In February 2016, the leak was declared under control and by March, residents had returned to their homes. Questions remain, however, about the state's role in regulation of natural gas facilities, the health and environmental impacts of natural gas emissions, and the ability of the state to provide safe and reliable energy.

Several state agencies have jurisdiction over natural gas reliability and safety, and events such as the Aliso Canyon leak, including the following:

- **Office of Emergency Services (OES).** Provides incident command structure, including a physical post on-site role to coordinate local, state and federal response and information sharing.

- **Division of Oil, Gas and Geothermal Resources (DOGGR).** Regulates natural gas injection wells, investigates leaks, and provides the follow-up on-site monitoring and testing to ensure the well is operating within state rules. AB 1420 (Salas), Chapter 601, Statutes of 2015, requires DOGGR to test certain pipelines less than four inches in diameter and in urban areas.

- **California Air Resources Board.** Regulates air quality, including monitoring and emission controls, for public and environmental health, and for greenhouse gas emission reductions.

- **Division of Occupational Safety and Health.** Regulates and ensures on-site worker safety at the facility.

- **California Public Utilities Commission (CPUC).** Provides ratemaking oversight for investor-owned utilities (IOUs), including SoCalGas, and determines costs for responding to, and repairing the leak. Regulates intra-state utility pipelines.

- **Federal Energy Regulatory Commission (FERC).** Regulates many aspects of interstate gas transmission pipeline operations.

GOVERNOR'S PROPOSALS

Air Resources Board (ARB)—Neighboring Air Quality Monitoring Near Oil and Gas Operations. The ARB is requesting a total of $2.3 million from the Oil, Gas and Geothermal Administrative Fund (OGGAF) to support neighborhood air quality monitoring near oil and gas facilities. This cost includes $579,000 for four new permanent full-time air pollution specialists, a one-time equipment request of $1.4 million and an additional $340,000/year for equipment maintenance and consumables to support air monitoring of toxic compounds, methane, particulate matter, and meteorological parameters, at and around, communities near oil and gas-related facilities. The resources will enable short-term (three to four months per site) community monitoring near oil and gas activities and source testing to identify potential areas of elevated risk. The information will inform health risk assessments as well as the need for further mitigation. The monitoring resources will also enable the ARB to more effectively and quickly deploy short-term monitoring capabilities in response to unanticipated events, such as the natural gas leak at Aliso Canyon. Additionally, the ARB also requests trailer bill language (TBL) authorizing the use of the Oil, Gas and Geothermal Resources Fund (OGGAF).

Office of Environmental Health Hazard Assessment—Neighboring Air Quality Monitoring Near Oil and Gas Operations. The Office of Environmental Health Hazard Assessment (OEHHA) is requesting a total of $350,000 and two new permanent full-time positions, to be funded by direct appropriation from the OGGAF to support the ARB in its proposed project to monitor neighborhood air quality near oil and gas facilities. This cost includes $300,000 for the positions and $50,000 per year in contracts. The resources will enable OEHHA to support ARB in the identification of chemical hazards and the characterization of potential risks in California communities related to ongoing oil and gas production activities and from unanticipated events such as the natural gas leak at Aliso Canyon. Additionally, OEHHA also requests TBL authorizing the use of the OGGAF.

Department of Conservation, Division of Oil, Gas, and Geothermal Resources (DOGGR)—Underground Gas Storage Regulation. The DOC requests 20 permanent positions and a baseline appropriation increase of $4,172,000 ($3,269,000 ongoing) from OGGAF. Many of the gas storage facilities have been in operation for decades, and the aging wells and infrastructure need to be constantly monitored, inspected, and evaluated for potential threats to health and safety. The leak at the Aliso Canyon gas storage facility has highlighted some shortcomings in the existing regulations and associated oversight of gas storage facilities and operations. The new regulations will focus on the integrity of the wells, reservoir, and facilities, requiring all aspects of the gas storage operations are in compliance and the operations are safe. The emergency regulations address: (1) requiring complete project data from operators of underground storage facilities; (2) requiring the department to impose minimum and maximum reservoir pressure limits; (3) requiring operators of natural gas storage facilities to monitor wells for the presence of gas in the annuli (any void between any piping, tubing or casing and the piping) of well casings by monitoring annular pressure and gas flow in the well; (4) require functional testing of all surface and subsurface safety valve systems, master valves, and pipeline isolation valves; (5) require operators to inspect wellhead assembly and attached pipelines for each well used in gas storage projects; and, (6) require operators to develop comprehensive risk management plans to be subject to department approval.

Department of Conservation—Oil and Gas Studies. The DOC requests a two-year, limited-term, appropriation of $2.95 million in 2016-17, and $2.5 million in 2017-18 from OGGAF. Funding will be used to contract for services to conduct and complete additional independent scientific studies. In accordance with recommendations from the California Council on Science and Technology (CCST), the department proposes to: (1) identify opportunities for water conservation and reuse in the oil and gas industry; (2) determine if there is a relationship between wastewater injection and earthquakes in California; (3) evaluate the potential for subsidence due to oil and gas operations; (4) provide for ongoing topical analysis and consultation with the Lawrence Livermore National Lab (under current contract with the department) to provide DOGGR with technical support in evaluating oil field operations and testing; and, (5) contract with the Department of Toxic Substances Control to conduct a waste study for the purposes of identifying oil production wastes that may be impacted by or contain well stimulation chemicals to determine whether they exhibit hazardous waste characteristics.

California Energy Commission—Natural Gas Electricity System Interactions and Grid Reliability. This proposal requests baseline authority for three permanent positions, one-time contract funds of $1 million for technical assistance, and ongoing contract funds of $150,000, for a total request of $1.7 million from the Public Interest Research, Development, and Demonstration Fund to improve the Energy Commission's technical ability to monitor, model, and analyze the interaction of California's electricity and natural gas systems for grid reliability. This includes pipeline and system dispatch modeling, underground storage operations, forward price monitoring and financial risk assessment, and relationships between weather and gas balances as they influence electric reliability. It will allow the Energy Commission to fulfill its reliability contingency planning authority for the natural gas system, as it has for the electricity system. Authority for a two-year encumbrance period for the one-time technical assistance funds is also requested.

This proposal also requests TBL that repeals the annual fund transfer of $10 million from the Public interest Research, Development, and Demonstration Fund to the Alternative and Renewable Fuel and Vehicle Technology Fund, authorized by Health and Safety Code Section 44273.

California Public Utilities Commission—Expanded Gas Storage/Transmission Infrastructure Review. The CPUC requests funding of $1.5 million (Public Utilities Commission Utilities Reimbursement Account) for ten new permanent full-time positions: three senior utilities engineers - specialist, one public utilities regulatory analyst v, two public utilities regulatory analyst iv, and four utilities engineers. These new positions will address numerous urgent tasks related to the natural gas leak at the Aliso Canyon Gas Storage Field, including investigating its causes, implementing measures to prevent future leaks, increasing inspection levels and performing leak surveys, staffing related rulemakings and enforcement actions, analyzing larger issues of gas supply and reliability (including the role of gas storage), supporting and participating in proceedings at other state and federal agencies, and providing technical advice to commissioners. The CPUC also submitted a separate proposal to add a new Division of Safety Advocates that will be discussed under the department's other budget proposals.

ISSUES FOR LEGISLATIVE CONSIDERATION

The gas leak at Aliso Canyon illustrates challenges when an energy commodity is de-regulated and the responsibility for safety, reliability and emission controls are spread out amongst multiple state agencies. Unlike electricity, where every kilowatt of generation is tracked, natural gas is treated more as a commodity similar to petroleum. Little scrutiny is given to out-of-state production and transmission, and even within the state, regulation of emission and safety procedures raise concerns. The following are issues the Legislature may wish to consider:

Accountability and Reporting. There is no single point of contact within the Administration who can provide a continuity of information from the point natural gas enters the state, to the injection of gas into storage fields, extraction from those fields, and then finally the venting or combustion of the gas into energy. As gas travels through the state, it falls under the jurisdictions of no less than five state and federal agencies, for safety, reliability and for emission controls.

Working Together. As we move forward from the disaster at Aliso Canyon, it is clear that the state must do a better job of coordinating state agencies as it manages the transmission and production of natural gas, for safety, reliability and for emission controls. Regulators from the ARB focus on emission concerns, while DOGGR regulates the injection into wells. The federal government regulates the safety of transmission (though it is California's first responders who are called in case of emergency), and, finally, the CPUC is involved in the back-end of safety as it considers costs to the consumers within its jurisdiction as a ratemaking entity. During the Aliso Canyon event, only the Office of Emergency Services (OES) was able to provide multi-agency direction. On an ongoing basis, OES is not an appropriate lead agency.

The state has multiple, ongoing, multi-agency teams that provide services to a broad array of regulated entities. For example, the state's timber harvest plan reviews are conducted jointly with the departments of Forestry and Fire Protection, Fish and Wildlife and Regional Water Quality Control Boards. It would be prudent to consider how, within the context of natural gas transmission and production, state and federal agencies should work with the regulated entities and with each other to ensure the highest quality of work, in the most efficient manner, for the public good.

Addressing Gaps in Safety, Reliability and Emissions: Multiple state and federal agencies regulate the safety of natural gas within the state.

- **Interstate Pipeline Transmission.** The primary federal regulatory responsibility for interstate pipeline safety rests with the Pipeline and Hazardous Materials Safety Administration (PHMSA) within the Department of Transportation.

- **Intrastate Pipeline Transmission.** The safety of intrastate transmission pipeline lines is the responsibility of state regulators who generally delegate safety responsibility to the owner of the pipeline. In many cases these pipelines are owned and operated by investor-owned utilities, but other intra-state pipelines are owned and operated by private companies and not subject to CPUC regulation. The State Fire Marshall, under the Hazardous Liquid Pipeline Safety Act of 1981, exercises exclusive safety regulatory and enforcement authority over intrastate hazardous liquid pipelines but not for non-liquid hazardous material pipelines.

- **Injection into and Containment within Holding Fields and Tanks.** Regulation of injection of natural gas into storage wells and the containment of the wells within the fields is responsibility of DOGGR.

- **Emissions.** The ARB, in conjunction with regional semi-autonomous air boards, is responsible for regulating emissions within the state. Natural gas contributes to ozone through the production process and to greenhouse gas emissions through leakage, both of which are regulated by ARB.

Best Practices in Procurement and Storage. While there are any number of best practices for individual procedures in the handling of natural gas, there is no single entity that can certify that a cubic foot of natural gas entering and used within the state has been developed and transported using best practices. On the electricity side, there are several checks to ensure that cleaner electricity is certified for use within the state's renewable portfolio standard (RPS), but there is no similar standard for natural gas. Within the natural gas procurement, there is no RPS, and therefore no standards that the state uses to determine if the gas procured has followed the safest route and procedures from cradle to grave.

Expending Existing funding. There are various available to the state to assist the state following the reduction of the flow of natural gas resulting from the leak at Aliso Canyon. These include: (1) greenhouse gas emission reduction funds both allocated for state programs and directly to the IOUs; and, (2) fund collected in balancing accounts for energy efficiency held by the IOUs.

Clarifying well exemptions. Concerns have been raised about the role of hydraulic fracturing in the failure of the well at the Aliso Canyon natural gas storage facility. The failure of the well resulted in the release of an estimated 100,000 metric tons of methane, a potent greenhouse gas and short-lived climate pollutant, and other gases resulting in significant public and environmental health and safety and climate impacts. Given the age of gas storage wells at most gas storage facilities in the state, and the state's recognition of the high potential risks associated with these facilities, it is important that all activities that put the integrity of gas storage wells potentially at risk be conducted under the oversight of the state's regulator.

Staff Comments. The Governor's proposal is a positive step moving toward a better understanding of natural gas safety concerns, particularly where the state has clear and existing jurisdiction. Both the reality of the state's previous efforts to address natural gas safety and reliability, and public expectations of these basic responsibilities, has raised concerns about the system. The proposals put forth by the Administration seem to address the *basic responsibility* of government in regulating potentially dangerous materials, whether to individual public health or the environment. The state, given the seriousness of the issues Aliso Canyon, brought forward, in terms of public health and environmental safety of the entirety of the system, should move beyond basic responsibility and should provide the Legislature with options to improve how we monitor and regulate natural gas transmission and storage.

The legislature may wish to consider the budget bill, trailer bill and supplemental reporting language to clarify the proposal and to provide accountability to the public as the Administration moves forward with implementation of these proposals.

Staff Recommended Actions.

1. Approve the funding and proposals as requested, subject to the passage of statute to provide accountability and reporting to the Legislature.
2. Approve draft trailer bill language to provide accountability and transparency as follows:
    a. Establish a single point of contact within Secretary for Natural Resources, to be responsible for natural gas safety, appointed by the Governor and subject to Senate confirmation.
    b. Provide mechanisms for state agencies to work together, similar to timber harvest plans, that would ensure efficiency and coverage of all aspects of natural gas transmission and storage.
    c. Provide for reporting, on an annual basis, on the Administration's efforts to improve natural gas safety within the state.
3. Provide a contract to the California Center for Science and Technology (who have previously provided the Legislature with reports on natural gas extraction) to study natural gas transmission and storage within the state, and the regulation therein, in coordination with the California Energy Commission, to provide the Legislature with recommendations regarding: (1) gaps in regulation that could impact public and environmental health and safety; (2) areas where market mechanisms are not sufficient to protect public health and safety; (3) how the state could require best practices from cradle to grave in the natural gas system; and, (4) where the state should focus increased enforcement of the system.

Vote: Motion to approve staff recommendation: 2-1 (Nielsen, no)

8570 CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

The California Department of Food and Agriculture (CDFA) serves Californians by promoting and protecting a safe, healthy food supply, and enhancing local and global agricultural trade, through efficient management, innovation, and sound science, with a commitment to environmental stewardship. The goals of CDFA are to: (1) promote and protect the diverse local and global marketability of the California agricultural brand which represents superior quality, value, and safety; (2) optimize resources through collaboration, innovation, and process improvements; (3) connect rural and urban communities by supporting and participating in educational programs that emphasize a mutual appreciation of the value of diverse food and agricultural production systems; (4) improve regulatory efficiency through proactive coordination with stake holders; and, (5) invest in employee development and succession planning efforts.

Governor's Budget. The Governor's budget includes $439 million ($80.6 million General Fund) for support of the CDFA, a decrease of approximately $10 million, mainly due to one-time costs.

EXPENDITURES BY FUND (in thousands)

Fund	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
General Fund	$ 69,477	$ 90,070	$ 80,659
Motor Vehicle Account, State Transportation Fund	7,565	7,801	9,504
Department of Agriculture Account, Department of Food and Agriculture Fund	132,599	148,003	146,885
California Agricultural Export Promotion Account	16	10	10
Fair and Exposition Fund	1,527	1,318	1,317
Drainage Management Subaccount	23	1,178	1,178
Harbors and Watercraft Revolving Fund	4,813	4,914	5,764
Milk Producers Security Trust Fund	6	-	-
Federal Trust Fund	78,365	110,218	90,568
Reimbursements	12,554	18,162	18,170
Pierces Disease Management Account	4,246	3,300	3,294
Antiterrorism Fund	549	552	551
Analytical Laboratory Account, Department of Food and Agriculture Fund	488	534	516
Specialized License Plate Fund	240	509	492
Greenhouse Gas Reduction Fund	11,872	62,152	76,598
Cost of Implementation Account, Air Pollution Control Fund	72	147	156
Medical Marijuana Regulation and Safety Act Fund	-	-	3,355
Municipal Shelter Spay-Neuter Fund	194	194	-
Prevention of Animal Homelessness and Cruelty Fund	-	-	194
Total Expenditures (All Funds)	**$324,606**	**$449,062**	**$439,211**

VOTE-ONLY CALENDAR

1. **Avian Influenza Prevention and Response.** The budget requests one permanent position and $192,000 in 2016-17, and $167,000 ongoing, General Fund, for the Animal Health and Food Safety Services Division to meet current and continued threats to animal health and the food supply posed by highly pathogenic avian influenza outbreaks.

2. **Citrus Pest and Disease Prevention Program.** The budget requests an increase of $1 million (Department of Food and Agriculture Fund) in 2016-17 and 2017-18 respectively to enhance the Asian Citrus Psyllid and Huangiongbing Mitigation Project. The increased authority will allow the department to add funds to existing commercial pesticide applicator contracts to initiate suppression and control activities in newly detected areas and initiate new contracts in areas as the program expands.

3. **Use of Antimicrobial Drugs on Livestock (SB 27).** The budget requests eight permanent positions and $1.4 million (General Fund) ongoing for the Animal Health and Food Safety Services and Inspection services Divisions to implement SB 27 (Hill), Chapter 758, Statutes of 2015. SB 27 introduces new limits on antibiotic use in livestock; provides for antimicrobial availability through licensed retail stores and/or new regulations that address access; requires that CDFA develop antimicrobial stewardship guidelines including antibiotic selection and administering policy for veterinarians and best management practices for veterinarians, farmers and ranchers; requires CDFA to track antimicrobial sales as well as collect information about farm practices; comprehensively sample pathogens to analyze for resistance trends; and prepare a report for the Legislature by 2019.

4. **Prevention of Animal Homelessness and Cruelty Program (AB 485).** The budget requests $194,000 in Prevention of Animal Homelessness and Cruelty Fund authority to implement the provisions of AB 485 (Williams), Chapter 557, Statutes of 2015, which allows a taxpayer to designate that a specified amount in excess of their tax liability be transferred to the fund to be distributed to eligible animal control agencies and shelters for the sole purpose of supporting spay and neuter activities that would result in the prevention and elimination of cat and dog cruelty and homelessness.

Staff Recommendation: Approve as proposed.

Vote: Motion to approve: 3-0

Issue 1: Nutritional Incentive Matching Grant Program

Background. AB 1321 (Ting), Chapter 442, Statutes of 2015, created a program within the Office of Farm to Fork at the California Department of Food and Agriculture (CDFA) to award grants to certified farmers' markets that increase the amount of nutrition benefits available to low-income consumers when purchasing California fresh fruits, nuts, and vegetables. AB 1321 specified that grants would not be issued by CDFA until sufficient funds are available. The 2015 Budget Conference Committee approved $2.5 million in funding for this program, but it was stricken from the final budget agreement.

The program allows up to one-third of grant funds to be awarded to small business that provide matching nutritional incentives, in order to reach low-income Californians residing in areas with limited access to farmers markets. The program prioritizes disadvantaged communities with a high prevalence of diabetes and obesity to ensure a focus on expanding access to fresh, health food. The state anticipates receiving federal matching funds for this program.

The program is modeled after the Market Match program, launched in 2009 to "match" or double the amount of nutrition benefits available to low-income families for purchasing fresh, locally-grown fruits and vegetables at farmers' markets. Market Match has since leveraged $450,000 in incentives to create over $2 million in revenue for participating California growers. From 2009 to 2012, Market Match increased CalFresh redemption at participating farmers' markets from 132 percent to 700 percent. This increase generated a six-fold return on investment in sales, with 69 percent of farmers reporting new shoppers and 67 percent reporting earning more income.

Governor's Proposal. The Governor's January budget did not include funding for this program.

Staff Comments. Given the signing of AB 1321 and the interest of both the Legislature and Administration in this program, it is unclear why no funds were included in the budget for this purpose. This program clearly provides for improved healthy food choices for low-income individuals and families, and promotes education about farming and food through access to farmers markets and small businesses associated with the program.

A $5 million state investment in the program, matched by $5 million in federal funds, could generate an additional $60 million in sales, hundreds of new farm jobs, and boost healthy food access to $45 million for almost 300,000 low-income California families.

The Subcommittee may wish to ask the department to comment on the effectiveness of the program absent a proposal from the Governor.

Staff Recommendation. Approve $5 million (General Fund) to CDFA for the Nutrition Incentive Matching Grant Program.

Motion to approve: 3-0

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

VOTE-ONLY CALENDAR

1. **AB 693 Multifamily Affordable Housing Solar Roofs Program (previously heard on March 10, 2016).** The budget proposes $262,000 from the Public Utilities Commission Reimbursement Account (PUCURA) and 1.75 permanent positions, annually through fiscal year 2030, to administer and evaluate the Multifamily Affordable Solar Roofs Program as required by AB 693 (Eggman), Chapter 582, Statutes of 2015. The program would provide monetary incentives (annually, $100 million or 10 percent, whichever is less, of the investor-owned utilities cap-and-trade allowance revenues) for the installation of qualified solar energy systems on multifamily affordable housing properties. AB 693 requires the CPUC to decide the most appropriate program administration structure for the program and to complete assessments of the program every third year, so that the CPUC can evaluate and adjust the program so that the program goals are being met. The proposed staff would provide analysis and support for a commission rulemaking, and manage program implementation and administration.

   Vote: 2-1 (Nielsen, no)

2. **SB 793 Green Tariff Renewables (previously heard on March 10, 2016).** The budget proposes $160,000 from PUCURA for three years to fund limited-term staff to administer the Green Tariff Shared Renewables (GTSR) program as modified by SB 793 (Wolk), Chapter 587, Statutes of 2015. SB 43 (Wolk), Chapter 413, Statutes of 2013, established GTSR and the CPUC recently finalized the first stage of implementation. The first GTSR customers for each utility began enrolling in the first quarter of 2016. SB 793 requires the CPUC to create a nonbinding estimate of reasonably anticipated GTSR bill credits and bill charges for a period of up to 20 years. The requested budget authority will facilitate the administration of this program, and help to provide transparency and predictability of charges and credits associated with the provision of green tariff and enhanced community renewable options.

   Vote: Motion to approve: 3-0

3. **SB 541 For-Hire Transportation Carriers: CPUC Enforcement (previously heard on March 10, 2016).** The budget proposes $372,000 from PUCURA for two years for a $250,000 contract and limited-term staffing to implement SB 541 (Hill), Chapter 718, Statutes of 2015. CPUC has authority over 11,000 non-rail passenger carriers and 1,000 household goods movers, and is required to license carriers, and investigate and enforce safety and consumer protection laws for passenger stage corporations, transportation charter-party carriers, private carriers of passengers, and household goods carriers. A 2014 State Auditor report found that the CPUC's transportation enforcement branch does not adequately ensure that passenger carriers comply with state law. SB 541 requires the CPUC to hire an

independent entity to assess the agency's capabilities, in consultation with carrier trade associations, related to specific goals and to report its findings to the Legislature. The additional staff resources are intended to administer the contract, develop outreach, and address the report's findings.

Vote: Motion to approve: 3-0

4. **SB 350 Clean Energy and Pollution Reduction Act and AB 802 Energy Efficiency (Enacted Legislation) (previously heard on March 10, 2016).** The budget proposes $3.35 million annually from the PUCURA for 23 permanent positions to implement SB 350 (de León), Chapter 547, Statutes of 2015, and AB 802 (Williams), Chapter 590, Statutes of 2015, which will result in new areas of work including the development of an integrated resources planning (IRP) process and modeling capabilities and electrification of the entire transportation sector; and work in the areas of energy efficiency (EE) and renewable portfolio standard (RPS). Some of the key changes of these two pieces of legislation are:

   - Encourages widespread transportation electrification, such as funding electric vehicle charging infrastructure.
   - Requires doubling of EE savings from electricity and natural gas end users by 2030 and expands California's definition of energy efficiency.
   - Increases target to obtain 40 percent of total retail electricity sales from renewable resources by December 31, 2024; 45 percent by December 31, 2027; and 50 percent by December 31, 2030 (from 33 percent by 2020).
   - Requires resource optimization and for CPUC to adopt processes for investor-owned utilities and publically-owned utilities to file integrated resource plans to ensure utilities are meeting RPS requirements, helping the state meet its greenhouse gas (GHG) targets, and minimizing costs for ratepayers, and ensuring system reliability.
   - Expresses intent for regional expansion of the California Independent System Operator (CAISO).
   - Considers disadvantaged communities in the CPUC decision-making process.

   These changes will result in new workload for CPUC that includes the expansion of renewable procurement and energy efficiency targets; creates a new integrated resource planning structure; establishes new policies and procedures for transportation electrification; manage the regionalization of the CAISO; consider impacts on disadvantaged communities; provide oversight, as well as legal, technical and policy support, for a minimum of five new and four amended rulemaking proceedings as well as for an expected 5-10 new utility applications annually, and facilitate the processing of a minimum of 350 advice letters. Without additional resources, the ability of CPUC to manage the increase in proceedings and oversight will be hampered and other workload may suffer as well. The Legislative Analyst's Office has not raised any concerns with this request for funding and positions.

   Vote: 2-1 (Nielsen, no)

5. **Ongoing Implementation of SB 1414 Demand Response Programs (April Finance Letter).** The Administration requests ongoing funding of $131,000 from the PUCURA and

to convert the current limited-term position doing this work to a permanent position to continue the implementation of certain provisions of SB 1414 (Wolk), Chapter 627, Statutes of 2014. SB 1414 requires the CPUC to develop and implement consumer protection rules for residential customers who participate in demand response programs.

Vote: Motion to approve: 3-0

6. **eFiling Administration Support (eFAST) Platform Creation and Business Configuration Projects (previously heard on March 10, 2016).** The budget proposes $5.35 million in 2016-17 from various CPUC funds for a one-time software customization (for a total IT contract of $7.1 million over 2016-17 and 2017-18, and 6.3 permanent positions in 2016-17, and an additional 3.7 positions in 2017-18 for a total of 10 positions on an on-going basis. The proposed funding will be distributed across 10 funds. With this proposal the CPUC intends to implement a standard, enterprise-wide technology platform, known as eFiling Administration Support (eFAST) which will serve as the hub for customer interaction. This platform will provide the foundation for and automate:

   - Maintaining customer accounts and contacts.
   - Receipt, processing, and disposition of documents and data.
   - Submittal of inquiries and follow-up responses.
   - Receipt of payments for various fees and programs.
   - Scaling, configuring and deploying for future business applications.

   CPUC uses many manual processes to perform its work. These processes can be time consuming, costly, and can impede transparency and result in delays. Automating some of these processes would be an improvement at CPUC.

Vote: Motion to approve: 3-0

7. **Human Resources Workforce Planning and Development (previously heard on March 10, 2016).** The budget proposes $672,000 annually for workforce and succession planning and training to fund two permanent positions and four two-year limited-term positions from funding sources distributed across CPUC special funds. This request emerged from analysis of past training needs assessment reports from 2005 and 2011, and an analysis of the work output over the 2014-15 year. Further, the CPUC's overall training needs assessment identified, through internal and external reports, the number of staff necessary to effectively execute the critical training/employee development needs in support of the CPUC's mission. CPUC asserts that in order to mitigate workforce performance issues and to continue building an effective and efficient CPUC, a strong and specialized learning and development unit is necessary. This unit is focused on recruitment, development, and retention of employees. Deliverables from this proposal include a strategic workforce and succession plan; training modules and pop-up learning events; a leadership program; recruitment efforts to bring on and train entry-level employees; reduced dependence on retired annuitants; and the development of a library of core training. In addition, CPUC will conduct an “engagement survey” to assess its progress in this area.

   Vote: 2-1 (Nielsen, no)

8. **AB 1266 Electric and Gas Corporations—Excess Compensation (previously heard on March 10, 2016):** The budget proposes $160,000 annually from the PUCURA for two new permanent half-time positions for proceedings and reviews of excess compensation, as required by AB 1266 (Gonzalez), Chapter 599, Statutes of 2015.

   Every three years, all utilities regulated by the CPUC are required to undergo a general rate case to request funding for distribution and generation costs associated with their service. CPUC reviews executive compensation as part of this process. AB 1266 prohibits an electrical or gas corporation from recovering from taxpayers' expenses for excess compensation (greater than $1 million) paid to an officer of the utility for five years following a triggering event occurring after January 1, 2013, unless approved by the CPUC. The bill requires an electrical or gas corporation to file an application to the CPUC prior to paying or seeking recovery of excess compensation. CPUC is required to open a proceeding to evaluate the application and issue a written determination whether excess compensation should be recovered in rates or, if previously authorized in rates, should be refunded to taxpayers.

   Vote: 2-1 (Nielsen, no)

9. **Rail Transit Safety (April Finance Letter).** The Administration proposes an increase of $701,000 from the Public Transportation Account for five permanent positions (three inspectors, a supervisor, and an analyst) and four Department of General Services truck leases to allow the CPUC's safety inspection and accident investigation levels to keep up with the significant expansion of rail transit systems. The rail transit safety branch currently has a total of eight positions that help to ensure that rail transit agencies construct, maintain, and operate their lines to promote and safeguard the health and safety of its employees, passengers, and the public. The number of rail transit systems has increased from 12 in 2009 to 14 in 2015, statewide ridership has increased significantly over the same period of time, and fatalities have increased. In addition, ten rail transit lines are currently under construction. These inspectors are necessary to keep up with significant system growth and expansion which will likely continue as additional funds are made available in the future for transit projects. The CPUC anticipates that up to 80 percent of the requested funds will be reimbursable with federal funds.

Vote: Motion to approve: 3-0

Staff Recommendation: Approve all of the above vote-only issues as budgeted.

Vote: Motion to approve Items 2, 3, 5, 6 and 9: 3-0

Motion to approve Items 1, 4, 7 and 8: 2-1 (Nielsen, no)

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Issue 1: Division of Safety Advocates

Background. Most utility infrastructure was installed decades ago and is now reaching the end of its useful life. In recent years, failures of utility systems in California have highlighted the need to proactively evaluate critical infrastructure and to identify needed maintenance and funding beyond what has been requested in routine utility rate applications.

The CPUC currently reviews safety as part of its constitutional mandate to set rates within the investor-owned utilities within the state. The CPUC requires IOUs to establish safety protocols and is responsible for ensuring those orders are completed. The CPUC currently has established a safety and enforcement division (SED) with over 200 positions. According to the CPUC, these positions focus on compliance and do not intervene in ratemaking proceedings. Specifically, according to the budget proposal, "SED only serves in an advocacy function in orders instituting investigations, in which it effectively becomes the prosecutor against the utility whose alleged misconduct is the subject of the proceeding." Much of the role of the SED is auditing IOU safety statements and practices.

The Office of Ratepayer Advocates (ORA) provides analysis of CPUC proceedings but is not directly mandated to intervene on risk assessment and safety issues, though it has, in the past, included discussion of safety in its commentary during proceedings.

Governor's Proposal. The spring finance letter requests 11 permanent positions and $1.7 million (Public Utilities Commission Reimbursement Account), to be used to create the Division of Safety Advocates, an independent division within the CPUC. Similar to when the CPUC established the Public Staff Division in 1984 (statutorily created as Office of Ratepayer Advocates in 1996) in response to unprecedented utility requests for general rate increases, the CPUC requests to establish a Division of Safety Advocates in response to unprecedented failures of utility infrastructure over the past five years. The CPUC has described the proposal as establishing a safety intervenor in proceedings before the commission.

According to the CPUC's interpretation, Senate Bill 636 (Hill), Chapter 548, Statutes of 2014, prohibits the commission staff cannot serve in both advisory and advocacy capacities in the same proceeding. Thus, in proceedings where SED serves in an advisory capacity, it cannot independently present testimony or evidence on general safety issues. Similarly, the commission's various industry divisions may be able to identify safety concerns in various proceedings, but generally are not parties; they provide staff support to the administrative law judge. "Given the complex and technical nature of many proceedings, having SED and/or other industry division staff (such as energy division staff, for example) serve as an advocate would limit the commissioners' and administrative law judges' ability to receive technical support and advice."

The CPUC states, "Although the CPUC's SED staff may serve as advisory staff to the judge, this information is not part of the evidentiary record, thus the judge cannot rely on it for the truth of the matter. Again, this is similar to why, in 1984, the Commission created what is now known as ORA. At that time, the utilities were collectively requesting over $13 billion in rate increases. The ORA was formed to provide testimony and develop the record to ensure that Californians received utility service at just and reasonable rates."

"To date, intervenors have focused on safety only to the extent it impacts rates and costs. No party presents testimony that reviews proposals based only on safety irrespective of the cost impact. Therefore, the commission's ability to proactively consider safety matters is limited. Accordingly, in 2014, the commission created a new regulatory model for evaluating safety proposals and assessing risk within the general rate case process.

"ORA's role is to advocate for the lowest rates for customers of the regulated utilities, consistent with safe and reliable service levels. While ORA is mandated to represent customers primarily on cost of service issues, it must also consider the safety and reliability of the utility service. Although ORA recognizes the foundational requirement that utility operations must be safe and that utilities must have adequate funding to operate safely, ORA's mandate to keep rates low is fundamentally at odds with the need to increase expenditures on safety-related investments."

Staff Comments. The CPUC's effort to ensure safety is laudable. The proposal before the budget committee, however, is major change in policy at the CPUC, and an expansion of its existing mandates. Establishing a safety intervenor would be unprecedented without statutory direction and has implications for how the state handles safety issues during proceedings at the commission. The CPUC has stated that: (1) the idea of a safety intervenor has been discussed for several years; (2) the idea of a safety intervenor may be temporary, until such expertise is found outside the CPUC such as in other ratemaking cases with outside intervenors; and, (3) the ORA, the Legislatively established rate intervenor, cannot appropriately intervene on safety issues.

Staff has several concerns about the proposal and issues for legislative consideration.

Why Not a Policy Bill? Though trailer bill has been used to establish policy in many arenas, in this case there have been several bills that have moved through the legislative process that are directly related to safety and reform of the CPUC. Given these bills, it is unclear why we would make this kind of policy change in the budget process without input from experts within the Legislature and stakeholders.

Should We be Using Existing Resources? The budget proposal analysis provided by the CPUC offers a second alternative, in which the commission would increase the use of existing resources. Given that the state is embarking on a new method of intervening in ratemaking cases, should the Administration and Legislature consider other options such as adding to the mandates of the ORA or, separately, mandating that SED staff who are actively working in the field be tapped for proceedings on a rotating basis, given their real-world experience? The ORA, contrary to what the CPUC has stated in its budget proposal, has advocated in the past for increased rates when it felt the proceeding warranted additional costs to ratepayers, and could do so again should its mandate be clarified to include safety.

Will the Safety Intervenor Have any Influence? By focusing on rate cases—the end of the risk assessment process—a safety intervenor is placed in the position of either taking the side of the ratepayer advocate or the utility. Instead of influencing a utility's rate case application, the safety intervenor may not be able to add as much value as the title might suggest.

Should the CPUC be Focusing on Safety Assurance? The SED provides the CPUC with audits, investigations, and data analysis regarding safety within the IOUs. Significant proceedings with safety impacts should be audited by the existing SED. Should the CPUC use its existing resources more effectively?

To Whom is the Safety Intervenor Accountable? The budget proposal suggests the new division head/intervenor will be accountable to the CPUC, but will replicate, in part, the model of the ORA. If this is the case, it is not clear why the CPUC has not suggested an appointed position, confirmable by the Senate, to give the Legislature and public the accountability that it desires after years of safety concerns at the IOUs.

Staff Recommendation. Hold Open

Vote: Item held open.

Issue 2: Information Technology Restructuring (April Finance Letter)

Governor's Proposal: The April finance letter requests $3.4 million distributed across 12 CPUC funds and 24 permanent positions for its information technology service branch.

Background: Over the past two decades, the CPUC's operational IT needs have grown dramatically, while a commensurate investment has not been made in IT staff. As a result, CPUC has insufficient IT staff resources to support its mission-critical programs, provide public transparency, and ensure information security. An internal redirect of $1.9 million in the last two prior fiscal years allowed it to procure IT services, however there is still a backlog of IT projects and the CPUC's approach to information security continues to be largely tactical and reactive. Important strategic work, such as completing an inventory of information assets or developing a risk management and privacy plan, has been delayed or deferred. The delays in completing this work put the CPUC out of compliance with state information security requirements, and put its business and consumer data at risk.

CPUC's IT branch currently has 45 authorized positions. The 24 additional positions (including one office technician) would work in seven key IT areas at the CPUC as described below:

- **IT service desk** configures and supports all staff electronic devices. (Three positions).
- **Information security** ensures compliance with security and privacy policies, standards, and procedures issued by the California Information Security Office. (Five positions).
- **Enterprise services and infrastructure** works to ensure the speed, capacity, and reliability of IT systems and storage. (Four positions).
- **Application and project portfolios** includes services for application development, design, systems analysis, coding and maintenance. (Six positions).
- **Mobility support** enables staff to work from anywhere as is often required for field staff.
- **IT acquisitions** is responsible for IT procurement and contract management and workload has grown substantially in the last five years. (Four positions).
- **Enterprise architecture** is a new position to improve the effective and efficient management and oversight of the application of IT to the operation of state agencies.

Staff Question:

1. Given the salaries of IT staff in the San Francisco Bay Area, will CPUC be able to fill these positions if they are location there? Has CPUC considered alternatives to filling these positions in San Francisco, such as locating some of the proposed IT staff in Sacramento?

Staff Comments: At current IT staffing levels, the CPUC cannot keep pace with its growing operational workload and it lacks the IT resources to appropriately support its mission-critical programs and information security, provide public transparency, and inform decision-makers.

Staff Recommendation: Approve as proposed and adopt placeholder trailer bill language to ask CPUC to report on its business process inventory efforts in March 2017 to continue the conversation on possible improvements to the CPUC's operations. In addition, adopt placeholder trailer bill language to require CPUC to report on options to expand operations and staff outside the San Francisco headquarters. (Conforms to the Assembly actions.)

Vote: 2-1 (Nielsen, no)

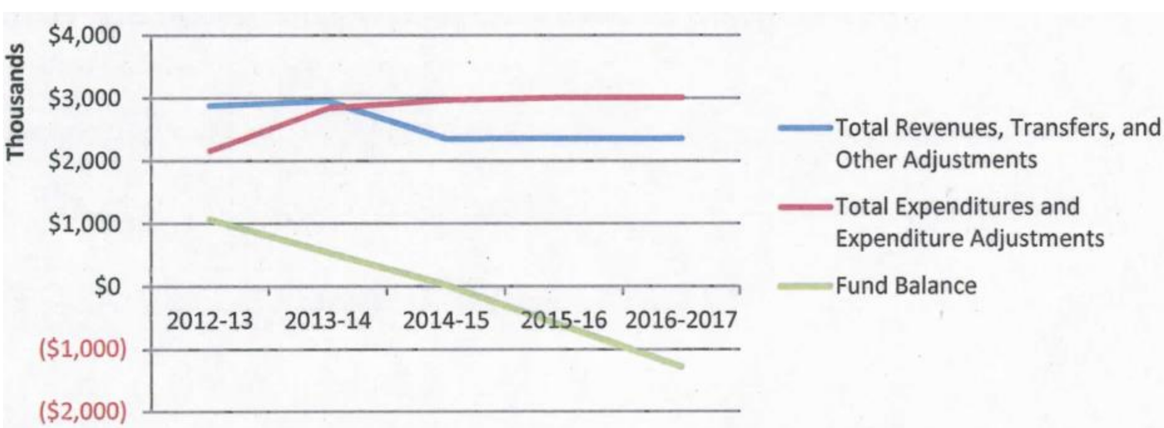
Issue 3: Transportation Rate Fund Trailer Bill Language (April Finance Letter)

Governor's Proposal: The April finance letter requests the Public Utilities (PU) Code be amended to increase the maximum fee to that can be charged to household goods movers from 0.7 percent to 1.0 percent to maintain solvency in the Transportation Rate Fund.

Background: The Public Utilities Commission Transportation Rate Fund (Fund 0412) is used to fund CPUC's work to license and regulate household goods movers (1,045 movers as of March 31, 2016) that move household goods and personal belonging over the public highways in California. The fund supports 15 positions that perform this work. The fund's main source of revenue is quarterly fees household goods movers pay to the CPUC. The PU Code Section 5003.2 currently sets the maximum rate for this quarterly fee at 0.7 percent of household goods mover's gross revenue (set in 2006), which is the rate the CPUC has charged since 2006.

Quarterly fees are based on gross reported household good's movers' incomes, and revenue has decreased in recent years. In addition, in 2013-14, expenditures increased significantly (by about $650,000) due to a change in how CPUC overhead for increases in employee compensation and other adjustments is allocated, rather than as a result of program growth. As shown in the figure below, these changes are resulting in expenditures exceeding revenues.

Transportation Rate Fund Revenues Have Declined and Expenditures Have Increased



Staff Comments: Staff has no concerns with the proposal, but notes that some portion of the household goods carrier market is unlicensed which may have contributed to the decline in revenues. CPUC has an effort underway to reengage management at Yelp, Craigslist, and other online bulletin boards to reduce postings from unlicensed moving companies, to use these boards as leads to unlicensed, carriers, and to increase litigation against such carriers. The CPUC will also provide additional tools to investigators to increase the number of sting operations, particularly in local jurisdictions where the district attorney is willing to prosecute criminal cases.

Staff Recommendation: Approve as proposed.

HOLD OPEN

Issue 4: Ongoing Implementation of AB 327 (April Finance Letter)

Governor's Proposal: The April finance letter requests ongoing funding of $527,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and to convert five limited-term public utility regulatory analyst positions to permanent to support the continued implementation of select provisions of AB 327 (Perea), Chapter 611, Statutes of 2013.

Background: AB 327 restructured the rate design for residential electric customers, created a net energy metering (NEM) program, and specified that the CPUC may require the procurement of eligible renewable energy resources in amounts greater than what is required in statute. The 2014 Budget Act provided 11 two-year limited term positions to implement AB 327.

According to the request, the five positions are for work that is anticipated to go on into the foreseeable future. AB 327 fundamentally changed the work under these programs and will require monitoring and additional proceedings to address changes required due to technical innovations or market events.

Staff Comment: Based on additional information CPUC provided about the anticipated workload of each of the five positions, request for permanent positions is justified for four of the five positions. For one of the requested positions, the ongoing workload will only last three to five years.

Staff Recommendation: Approve, as proposed, for four of the five positions permanent funding and positions and approve limited-term funding for the fifth position of only three years.

Vote: Motion to Approve 3-0

Issue 5: Additional Funds Needed for Legal Costs

Governor's Proposal: The April finance letter requests $6.0 million from the PUCURA to retain the services of outside counsel so that the CPUC can cooperate with the two criminal investigations that are currently underway.

Background: There are currently two criminal investigations looking into alleged improper communications between certain CPUC staff with regulated entities. One investigation was opened by the State Attorney General's office and the second was opened by the Federal U.S. Attorney. The CPUC is cooperating with both agencies and has retained outside counsel to handle these matters. The CPUC entered into two contracts with outside legal firms. Thus far the CPUC's outside counsel has exhausted the original approved contract of $6,291,000 in total.

The total costs for work done under the two contracts will be $12.3 million (this includes the original $6.3 million). The total costs for DLA Piper alone will be $10.3 million. The total costs for Leone & Alberts alone will be $2.1 million. Leone & Alberts deals with public records requests related to the two criminal investigations. (The CPUC handles all other public records requests in-house.) DLA Piper represents the CPUC in cooperating with two separate criminal investigations, one federal and one state. DLA Piper's services include court appearances, court filings, negotiations, responding to discovery, document production, witness preparation, and legal advice.

The criminal and civil investigations of the CPUC by state and federal agencies are ongoing and expanding in scope. From the initial two subpoenas and search warrant, the CPUC is now responding to a total of eight subpoenas and three search warrants from state and federal criminal investigators. A substantial amount of legal resources has been required to interview witnesses, research and review millions of documents, and in all other ways, comply with all applicable legal documents in the representation of CPUC. This is expected to continue.

Staff Comment: According to the CPUC, it is not using these funds to represent any individual employees.

Staff Recommendation: Approve as proposed.

Vote: 2-1 (Nielsen, no)

Issue 6: SB 178 Cleanup: Proposed Trailer Bill Language

Proposal: Trailer bill language is proposed to amend Section 1546.2 of the Penal Code that would clarify that nothing limits the authority of the CPUC Commission or the California Energy Commission to obtain any energy or water supply and consumption information pursuant to the powers granted to them under the Public Utilities Code or the Public Resources Code and other applicable state laws.

Background: SB 178 (Leno), Chapter 651, Statutes of 2015, created the California Electronic Communications Privacy Act (CalECPA), which generally requires law enforcement entities to obtain a search warrant before accessing data on an electronic device or from an online service provider.

Staff Comment: The proposed trailer bill language makes it clear that the general references to a "government entity" in SB 178 do not limit the CPUC or the California Energy Commission from obtaining any energy or water supply and consumption information pursuant to the powers granted to them under the Public Utilities Code or the Public Resources Code and other applicable state laws.

Staff Recommendation: Approve the proposed placeholder trailer bill language.

Vote: 2-1 (Nielsen, no)

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Tuesday, May 17, 2016
10:00 a.m. State Capitol - Room 112

Part A

Consultant: Farra Bracht

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Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Issues Proposed for Vote-Only

2600 California Transportation Commission

Issue 1: Amendment to and Addition of Various Budget Bill Items (May Revision)

Governor's Proposal: The May Revision proposes to shift funding authority for program support from Proposition 1B Bond funds to the State Highway Account to align commission funding with current workload. The California Transportation Commission's current appropriation allocations no longer align with the commission's workload. In recent years, the commission experienced a changing workload without a corresponding change to its mix of funding sources. The current State Highway Account budget authority is less than the commission's program needs and, conversely, their Proposition 1B authority is too high. Based on historical usage and current workload tracking efforts, funding authority shifts are necessary to closer align the commission's workload with the appropriate fund source.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

2660 Department of Transportation

Issue 1: Technical Adjustments (May Revision)

Governor's Proposal: The May Revision requests technical adjustments be made to various budget items resulting in a total reduction of $243,431,000. In developing the 2016-17 Governor's budget, there were several items that were adjusted incorrectly due to a misunderstanding regarding how to reflect these changes. The request includes changes to the following items:

Decrease Item 2660-302-0042 by $243,430,000.
Decrease Item 2660-102-0890 by $3,471,000.
Increase Item 2660-302-0890 by $3,471,000.
Decrease reimbursements for item 2660-005-0042 by $1,000.
Decrease reimbursements for Item 2660-302-0042 by $200 million.
Increase reimbursements for Item 2660-301-0046 by $200 million.

Additionally for Item 2660-001-0042, it is requested that funding be shifted between various programs and reimbursements for the capital outlay support and administration programs be increased by $8.1 million while the Operations and Distributed Administration programs be decreased by $8.1 million.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issue 2: Lease-Revenue Bond Financing (May Revision)

Governor's Proposal: The May Revision requests that Item 2660-001-0042 be decreased by $943,000 to reflect reduced lease-rental payment for Caltrans' San Diego office due to the refinancing of the original lease revenue bonds.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issue 3: District 7 Express Lane Maintenance (May Revision)

Governor's Proposal: The May Revision requests a permanent increase of $2,377,000 ($1,145,000 in Personal Services and $1,232,000 in Operating Expenses) in reimbursement funding to support the maintenance of Interstate 10 and Interstate 110 express lanes. The 13.56-mile Interstate 10 express lanes were opened to traffic in February 2013 between Alameda Street in downtown Los Angeles and the 605 Freeway. The 11.05-mile Interstate 110 express lanes were opened to traffic along the Harbor Freeway in November 2012 between Adams Boulevard and State Route 91 Freeway.

This request includes operating expenses to rent specialized equipment to support the maintenance of Interstate 10 and the Interstate 110 express lanes. The increased level of service for these express lanes will be managed with existing staff. The High Occupancy Toll features are operated by Los Angeles County Metropolitan Transportation Authority. Tolls on the express lanes are calculated using congestion pricing. They are designed to keep traffic on the express lanes flowing smoothly, resulting in a more reliable travel time. Tolls on the express lanes are based on real-time traffic conditions and the cost varies according to the level of freeway congestion. The Los Angeles County Metropolitan Transportation Authority will fully reimburse Caltrans for the safety and maintenance of the express lanes with toll revenues.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issue 4: Reappropriation of Bond Funds (May Revision)

Governor's Proposal: The May Revision requests the Budget Act of 2010 High-Speed Rail Passenger Train Bond funds ($25 million Proposition 1A) be reappropriated to extend the liquidation period for the completion of three positive train control (PTC) projects administered by the Southern California Regional Rail Authority (Metrolink) from June 30, 2016 to June 30, 2017. This is for project completion of current contracts only—two local assistance projects and one capital outlay project. It had been anticipated that these projects could be completed by June 30, 2016, but delays associated with the complexity, the need to coordinate with the Federal Communications Commission, and provide interoperability have resulted in project delays.

In addition, the Administration requests a technical change that was inadvertently omitted from the proposed Governor's budget. It is requested that language be added to Item 2660-494 to reappropriate funds from the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition IB) funds that are being used for projects on State Route 99.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issue 5: Federal Bridge Load Rating (May Revision)

Governor's Proposal: The May Revision requests federal reimbursement authority of $4,640,000 ($3,653,000 in personal services for 26 permanent positions, $237,000 in operating expenses and a one-time augmentation of $750,000 to contribute to a national software update). Caltrans currently has 17 limited-term positions for state bridge load rating work that expire on June 30, 2016 and nine limited-term positions for local bridge load rating work that expire on June 30, 2017.

The staffing request is expected to complete the initial bridge load rating of 11,300 state and local bridges by fiscal year 2021-22 to satisfy the requirements in the 2011 corrective action plan with the Federal Highway Administration. The current workload covers the work to rate the state's bridges built prior to 1978 - 11,300 or about half of the state's inventory of 24,000. All bridges in California (and nationwide) need load rating and all bridges built after 1978 will require load rating once the initial stage of this effort is complete.

Staff Comment. The Legislative Analyst's Office (LAO) has recommended that the Legislature adopt budget bill language requiring Caltrans to report to the Legislature by March 1, 2017 with detailed information regarding is efforts to complete bridge load ratings. Specifically, the report should provide (1) an explanation of the delays in completing bridge load ratings, (2) an accounting of how much of the previously provided resources were spent, (3) an update on the number of bridge load ratings completed, and (4) updated workload estimates for completing bridge load ratings of bridges built prior to 1978 as well as estimated workload associated with bridges built since 1978.

Staff Recommendation: Approve as proposed and adopt the budget bill language recommended by the LAO to better enable the Legislature to evaluate the need for ongoing positions and funding for this workload.

Vote:

2720 BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF SAN FRANCISCO, SAN PABLO, AND SUISUN

Issue 1: Increased Operation and Training Costs (April Finance Letter)

The April Finance Letter requests a total budget augmentation of $298,000 from the Board of Pilot Commissioners' Special Fund for the Board of Pilot Commissioners (BOPC) for the Bays of San Francisco, San Pablo, and Suisun. This includes a one-time budget augmentation of $185,000 for increased rent ($35,000) and costs associated with testing and training new pilots ($150,000) to maintain a full roster of trainees. The increased rent cost is to pay for the last three months of the 2016-17 fiscal year, after the current lease expires. (Funding for future rental costs rental costs will be requested when rental expense information is available from the Department of General Services.) The funding for the testing and training for new pilots will help BOPC to maintain up to the maximum number of licensed pilots which is 60. Currently there are 54 licensed pilots and up to 188 are anticipating retiring by the end of 2018. This would provide funding to test and train an additional eight trainees. The total request also includes an ongoing budget augmentation of $113,000 to finance statutorily required maritime pilot/trainee medical assessments ($100,000) conducted by the University of California, San Francisco, School of Medicine and annual audits by the State Controller's Office to ensure compliance with current auditing standards ($13,000).

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

2720 DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

Issue 1: California Highway Patrol Enhanced Radio System: Replace Towers and Vaults and Technical Adjustment to Budget Bill Language (previously heard on April 14, 2016)

The April Finance Letter requests $445,000 Motor Vehicle Account (MVA) for the acquisition of property at Sawtooth Ridge (outside of Needles, CA) for Phase 1 of California Highway Patrol Enhanced Radio System (CHPERS). When this project was first approved in 2009, it was anticipated that a new tower and vault would be completed at the existing Sacramento Mountain radio tower site, thereby providing CHP with the dual-band coverage that is required by CHPERS. However, after several years of negotiating, it was determined that an on-site replacement would not be possible, and the 2015-16 reappropriation of CHPERS Phase 1 noted that nearby peaks would be analyzed for alternate sites. Since then, the Department of General Services has identified a nearby abandoned telecommunications site, Sawtooth Ridge. Sawtooth Ridge is a good replacement for Sacramento Mountain as both sites provide appropriate radio coverage to Eastern San Bernardino County, as well as line-of-sight access to the CHP Needles Area Office for microwave transmissions.

Sawtooth Ridge is currently in a section (640 acres) owned by Burlington Northern Santa Fe (BNSF). Most tower sites are leased to CHP; however, BNSF prefers to sell the state the full 640 acres. While this would be more land than necessary (approximately 23 acres for the site and access road), due to the remote desert location, and with offsetting savings in regards to surveying and negotiating, acquiring the full 640 acres is only marginally more expensive than the 23 acres. Further, the excess land can serve a role in environmental mitigation as the whole section is desert tortoise habitat. The total cost of the Sawtooth Ridge tower and vault replacement component of CHPERS Phase 1 is estimated at $7,044,000 MVA, with the $995,000 for preliminary plans and working drawings from existing authority, and $5,604,000 for construction anticipated for the 2017-18 fiscal year. This appropriation is necessary to move forward with the Sawtooth land purchase, as part of the project to address deteriorating radio communications and to improve radio interoperability among various public safety agencies.

Also, the April Finance Letter makes a technical adjustment to the budget bill language proposed in January and adds the word “acquisition” to the project title for Item 2720-310-0044, Schedule 1.

Staff Comment: According to the Department of Finance (DOF) funding was not included in the project budget to include a measurement of conservation potential for the full 640 acres. The land is within the habitat of the desert tortoise, and in a site visit in late April 2016, several tortoises were encountered. The Endangered Species Act would either restrict development of the remainder acreage or require mitigation in order to protect endangered or threatened species. In addition, with the discovery of tortoises at the site, a significant portion of the remaining acreage may already be needed for mitigation in order to meet the CEQA requirements for the project.

Staff Recommendation: Approve the April Finance Letter and adopt the following supplemental reporting language:

> *The California Highway Patrol (CHP) shall report to the appropriate fiscal committees of the Legislature, the Legislative Analyst’s Office, and the Department of Finance no later than January 1, 2019 on the feasibility of a conservation easement with a state, federal, or nonprofit conservation organization for the remainder property acquired for the CHP Enhanced Radio System Tower Replacement project at Sawtooth Ridge and any mitigation lands required by the analysis conducted pursuant to the California Environmental Quality Act. The report should include a discussion of how future maintenance would be conducted at Sawtooth Ridge so as to not affect the ecological integrity of the area.*

Also, approve the technical adjustment to the budget bill language.

Vote:

Issue 2: Capital Outlay: Advanced Planning and Site Selection and Area Office Replacements (previously heard on April 14, 2016)

The Governor’s budget provides about $31.1 million from the MVA to fund site acquisition and preliminary plans for new CHP offices in Hayward, Ventura, and El Centro. These three facilities were identified through the site selection process and advanced planning funding provided in 2014-15. Also included in this amount is the Administration’s request in an April Finance Letter to substitute the Quincy Replacement Facility (proposal would revert $27.6 million to the MVA), approved in 2014-15, with the San Bernardino Area Office Replacement project. The budget also includes $800,000 from the MVA for advanced planning and site selection to identify three additional offices to replace as part of the Administration's ongoing office replacement plan. The budget does not identify the specific area offices that would be replaced.

The proposals are described in more detail below.

- **Hayward Area Office.** $15 million to fund the acquisition and preliminary plans for the Hayward area office replacement project. The proposed facility would be 43,518 square feet, or roughly four times the size of the existing 11,033 square foot office that was built in 1971. The Administration plans to request funding to construct the facility as part of the 2017-18 budget, at an estimated cost of $38.1 million, for a total project cost of $53.1 million.

- **Ventura Area Office.** $5.6 million to fund the acquisition and preliminary plans for the Ventura area office replacement project. The proposed facility would be 40,534 square feet, or over three times the size of the existing 12,469 square foot office that was built in 1976. The Administration plans to request funding to construct the facility as part of the 2017-18 budget, at an estimated cost of $37.1 million, for a total project cost of $42.7 million.

- **El Centro Area Office.** $4.3 million to fund acquisition and preliminary plans for the El Centro area office replacement project. The proposed facility would be 33,550 square feet, or about seven times the size of the existing 4,575 square foot facility that was built in 1966. The Administration plans to request $30.4 million in MVA funding to construct the facility as part of the 2017-18 budget—for a total project cost of $34.7 million.

- **San Bernardino Area Office.** $5.4 million for the acquisition and performance criteria phases of the San Bernardino Area Office Replacement project. The proposed facility would be 43,552 square feet, or over three times the size of the existing 12,253 square foot office that was built in 1973. The Administration plans to request $33.1 million in MVA funding to construct the facility as part of the 2017-18 budget, for a total project cost of $38.5 million. The San Bernardino project proposal is a replacement for the Quincy project, which was approved in 2014-15, but has been delayed because of difficulties in acquiring an appropriate site. As a result, this proposal includes the reversion of $27.6 million to the MVA.

In addition, the proposal includes provisional budget language to allow the Department of Finance to provide an augmentation from the MVA of up $2 million for CHP to enter into purchase options, should an option be necessary to secure a property.

Staff Recommendation: Approve funding for site acquisition and preliminary plans for new CHP offices in Hayward, Ventura, and El Centro. Approve the substitution of the Quincy Replacement Facility with the San Bernardino Area Office Replacement project. Also, approve $800,000 from the MVA for advanced planning and site selection activities and the provisional budget language.

Vote:

2740 DEPARTMENT OF MOTOR VEHICLES

Issue 1: Capital Outlay: Field Office Replacements (previously heard on April 14, 2016)

The Governor's budget requests a total of $5.6 million from the MVA for various phases of four DMV field office replacement projects. Specifically:

- $4.3 million is for the design phase of the three DMV office replacement projects (Inglewood, Santa Maria, and Delano) approved by the Legislature in the current year.

- $1.3 million is for preliminary plans to initiate a fourth DMV field office replacement project in San Diego. The proposed facility is 18,540 square feet, will be built on the same site as the existing field office, and will replace a 15,467 two–story office built in 1961.

Staff Comment and Recommendation: Staff has no concerns. Approve as budgeted.

Vote:

Issue 2: REAL ID Implementation (previously heard on April 14, 2016)

Governor's Proposal: The Governor's April Finance Letter requests $4.6 million MVA and 70 positions on an ongoing basis to begin the process of implementing AB 1465 (Gordon), Chapter 708, Statutes of 2015. AB 1465 authorizes DMV to require proof of residency for all original driver license and identification (DL/ID) card applications beginning July 1, 2016.

The proposal also requests that budget bill language be added to allow the Administration to increase this item when necessary to support activities associated with federal REAL ID compliance. No augmentation could be made any sooner than 30 days after the Joint Legislative Budget Committee has been notified in writing.

Background: Congress enacted and the President signed H.R. 1268-"Real ID Act of 2005" on May 11, 2005, which is designed to improve the security of driver's licenses and identification cards issued by individual states. The act includes certain minimum document and license issuance requirements, and it provides that only persons with legal presence status can be issued a DL/ID card. A state, however, can issue a DL/ID card to an undocumented immigrant, providing the license meets certain appearance requirements and clearly states that it cannot be used for any other official purpose.

DMV receives approximately 1.5 million original DL/ID card applications annually and does not require proof of residency for the issuance of a card; however, that will change with the implementation of AB 1465. Currently the only DLs that mandate proof of residency are for what is commonly referred to as "AB 60 applicants". AB 60 (Alejo), Chapter 524, Statutes of 2013, requires DMV to issue an original driver's license to an applicant who is unable to demonstrate proof of legal presence in the United States, if that person meets all other qualifications for licensure and provides satisfactory proof of identity and California residency. An AB 60 driver's license is valid only for driving purposes and cannot be used for identification or federal purposes.

Existing state law generally requires applicants to submit satisfactory proof of legal presence status under federal law, such as a birth certificate or approved immigration documents. Applications for the issuance or renewal of a DL/ID card must contain a section for the applicant's social security number (SSN). DMV is prohibited from accepting an application without a verified SSN unless the application was submitted with documents establishing legal presence and the Department of Homeland Security (DHS) verifies that the person is in the country legally, but not authorized to work. However, REAL ID standards go beyond these requirements. Initially compliance with REAL ID standards was to take effect January 15, 2013. However, federal DHS has determined that 21 states meet REAL ID Act standards, but the remaining states, including California, have been granted a deferment until October 1, 2020.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issues Proposed for Discussion/Vote

2660 Department of Transportation

Issue 1: Governor's Transportation Funding Package

Proposal: The Governor's transportation funding package is a ten-year, $36 billion plan designed to address the funding gap in existing transportation needs. The plan includes the early repayment of $879 million of loans. (Earlier this year, AB 113 (Committee on Budget), Chapter 2, Statutes of 2016), took early action and adopted part of the Governor's proposal by repaying $173 million in Traffic Congestion Relief Program loans.)

Background: On June 16, 2015 the Governor called for a special legislative session on transportation. Specifically, he called on the Legislature to provide a permanent and sustainable increase in funding for transportation in part to (1) maintain and repair the state's transportation infrastructure and (2) to complement local efforts to repair and improve transportation infrastructure. As part of this special session, last fall, the Governor proposed a transportation funding plan. This proposal is generally reflected in the Governor's proposed budget for 2016–17.

The Administration attributes the following benefits to its plan.

- ***State Highway and Bridge Repair.*** $15.5 billion to improve highway conditions to 90 percent in "good condition", fix 200 highway bridges, and improve existing graffiti abatement and litter removal efforts.
- ***Local Streets and Roads.*** $11.3 billion that would benefit cities and counties through a formulaic allocation.
- ***Transit and Rail.*** $4.3 billion in additional transit funding, which could leverage a total of $13.8 billion in transit and rail projects.
- ***Trade Corridors.*** $211 million to fund projects along the state's major trade corridors.

The plan provides funding of about $3.6 billion annually for state and local transportation infrastructure from the following sources. Revenue would phase in during 2016-17 and 2017-18 and provide a permanent ongoing increase thereafter.

- ***Road Improvement Charge***. A $65 per vehicle charge (including hybrids and electric vehicles). Raises $20 billion over ten years.
- ***Increased Gasoline Excise Tax***. Increase and stabilize the existing tax on gasoline to $.36 per gallon, this would be adjusted for inflation. Over ten years, raises $5 billion.
- ***Increased Diesel Excise Tax.*** Increase the current rate to $0.24 per gallon, an $0.11 increase, to generate $5 billion over ten years.
- ***Greenhouse Gas Reduction Funds.*** $5 billion for the Transit and Intercity Rail Program ($4 billion) and the Low Carbon Road Program ($1 billion).
- ***Caltrans Reforms.*** Cost saving reforms that generate over $1 billion in savings over ten years that can be redirected to roads.

Repays existing loans early with General Fund, redirecting the funding as follows:

- $132 million for highway maintenance and rehabilitation.
- $265 million for the Transit and Intercity Rail Capital Program.
- $334 million for the Trade Corridor Investment Fund Program.
- $148 million to complete or reimburse projects programmed in the Traffic Congestion Relief Program of 2000.

The Governor's plan includes the following reforms.

- ***Extension of Public-Private Partnership Authority.*** The Governor's proposal would extend the statutory authority for public-private partnerships for new transportation projects until 2027.
- ***Specific Performance Measures***. The Governor's proposal includes specific performance measures against which Caltrans will be held accountable for the investment of new transportation funding.
- ***Streamlined Environmental Process.*** The Governor's proposal includes project streamlining provisions such as a limited California Environmental Quality Act (CEQA) exemption; advancing project environmental mitigation to get more project buy-in early and reduce late challenges; and the extension of federal delegation for Caltrans to complete federal and state environmental review concurrently.
- ***Procurement Authority.*** The Governor's proposal authorizes Caltrans to utilize a procurement method, known as Construction Manager/General Contractor (CMGC), for double the amount of projects it is authorized for use today. CMGC is a process in which the design and construction management elements of projects are brought together so projects can be executed more quickly and delivered sooner.
- ***Dedicated New Transportation Revenue to Transportation Purposes.*** The Governor's proposal includes a constitutional amendment to ensure new transportation revenue is dedicated to transportation purposes. The Legislature would not be able to redirect the new revenues to non-transportation purposes.

The Administration estimates that its proposal would increase costs to the average motorist by about $0.25 per day or $7 per month.

Staff Comment: The subcommittee may wish to have the Administration's funding plan considered as part of the legislative special session on transportation.

Staff Recommendation: Reject the Governor's transportation funding plan without prejudice and direct the proposal for consideration in the special session on transportation.

Vote:

Issue 2 : Capital Outlay Support Budget

Proposal: The Administration proposes a net increase of $32.5 million from various funding sources and a decrease of 94 full-time equivalent (FTE) positions from the Governor's January budget for the capital outlay support (COS) program. This establishes a new total level of FTEs for the COS program of 9,512 FTEs that includes 8,161 state positions, 404 personnel years (PY) of cash overtime, and 947 PY equivalents for architectural and engineering (A&E) contracts. (Additionally the Administration requests an increase of $155.5 million and 877 FTEs to implement the Governor's transportation package which was discussed in the previous issue.)

The proposal also includes budget bill language (shown below) to exempt local State Transportation Improvement (STIP) projects deprogrammed from the 2016 STIP from the full cost recovery due to reduction in revenues from the price-based excise tax. The California Transportation Commission has calculated that $754 million of projects must be taken out of the current STIP plan to reflect the decline in available state funding for transportation. The budget bill language is provided to exempt some of these projects from state cost-recovery and also provide authority for Caltrans to increase COS staffing if funding is found to put some or all of these projects back into the STIP.

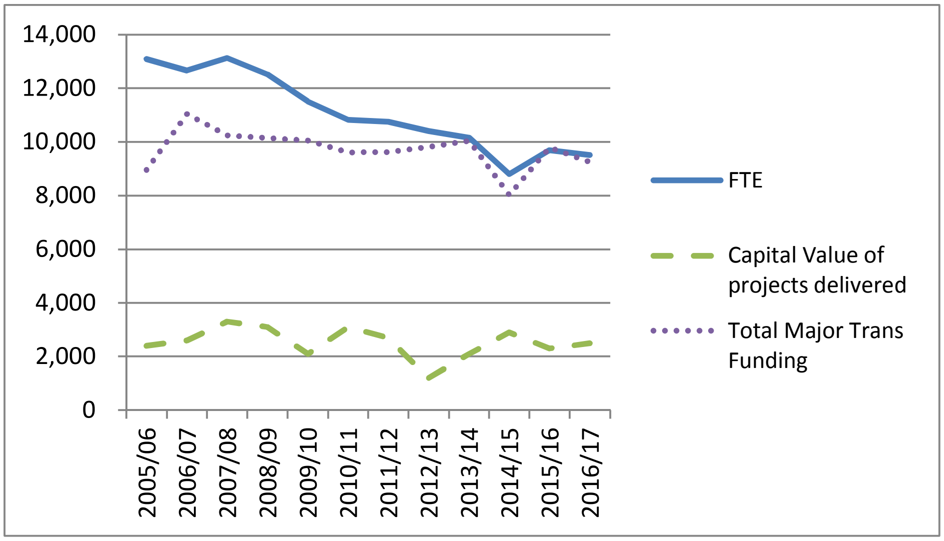
Proposed Budget Bill Language

17. Of the funds appropriated in Program 1835010-Capital Outlay Support, the Department of Transportation shall exempt Local SB 45 STIP projects deprogrammed from the 2016 STIP from the full cost recovery as outlined in its Indirect Cost Recovery Plan. The Department of Transportation will charge for functional overhead only for these projects.

18. Notwithstanding any other provision of law, should the California Transportation Commission or Legislature take action that will support re-programming of projects removed from the State Transportation Improvement Plan, the Director of Finance may increase the expenditure authority for additional staffing for Program 1835010-Captial Outlay Support after notifying the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriations not later than 30 days prior to the effective date of the approval.

Background and Detail: Capital outlay is the funding mechanism for construction contracts and right-of-way acquisition on projects that preserve and improve the state highway system. The COS program provides the funding and resources necessary to develop and deliver the projects to construction, as well as administer and oversee the projects once they are in construction. The COS program also provides oversight, or independent quality assurance, of projects developed by local entities on the state highway system. The total level of full-time equivalent positions for COS has decreased significantly since its peak in 2007-08, as shown in the figure below.

Capital Outlay Support Full-Time Equivalents Decreasing Over Time



Positions are based on full-time equivalents (FTE).

Efforts to Align Investments and Resources. Caltrans has made efforts to better align its COS resources with the amount of funding that is available for transportation projects. As the figure above shows, staffing levels have generally declined as the amount of funding available for transportation projects has declined. In addition, IT systems have given Caltrans better tools to manage its resources. Project Resourcing and Schedule Management (PRSM) contains resource-loaded workplans for all active projects which are the basis for COS workload estimates. Also, Caltrans has delegated full authority to districts for final processing of construction contracts to improve project delivery and streamline decision-making. Position changes for the COS budget request are shown below.

Capital Outlay Support Program Workload Changes (FTEs)

Workload Categories	Jan. 10 2016-17	May Revise 2016-17	Change From Jan 10
State Highway Operation and Protection Program	4,712	5,215	503
Overhead and Corporate	1,840	1,840	0
State Transportation Improvement Program	1,131	964	(167)
Partnership (Includes Measure/Locally Funded)	1,133	1,016	(117)
Toll Bridge Seismic Retrofit Program	291	158	(133)
Real Property Services	97	103	6
Proposition 1B Bond	297	98	(199)
American Recovery and Reinvestment Act	2	0	(2)
Traffic Congestion Relief Program	22	55	33
High Speed Rail	41	51	10
West Mission Bay Drive Bridge	1	0	(1)
Geotechnical Borehole Mitigation	12	33	21
Materials Engineering & Testing Services	27	27	0
FAST Act	0	10	(10)
Total Capital Outlay Support Workload	**9,606**	**9,512**	**(94)**

Legislative Analyst's Comment: The LAO has concerns that the proposed budget bill language as currently written, might (1) not achieve the intentions of the Administration and (2) may have broader unintended consequences.

Staff Comment: As transportation funding has declined, COS workload has declined. Caltrans is making concerted efforts to better manage the COS program so that resources are better aligned with workload. This spring, Caltrans regularly met with legislative staff to further their understanding of its processes. The COS request has taken into consideration reduced workload stemming from the reduction of funding available for transportation projects and the needs for staff resources to complete projects that are currently underway. The LAO has reached agreement with Caltrans and the Department of Finance on clarifying the proposed budget bill language.

Staff Recommendation: Consistent with the staff recommendation to discuss the Governor's Transportation Funding Plan in the legislative special session on transportation, staff recommends the committee only approve the baseline capital outlay support request of a net increase of $32.5 million and a decrease of 94 full-time equivalent (FTE) positions. Staff also recommends adoption of the following modified budget bill language.

> *17. Of the funds appropriated in Program 1835010—Capital Outlay Support, the Department of Transportation shall exempt Local SB 45 STIP projects deprogrammed from the 2016 STIP from the full cost recovery as outlined in its Indirect Cost Recovery Plan if local agencies continue those projects with other funds. The Department of Transportation will not charge for administrative overhead for the portion of the project's funding that was originally planned to come from the STIP before the project was deprogrammed.*
>
> *18. Notwithstanding any other provision of law, should the California Transportation Commission reprogram projects removed from the 2016 STIP, the Director of Finance may increase the expenditure authority for additional staffing for Program 1835010—Capital Outlay Support to support the reprogrammed projects not sooner than 30 days after notification in writing is made to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriations and the state budget. The notification shall include a list of the reprogrammed projects and the additional staffing required for each project.*

Vote:

Issue 3: Construction and Maintenance Zone Enforcement Funding

Governor's Proposal: The Administration proposes to shift approximately $50 million in reimbursement authority from the State Highway Account (SHA) to the Motor Vehicle Account (MVA) for the California Highway Patrol (CHP) to provide a presence at Caltrans' work zones. Under the Construction Zone Enhanced Enforcement Program (COZEEP) and the Maintenance Zone Enhanced Enforcement Program (MAZEEP) CHP provides a presence at Caltrans' work zones.

Background: Traffic on California highways has been observed to exceed the posted speed limit in construction and maintenance work zones. These elevated speeds increase the risk of injury and death to workers and vehicle occupants as well as cause property damage. To reduce these travel speeds and potential for traffic accidents within a work zone in selected locations, Caltrans currently employs the CHP to enforce the posted work zone speed limits using COZEEP and MAZEEP.

As part of estimating the total cost of a construction project, a Caltrans project engineer makes an assessment of the need for COZEEP on every project that requires a contractor to close traffic lanes using cones or other channelizing devices and to provide COZEEP in specified situations, such as all daytime or nighttime temporary closures of all lanes in the same direction of travel. The estimate of COZEEP hours takes into account CHP operating policies, such as the CHP memorandum of understanding that requires a minimum payment of four hours per officer, hourly costs for the project location, and an allowance for mileage. In the case of MAZEEP, the maintenance area superintendent assesses the need and makes the request for MAZEEP services. These two programs have been proven to be effective in reducing traffic speeds and increasing safety.

LAO Comments. The LAO recommends that the Legislature reject the proposed fund shift. While the proposal is somewhat unclear, it appears that the responsibility for determining when enforcement services are needed would be retained by Caltrans. If this is the case, then decisions about the use of these services would no longer be linked to their costs. Under this approach, Caltrans would no longer face the fiscal constraints that currently incentivize the department to use enforcement services only when warranted. Because Caltrans has the necessary information to determine when enforcement services are needed, it also would not appear to make sense to shift the responsibility for determining when enforcement services are needed to CHP. Under the proposed shift, it could also be difficult for Caltrans to fully account for the cost of construction projects, since the enforcement costs related to projects would no longer be within Caltrans' budget. In addition, the Governor's proposal shifts additional costs to the MVA at a time when it faces insolvency.

Staff Comment. While the Administration's proposal may create minor administrative efficiencies, it would result in the estimates of highway construction project costs not fully accounting for all of the costs of Caltrans delivering highway projects. It is also possible that Caltrans' demand for these service would increase if they are no longer responsible for bearing the cost of the services. Moreover, shifting the funding source from SHA to MVA puts greater pressure on the MVA which is currently facing insolvency and the Administration has already proposed a $10 increase in vehicle registration fees to address this problem.

Staff Recommendation: Reject the Governor's proposal.

Vote:

Issue 4: Fixing America's Surface Transportation Act Federal Grants (May Revision)

Governor's Proposal: The May Revision requests to add provisional language to the budget act to allow the California Transportation Commission (CTC) to allocated new federal funds associated with the Nationally Significant Freight and Highway Projects program and formula funding as follows.

Item 2660-302-0890
Provisions:

6. Notwithstanding any other provision of law, the California Transportation Commission (CTC) may allocate up to $60 million from this item to provide the required match to any state-sponsored project receiving a federal grant under the Fostering Advancements in Shipping and Transportation for the Long-term Achievement of National Efficiencies (FASTLANE) grants program authorized by the Federal Fixing America's Surface Transportation Act (FAST Act).

7. Notwithstanding any other provision of law, the California Transportation Commission (CTC) will allocate Nationally Significant Freight Highway Program formula funds to corridor-based projects elected by local agencies and the State.

The May Revision proposes trailer bill language to further the allocation of the formula funds.

Background: On December 4, 2015, President Obama signed into law a new five year, $305 billion surface transportation bill, the "Fixing America's Surface Transportation (FAST) Act," which authorizes funding for existing core highway and transit programs and created two new freight programs funded by the Highway Trust Fund. These include the National Highway Freight Program, from which California will receive an annual average of approximately $582 million over the next five years by formula, and the Nationally Significant Freight and Highway Projects (NSFHP) program that is funded at approximately $900 million per year nationwide and subject to discretionary competitive awards. Prior to the Fixing America's Surface Transportation Act, the U.S. did not have a coordinated freight investment program. By establishing a dedicated, committed funding source, significant advances in public policy created an underlying message to all of the importance of freight movement and freight supporting infrastructure to the California and U.S. economies.

The Trade Corridor Improvement Program was allocated as part of Proposition IB, Statutes of 2006. This created a new program which set aside funding for "trade corridors of national significance", highway, freight rail, port and truck corridor, and border access improvements. The CTC was tasked with allocating the funds in such a way as to address the most urgent needs while balancing the demands of the various ports and proving reasonable geographic balance between the regions while placing emphasis on projects that improve mobility and decrease emissions.

The May Revision request proposes to continue the work of the Trade Corridor Improvement Program by adding provisional language that allows the CTC to allocate formula freight funding made available for corridor-based projects identified in CTC adopted guidelines. Fifty percent of corridor-based programming targets will be selected by local agencies with the balance made available for trade corridor projects nominated by the Caltrans in order to make strategic investments of statewide significance. Directing these formula funds to the Trade Corridor Improvement Program would ensure that funds are targeted to the most critical freight projects.

In addition to the formula funding, the May Revision requests provisional language be added to allow the CTC to allocate federal and state capital funds to match grant funds as necessary in order to take advantage of any FAST LANE grants. Permitting the allocation of up to $120 million in combined state and federal funds to act as a match to FAST LANE grant proposals maximizes flexibility and allows the state to compete for up to $180 million in additional federal funds. This represents 20 percent of the annual FAST LANE grant monies planned to be awarded to the states.

LAO Comments: In light of the ongoing federal funds that the state anticipates receiving from the NSFHP program, it may make sense for the state to develop a new program to focus on freight transportation. However, the Governor’s proposal appears to include substantial policy decisions that may not result in the most effective implementation of funds or best meet legislative priorities.

- First, allocating funding by a formula, such as the proposed 50-50 allocation to the state and local agencies may not result in funding the highest priority projects statewide. It could be the case that mix of state and local projects that are the highest priority and most effective does not align with the proposed 50-50 allocation. In addition, the mix of state and local projects that are the highest priority could change over time.

- Second, the proposed legislation would require CTC to develop guidelines based on several administration-developed plans. Administration staff indicates a particular focus of the new program would be to implement the Sustainable Freight Action Plan. However, this plan was only released this month in draft form. Because the plan has only been available for the Legislature to review for a limited time and because the plan is still in draft form, it would be difficult for the Legislature to determine in the next several weeks whether basing the proposed freight program on the Sustainable Freight Action Plan would meet its priorities.

- Third, the proposal includes several other significant policy decisions regarding the new program that are different from the way other state transportation programs are typically structured. For example, the proposed legislation would delegate to the CTC the decision of whether local funds are allocated by either formula-based grants or a competitive process. Determining the process for allocating transportation funds is typically defined in state law by the Legislature and not delegated to the CTC.

The LAO recommends that the Legislature consider the proposed legislation in its policy committee process because it includes significant policy considerations.

Question for Caltrans:

1. How would the proposed trailer bill language ensure that the new program is structured in a way that allocates funding effectively (to the highest priority projects) and meets legislative priorities?

Staff Recommendation: Staff agrees with the LAO recommendation and recommends approval of the proposed budget bill language and rejection of the trailer bill language so that it can be considered through the policy process.

Vote:

2720 DEPARTMENT OF CALIFORNIA HIGHWAY PATROL (CHP)

Issue 1: Commercial Vehicle Federal Conformity Requirements (May Revision)

Governor's Proposal: The May Revision proposes to make a changes in trailer bill language to the California Vehicle Code (VC) to require motor carriers to obtain a United States Department of Transportation (USDOT) number as a condition of being assigned a California carrier identification number (CA number).

Background: In order to comply with the safety performance-based inspection selection system requirements outlined in Section 34501.12 of the California VC, the CHP currently has the regulated authority to assign USDOT numbers to all motor carriers in California who are not subject to Federal Motor Carrier Safety Administration (FMCSA) oversight. CHP attains USDOT numbers utilizing a computerized interaction with the FMCSA. The FMCSA issues USDOT numbers to CHP for assignment to California's motor carriers. The assignment of USDOT numbers facilitates recognition of uploaded commercial vehicle and driver safety performance data for inclusion in the FMCSA's Safety Measurement System (SMS). However, as the result of a United States Congress mandate, the FMCSA system will undergo changes which will preclude the automated interaction between the department and FMCSA, beginning October 1, 2016. Consequently, CHP will no longer have the ability to assign USDOT numbers to California motor carriers beginning on that date.

To ensure continued compliance with the requirements of AB 529 (Lowenthal), Chapter 500, Statutes of 2013, and the basic inspection of terminals (BIT) program's safety performance based inspection selection system, as outlined in Section 34501.12 VC, CHP must continue to ensure all California-based motor carriers are identified and tracked using USDOT numbers in addition to CA numbers. Once collected, the data is entered, identified, and shared utilizing a carrier's associated USDOT number in the FMCSA's Safety Measurement System (SMS).

Staff Comment: The changes proposed in this request would align state law with federal requirements related to obtaining USDOT numbers as contained in the Title 49 of the United States Code of Federal Regulations (CFR). This proposal will ensure every motor carrier conducting transportation in California is included in the FMCSA's SMS and in the safety performance scoring mechanism in use nationwide. This proposal is consistent with the guidance CHP has received from the Federal Motor Carrier Safety Administration. Due to an October 1, 2016, implementation date of United States Congress-mandated Federal Motor Carrier Safety Administration (FMCSA) system change, it is necessary the new statutory requirements become effective prior to the federal system change.

Question for CHP:

1. Will there be state costs associated with this change in the future?

Staff Recommendation: Approve as proposed.

Vote:

2740 DEPARTMENT OF MOTOR VEHICLES

Issue 1: Motor Vehicle Account (MVA) Fund Condition (previously heard on April 14, 2016)

Governor's Proposal: The Administration estimates a MVA operational shortfall of about $310 million in 2016-17 (assuming no new revenue or expenditures). If unaddressed, the ongoing shortfalls would result in the MVA becoming insolvent in 2017-18. In order to help address this problem, the Governor proposes to trailer bill language to increase MVA revenues by increasing the base vehicle registration fee. The Governor also proposes new MVA expenditures as discussed below.

Increased Revenues. The Governor proposes to increase the base vehicle registration fee by $10 (from $46 to $56), effective January 1, 2017, and to index the base registration fee to the Consumer Price Index (CPI), beginning in 2017-18, allowing the fee to automatically increase with inflation, similar to the CHP fee and the driver license fee. The Governor's budget assumes that the increased fee will generate about $80 million in 2016-17, and about $360 million upon full implementation in 2017-18.

Increased Expenditures. The Governor's budget includes proposals that would increase MVA expenditures. The major expenditure proposals are discussed in more detail later in this agenda.

Background: The MVA supports the state's activities related to the administration and enforcement of laws regulating the operation or registration of vehicles used on public streets and highways, as well as to mitigate the environmental effects of vehicle emissions. Due to expenditures outpacing revenues, the MVA faced an operational shortfall in 2015-16 of about $300 million, which was addressed through the one-time repayment of $480 million in loans that were previously made from the MVA to the General Fund. Absent corrective actions, the account would again experience an operational shortfall in 2016-17. The figure below shows the current and projected fund balance of the MVA under the Governor's budget proposal.

Motor Vehicle Account Fund Balance Forecast
(as of January 2016, dollars in millions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
BEGINNING RESERVES	$445	$299	$472	$201	$131	$110	$120
REVENUES AND TRANSFERS							
$10 Fee Increase			$79	$359	$398	$437	$477
Registration Fee	$2,653	$2,710	$2,764	$2,822	$2,882	$2,943	$3,005
Other Fees	$542	$538	$472	$547	$573	$573	$582
Total Fee Revenue	$3,195	$3,248	$3,315	$3,728	$3,853	$3,953	$4,064
General Fund Loan	$0	$480	$0	$0	$0	$0	$0
Transfers To Other Funds	-$69	-$71	-$76	-$80	-$82	-$84	-$85
Total Revenues/Transfers	$3,126	$3,657	$3,239	$3,648	$3,771	$3,869	$3,979
Total Resources	$3,571	$3,956	$3,711	$3,849	$3,902	$3,979	$4,099
EXPENDITURES							
CHP	$1,976	$2,104	$2,160	$2,241	$2,325	$2,412	$2,502
DMV	$1,044	$1,080	$1,054	$1,065	$1,076	$1,086	$1,097
ARB	$121	$124	$124	$126	$129	$132	$134
Other	$97	$67	$85	$87	$89	$90	$92
Cap Outlay/Facilities	$34	$109	$87	$199	$173	$139	$188
Expenditure Total	**$3,272**	**$3,484**	**$3,510**	**$3,718**	**$3,792**	**$3,859**	**$4,013**
Reserve	**$299**	**$472**	**$201**	**$131**	**$110**	**$120**	**$86**

Revenues. The MVA receives most of its revenues from vehicle registration fees. In 2015-16, $3.2 billion in revenues are estimated to be deposited into the MVA, with vehicle registration fees accounting for about $2.3 billion (72 percent), as shown in the figure above. Vehicle registration fees currently total $70 for each registered vehicle, which consists of two components:

- ***Base Registration Fee ($46).*** The state charges a base registration fee of $46, with $43 going to the MVA and $3 going to support certain environmental mitigation programs. The base registration fee was last increased in 2011 by $12 (from $34 to $46).

- ***CHP Fee ($24).*** The state also charges an additional fee of $24 that directly benefits CHP. In 2014, this fee was increased by $1 (from $23 to $24) and was indexed to the CPI.

The MVA also receives revenue from driver license fees. Revenue from these fees fluctuates based on the number of licenses renewed each year. In recent years, such revenue has averaged about $300 million annually, accounting for roughly 10 percent of total MVA revenues. The current driver license fee is $33 and was last increased by $1 in 2014. The driver license fee is also indexed to the CPI. The remaining MVA revenues primarily come from late fees associated with vehicle registration and driver license renewals, identification card fees, and miscellaneous fees for special permits and certificates (such as fees related to the regulation of automobile dealers and driver training schools).

The use of most MVA revenues is limited by the California Constitution to the administration and enforcement of laws regulating the use of vehicles on public highways and roads, as well as certain other transportation uses. However, roughly $70 million of the miscellaneous MVA revenue sources are not limited by constitutional provisions. Because they are available for broader purposes, these revenues are not retained in the MVA, and due to budgetary shortfalls beginning in 2009-10 were transferred to the General Fund.

Expenditures. The MVA primarily provides funding to three state departments—CHP, DMV, and the Air Resources Board—to support the activities authorized in the California Constitution. In recent years, expenditures from the MVA have increased. Some of these increases affect the MVA only in the short run (such as increased limited-term funding to DMV for the implementation of AB 60 (Alejo), Chapter 524, Statutes of 2013). Others create longer-term cost pressures on the MVA that can extend several years. These ongoing cost drivers include:

- ***CHP Officers' Salary Increases.*** The state and the union representing CHP officers negotiated a memorandum-of-understanding (MOU) in 2013 that provides salary increases for CHP officers annually from 2013-14 through 2018-19. The MOU specifies that the increases are determined by calculating the weighted average of the salaries of the state's five largest local police agencies. As a result, CHP officers received average salary increases of five percent a year in both 2013-14 and 2014-15, increasing ongoing MVA costs by $10 million.

- ***CHP Air Fleet Replacement.*** As part of the air fleet replacement plan for CHP's 26 aircraft, the Legislature approved $17 million in 2013-14, $16 million in 2014-15, and $14 million in 2015-16. Under the plan, the funding level for air fleet replacement will remain at $14 million in 2016-17, and decline to $8 million in 2017-18 and remain at that level on an ongoing basis.

- ***CHP Area Office Replacement.*** In 2013-14, the Legislature approved $6.4 million for the Administration's multiyear plan to replace existing CHP area offices. The funding supported the acquisition of land for one new office and the advanced planning to replace five additional offices. For these five offices, the Legislature subsequently approved $32.4 million in 2014-15 for the acquisition of land, $137 million in 2015-16 for the design and construction of these facilities, and funding for advanced planning for up to five additional facilities. The Administration's Five-Year Infrastructure Plan includes estimated capital costs for CHP of $789 million MVA over the next five years.

- ***DMV Field Office Replacement.*** In 2015-16, the Legislature approved $4.7 million to initiate the Administration's multiyear plan to replace existing DMV field offices. The funding supported pre-construction activities to replace three DMV field offices. The Administration's Five-Year Infrastructure Plan includes estimated capital costs for DMV of $496 million MVA over the next five years.

LAO Comments: The LAO finds that the Legislature will need to take steps to address the ongoing shortfall in the MVA and prevent insolvency. While the Governor's approach is one way of addressing the shortfalls in the near term, there are alternatives, and under the Governor's approach, the LAO estimates that the MVA would likely face an operational shortfall in the tens of millions of dollars by 2019-20. Based on this, the LAO recommends the Legislature consider taking actions to ensure that the MVA is sufficiently balanced in both the near and long-term. The Legislature could address such shortfalls by adopting a mix of the following strategies:

- ***Reduce or Limit MVA Expenditures.*** One approach to addressing the shortfalls in the MVA is to reduce expenditures or slow the pace of spending growth. Even a modest reduction to the pace of spending growth could significantly help the MVA's condition in the future. For example, the Legislature could defer the start of new capital projects to replace CHP and DMV facilities, or approve fewer new projects in future years than are included in the 2016 Five-Year Infrastructure Plan.

- ***Increase MVA Revenues.*** As proposed by the Governor, the Legislature could increase the vehicle registration fee. In determining an appropriate fee increase, it will want to consider the potential fiscal impacts on vehicle owners. The Legislature could also choose to increase non–registration MVA fees, such as driver license fees.

- ***Eliminate General Fund Transfer.*** As mentioned earlier, the MVA receives roughly $70 million in miscellaneous revenues that are not limited in their use by the California Constitution. Under existing law, these revenues are transferred to the General Fund, making them unavailable to support MVA expenditures. The Legislature could change state law in order to keep these revenues in the MVA.

Staff Comment. Staff agrees with the LAO comments that the Legislature will need to take actions to ensure the future solvency of the MVA. The Legislature may want to consider approving the vehicle registration fee increases proposed by the Administration and taking other actions to reduce the cost-pressure on the MVA in the future, such as approving fewer new capital outlay projects in future years and taking steps to eliminate the transfer of about $70 million MVA funds to the General Fund.

Staff Recommendation: Approve as proposed the Administration's proposal to increase the vehicle registration fee and the related trailer bill language.

Vote:

Issue 2: Self-Service Terminal Expansion Project (previously heard on April 14, 2016)

Governor's Proposal: The Governor proposes $8 million from the MVA on an ongoing basis to fund existing and increased costs related to self-service terminals. The proposal is part of an overall plan to expand the use of self-service terminals as an alternative for customers who would otherwise handle their transactions in DMV field offices. The DMV plans to increase the number of self-service terminals by 30 to 50—for a total of between 80 and 100 total terminals statewide. These new terminals would be placed in businesses around the state, such as grocery stores or convenience stores, to provide greater access to DMV services.

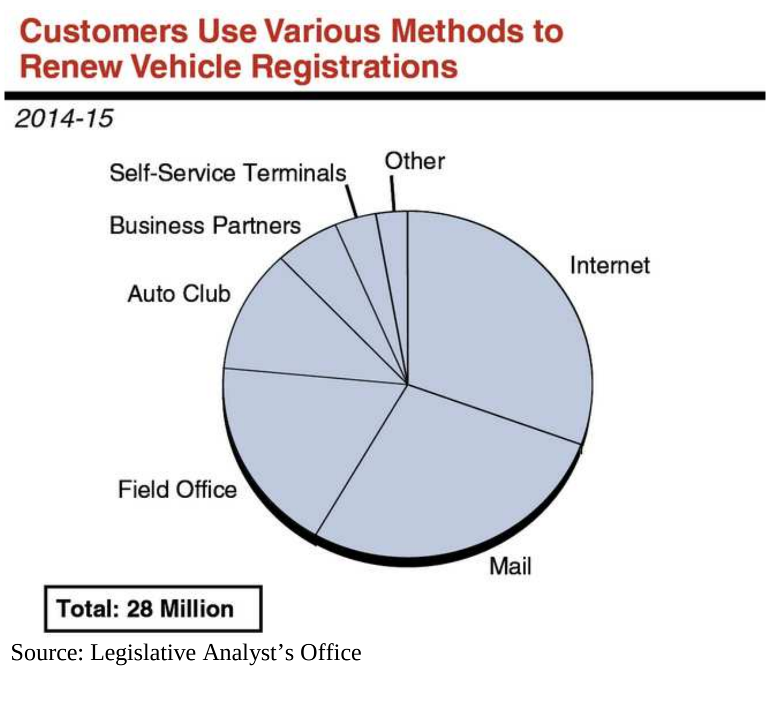
Specifically, the proposed $8 million includes the following:

- $4.4 million to support the existing costs of the $3.75 vendor transaction fee at the current level of 1.2 million self-service terminal transactions. These have historically been paid for from existing resources within DMV's base budget.

- $3.6 million to fund increased costs in 2016-17 from the proposed expansion of self-service terminals. This amount includes funding to pay the $3.75 vendor transaction fee for roughly 1 million additional transactions estimated to occur from the expansion, as well as for the installation and training costs related to the new terminals.

Background: DMV handles about 30 million vehicle registration renewal transactions each year. Customers can renew their registration through one of the several options currently available to them. These include mailing in renewals or coming into field offices or auto clubs, and completing renewals over the internet and through self-service terminals and business partners.

The figure below shows the proportion of registration renewal transactions that were completed in 2014-15 under each service option.



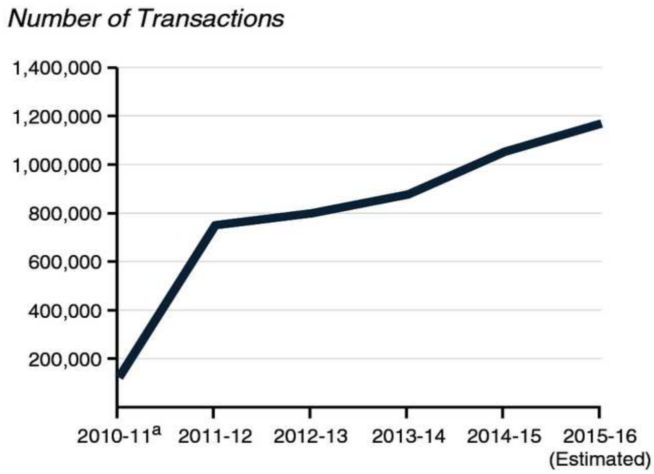
Source: Legislative Analyst's Office

Self-Service Terminals at DMV. Self-service terminals, which allow customers to process their vehicle registration renewal transactions at a kiosk, make up about four percent of total transactions. The DMV's 50 existing self-service terminals are located inside DMV field offices, accept multiple payment methods including cash, and provide a registration card and sticker to the customer upon completion of the renewal. These terminals can be a convenient alternative to DMV field office staff and, according to DMV, can be especially helpful to customers who are paying with cash or those who wait until the deadline to renew their registration.

DMV's costs for self-service terminal transactions includes a reported $5.62 in administrative costs for DMV and a $3.75 service fee that DMV pays to the vendor that provides and maintains the terminals. Under DMV's existing contract for its 50 self-service terminals, the vendor provides the self-service terminals at no initial cost to the state, but charges DMV a $3.75 fee for each transaction completed at a terminal. (In contrast, the average cost for a business partner transaction does not include a service fee as this is paid, on top of the base registration fee, directly by the customer to the business partner.) Based on the expected number of transactions, DMV estimates self–service transactions will cost a total of $11 million in the current year: about $6.6 million in administrative costs and $4.4 million in transaction fee payments to the vendor.

Use of Self-Service Terminals Has Increased Significantly. In October 2010, DMV administratively redirected resources within its base budget to fund the installation of 25 self-service terminals. Subsequently, the department redirected additional resources to double the number of self-service terminals to 50. The figure below shows the number of transactions processed through self-service terminals since they were first implemented. While the total number of transactions processed through self-service terminals is small compared to other service options, use of the terminals has increased significantly during the six years that they have been in operation—from 124,000 transactions in 2010-11 to an estimated 1.2 million transactions in 2015-16.

Self-Service Terminal Transactions Have Increased Significantly



[a] Reflects partial year of operation. Terminals first installed in October 2010.

Source: Legislative Analyst's Office

Self-Service Terminals Are Cost-Effective. The base registration renewal fee charged to customers is the same regardless of the method the customer chooses to process the renewal. However, DMV's costs to process vehicle registration transactions differ significantly by processing method. Specifically, field office staff transactions are the most costly, with the average field office transaction for a registration renewal costing $23.63. In comparison, transactions processed at self-service terminals have an average cost of about $9.37 per transaction. Internet and mail transactions are the least costly at an average cost of $4.54 and $3.69 respectively.

LAO Comments: The LAO finds that expanding the use of self-service terminals, including to locations outside of DMV field offices and outside of DMV's regular business hours, has merit. Doing so would provide greater access to DMV's customers by providing additional options to complete DMV transactions. In particular, these terminals could assist customers who pay with cash, and those who wait until the deadline to renew their registration—two of the main reasons why customers currently renew their registration in a field office. Because transactions processed through a self-service terminal have lower costs than field office transactions, expanding the use of self-service terminals could also result in operational efficiencies and savings.

The LAO raises two concerns with the Governor's proposal. First, that the DMV has provided little information about its plan to expand self-service terminals, specifically information on the sequencing plan, the location of terminals, and the estimated level of savings from expanding this technology. The LAO finds that the absence of a complete implementation plan makes it difficult for the Legislature to assess the full costs of the proposal, make appropriate adjustments to DMV's budget to account for workload shifted out of field offices, and to ensure that the expansion of self-service terminals meets legislative priorities.

Second, the LAO finds that the proposed $8 million increase is not justified and that DMV has not attempted to account for reduced field office visits associated with the use of self-service terminals. The LAO estimates that if all transactions from existing terminals directly offset the need for field office transactions and DMV was able to make sufficient adjustments to account for the lower field office workload, DMV would save up to $17 million annually. At the projected higher level of transactions under the Governor's proposal, savings could be as much as $29 million. While it is unlikely that DMV could fully capture these savings in the short run, because some of their field office costs are fixed (such as facilities costs), the department could achieve a portion of these savings in the short run, and potentially more in the longer run. Additionally, LAO notes that $4.4 million of the amount requested is already funded from DMV's base budget as a result of various redirections. The LAO also notes that under the Governor's proposal, about two million motorists are estimated to use self-service terminals. However, the costs of the self-service terminal transaction fee would effectively be spread across all registered vehicle owners rather than just those who actually use the terminals.

Finally, the LAO recommends that the Legislature reject the Governor's proposal for $8 million from the MVA to support the costs of existing self-service terminals, as well as those of additional terminals. The LAO notes that DMV could continue to fund the existing self-service terminals and expand the number of terminals without this funding augmentation. The LAO also recommends that the Legislature require DMV to develop a detailed plan on the use and expansion of self-service terminals. In order to ensure the Legislature receives the plan in a timely manner, the LAO recommends adopting budget bill language requiring DMV to submit the plan by January 10, 2017. The language should also specify that DMV shall not proceed with its expansion plan until it is submitted to and reviewed by the Legislature.

Specifically, the plan should include (1) a sequencing strategy (including the approach and timing for increasing functionality of the terminals and how that relates to expanding the number of terminals), (2) DMV's assessment of which locations are good candidates for self-service terminals and the criteria DMV used to determine these locations, and (3) how DMV intends to account for the cost savings generated from the use of self-service terminals and identify the adjustments necessary to reflect a reduction in field office workload. As the Legislature evaluates this plan, it will also want to consider the potential benefits and limitations of passing the cost of self-service terminals on to the customers who benefit from the convenience of using the kiosks, rather than spreading these costs among all registered vehicle owners.

Staff Comments: Staff agrees with the concerns raised by the LAO about the lack of an expansion plan for SSTs. A comprehensive long-term plan would help to ensure that DMV is implementing the most cost-effective and accessible options for processing transactions. Such a plan would help DMV to better prepare for expanding the use of SSTs and enable the Legislature to plan for future budget requests. Because any expansion of automated processing options could potentially significantly reduce the need for staff to process transactions and keep to a minimum expansions of office space that may be needed in the future, such a plan should also consider these factors.

The Legislature would also benefit from receiving information about savings from the use of SSTs so that it can determine whether to redirect staff who are "freed up" when processes are automated or to achieve savings by reducing position authority.

Staff Recommendation: Approved as budgeted and adopt supplemental reporting language to have DMV report the location and utilization of self-service terminals, as well as any costs savings resulting from the diversion of transactions through these terminals.

Vote:

Issue 3: New Motor Voter Program

Governor's Proposal: The Governor proposes $3.9 million General Fund for implementation of AB 1461 (Gonzales), Chapter 729, Statutes 2015.

Specifically, the $3.9 million is for the following:

- $424,000 for 3.7 positions.

- $1.3 million for driver license/ identification card (DL/ID) and change of address forms reprint and/or destruction.

- $1.7 million for imaging machine replacement and maintenance contract and facilities cost for new cabling.

- $457,000 for DMV DL/ID systems software modification and update.

Background: The National Voter Registration Act (NVRA) of 1993 mandated that all 50 states make it easy for U.S. citizens to register to vote when applying for a DL/ID card. This mandate include the requirement to offer the voter registration option to every customer who applies for a DL/ID card. This resulted in revisions to DMV's DL/ID card application, which currently includes a section that asks "Do you wish to register to vote or to update your voter record?" The applicant must indicate that he or she:

1. Is registering to vote for the first time or is requesting a voter registration change (name change or change in political party).

2. Does not wish to register to vote or change the voter registration address.

3. Requests the department to update the voter registration address to a new county.

4. Requests the department to update the voter registration address within the same county.

The DMV mails all completed voter registration forms to local election officials. The department currently provides files to the Secretary of State (SOS) on all DL/ID card holders approaching their 18th birthday. The SOS then follows up by communicating to individuals regarding his or her right to vote. A voter registration affidavit is also enclosed with DL renewal notices. The department assists with online voter registration through the SOS's website by providing the SOS with a copy of a DL/ID card holder's digitized signature in order to complete the online voter registration process.

AB 1461 Requires DMV to Register all Eligible Applicants to Vote (Unless They Decline.) AB 1461 requires the DMV to electronically transmit to the SOS specified information related to voter registration, including the applicant's name, date of birth, address, digitized signature, email address, telephone number, language preference, and other voter registration related information, as well as whether the applicant affirmatively declined to register to vote.

Changes to DMV Processes from AB 1461. The costs that will be incurred by DMV for implementation of AB 1461 are related to the reengineering of current processes, new hardware, software, and equipment, as well as systems programming. Due to the requirement of needing additional customer information, DMV will eliminate the current practice of combining change of addresses for DL/ID cards and vehicle registration (VR) on a single form. Instead, each process (DL/ID and VR) will have separate forms and separate work streams. The change of address forms processed through the mail will now require additional time to key a significant number of new data elements to complete the voter registration portion, adding to the overall transaction time. The current renewal-by-mail process for DL/ID cards involving a tear-off stub will be replaced by a full-page form that contains all necessary elements for renewal of a DL/ID card and construction of a data file for SOS. In order to collect the voter registration information for renewal-by-mail transactions, the department will need to purchase new automated mail processing machines to handle the full-size form and number of data elements. This will create an additional headquarters processing workload for both the operation of the machines and the technician review of forms when the automated system cannot read all data elements.

AB 1461 specifies that DMV shall complete implementation one year after the SOS certifies all of the following:

- The state has a statewide voter registration database that complies with the requirements of the federal Help America Vote Act of 2002.
- The Legislature has appropriated the funds necessary for the SOS and DMV to implement and maintain the California New Motor Voter Program.
- The SOS has adopted regulations to implement the provisions of the bill.

As of February 2016, SOS estimates the earliest date to begin implementation would be July 1, 2016.

Staff Comment: Concerns have been raised that the field office process DMV has implemented for motor voter does not follow best practices and this process does not always ensure the capture of additional voter registration information such as optional questions about party preferences, language preference for election materials, whether one wishes to be a permanent vote-by-mail voter, and whether one wishes to be a poll worker. Trailer bill language may need to be adopted to address this problem.

Staff Recommendation: Reject the Governor’s proposal so that this issue goes to Conference Committee which will allow for additional time to consider ways to improve the process.

Vote:

Issue 4: REAL ID Driver License or Identification Card Trailer Bill Language

Governor's Proposal: The May Revision proposes trailer bill language that would amend existing statute to conform with federal REAL ID requirements.

Background: Congress enacted, and the President signed, H.R. 1268-"Real ID Act of 2005" on May 11, 2005, which is designed to improve the security of driver's licenses (DL) and identification (ID) cards issued by individual states. The act includes certain minimum document and license issuance requirements, and it provides that only persons with legal presence status can be issued a DL/ID card.

REAL ID also requires that only one document can be issued per person (so for those individuals that have both a DL and an ID, they will be issued a DL). REAL ID also changes the requirements for the senior ID which, under current state law, expires after 10 years but under REAL ID can be in effect for no more than eight years before it must be renewed.

Staff Comment: The proposed trailer bill changes would not take effect until January 1, 2018. There does not appear to be a reason that these changes need to go through the budget process.

Staff Recommendation: Reject the proposed trailer bill language and direct the Administration to pursue these changes through the policy bill process.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Tuesday, May 17, 2016
10:00 a.m. State Capitol - Room 112

Part A
Outcomes

Consultant: Farra Bracht

VOTE-ONLY ISSUES

Item **Department** **Page**

2600 **California Transportation Commission**
Issue 1 Amendment to and Addition of Various Budget Bill Items
Approved as proposed. Vote 3-0.

2660 **California Department of Transportation**
Issue 1 Technical Adjustments
Approved as proposed. Vote 3-0.

Issue 2 Lease Revenue Bond Refinancing
Approved as proposed. Vote 3-0.

Issue 3 District 7 Express Lane Maintenance
Approved as proposed. Vote 3-0.

Issue 4 Reappropriation of Bond Funds
Approved as proposed. Vote 2-1 (Nielsen voting no).

Issue 5 Federal Bridge Load Rating
Approved as proposed and adopted the budget bill language recommended by the LAO to better enable the Legislature to evaluate the need for ongoing positions and funding for this workload. Vote 3-0.

2670 **Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun**
Issue 1 Increased Operation and Training Costs
Approved as proposed. Vote 3-0.

2720 California Highway Patrol

Issue 1 California Highway Patrol Enhanced Radio System and Technical Adjustment

Approved as proposed, approved the technical adjustment to the budget bill language, and adopted the following supplemental reporting language. Vote 3-0.

The California Highway Patrol (CHP) shall report to the appropriate fiscal committees of the Legislature, the Legislative Analyst's Office, and the Department of Finance no later than January 1, 2019 on the feasibility of a conservation easement with a state, federal, or nonprofit conservation organization for the remainder property acquired for the CHP Enhanced Radio System Tower Replacement project at Sawtooth Ridge and any mitigation lands required by the analysis conducted pursuant to the California Environmental Quality Act. The report should include a discussion of how future maintenance would be conducted at Sawtooth Ridge so as to not affect the ecological integrity of the area.

Issue 2 Capital Outlay: Advanced Planning and Area Office Replacements

Approved as proposed. Vote 2-1 (Nielsen voting no).

2740 Department of Motor Vehicles

Issue 1 Capital Outlay: Field Office Replacements

Approved as proposed. Vote 2-1 (Nielsen voting no).

Issue 2 REAL ID Implementation

Approved as proposed. Vote 3-0.

DISCUSSION / VOTE ISSUES

Item	**Department**	**Page**
2660	**California Department of Transportation**	
Issue 1	Governor's Transportation Funding Package	

Rejected the Governor's transportation funding plan for consideration in the legislative special session on transportation. Vote 3-0.

Issue 2 Capital Outlay Support Budget

Approved the COS funding and staffing request. Vote 2-1 (Nielsen voting no).
Approved the budget bill language as modified by the LAO. Vote 3-0.

Issue 3 Construction and Maintenance Zone Enforcement Funding

Reject the proposal. Vote 3-0.

Issue 4 Fixing America's Surface Transportation Act Federal Grants

Approved as proposed the budget bill language and rejected the trailer bill language. Vote 3-0.

2720 California Highway Patrol

Issue 1 Commercial Vehicle Federal Conformity Requirements

Approved as proposed.Vote 3-0.

2740 Department of Motor Vehicles

Issue 1 Motor Vehicle Account Fund Condition

Approved as proposed. Vote 2-1 (Nielsen voting no).
Motion to eliminate the transfer of $70 million to the General Fund. Vote 2-1 (motion fails, Wolk and Pavley voting no).

Issue 2 Self-Service Terminal Expansion Project

Approved as proposed and adopted supplemental reporting language to have DMV report the location and utilization of self-service terminals, as well as any cost savings resulting from the diversion of transactions through these terminals. Vote 2-1 (Nielsen voting no).

Issue 3 New Motor Voter Program

Rejected proposal. Vote 2-0 (Nielsen not voting).

Issue 4 REAL ID Driver License or Identification Card Trailer Bill Language

Rejected the proposal and directed the Administration to pursue the proposed changes through the policy bill process. Vote 3-0.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Tuesday, May 17, 2016
10:00 a.m.
State Capitol - Room 112

Consultants: Catherine Freeman and Farra Bracht

Part B—Energy

VOTE-ONLY ISSUES

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Issue 1	Title 20 Appliance Efficiency Standards Compliance Assistance and Enforcement Program	3
8660	**California Public Utilities Commission**	
Issue 1	Implementation of SB 380 (Pavley)	3
Issue 2	Biogas Study-Trailer Bill Language	3
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DISCUSSION / VOTE ISSUES

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Issue 2	American Recovery and Reinvestment Act (ARRA) Investments	7
8660	**California Public Utilities Commission**	
Issue 1	California LifeLine Cost Estimates Update	8
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Issue 3	Operations-Related Trailer Bill Language (Legislative Proposal)	13
Issue 4	Green Tariff SB 43 (Legislative Proposal)	14

VOTE-ONLY ISSUES

3360 CALIFORNIA ENERGY COMMISSION

1. **Spring Finance Letter—Title 20 Appliance Efficiency Standards Compliance Assistance and Enforcement Program.** The spring finance letter requests two permanent positions to support the Title 20 Appliance Efficiency Standards Compliance Assistance and Enforcement Program. Senate Bill 454 (Pavley), Chapter 591, Statutes of 2011, authorized the commission to establish an administrative enforcement process for violations of the commission's appliance efficiency standards, with penalties up to $2,500 per violation. The requested staff resources will conduct investigations to uncover violations leading to penalties levied through a formal administrative adjudication, mutual settlement or litigation, and conduct compliance assistance, outreach and education to stakeholders on how to comply with the commission's regulations. Total funding request for this proposal is $275,000 from the Appliance Efficiency Enforcement Subaccount.

Staff Recommendation: Approve as proposed

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION (CPUC)

1. **Implementation of SB 380 (Pavley).** SB 380 (Pavley), Chapter 14, Statutes of 2016, was chaptered on May 10. The bill requires $2.7 million from the Public Utilities Commission Utilities Reimbursement Account to the CPUC for additional staffing and procurement of technical services to conduct public hearings, proceedings, analysis, complex modeling, staff training, equipment, and travel to perform analysis of the impacts of a full or partial closure of Aliso Canyon.

   Staff Recommendation: Approve as proposed.

2. **Trailer Bill Language: Biogas Study (previously heard on March 10, 2016).** The budget proposes trailer bill language that would request the California Council on Science and Technology conduct a study analyzing the regional and gas corporation specific issues relating to the minimum heating value specifications adopted by the CPUC for biomethane before it can be injected into common carrier gas pipelines. If the California Council on Science and Technology agrees to undertake and complete the study, the bill would require each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the study with the cost recoverable in rates, but would authorize the CPUC to modify a specified decision to allocate money that would be made available for certain incentives to instead be made available to pay for costs of the study so as to not further burden ratepayers with additional expense. If the study is completed, the bill would require the CPUC to reevaluate requirements adopted by the CPUC for injection of biomethane into common carrier pipelines and, if appropriate, change those requirements or adopt new requirements, giving due deference to the conclusions and recommendations made in the study.

Staff Comment: At this time, there is a policy bill, AB 2206 (Williams) moving through the policy process on this topic.

Staff Recommendation: Approve as budgeted.

3. **Funding for Network Engineer Consultants (previously heard on March 10, 2016).** The budget proposes $1 million in reimbursable authority for a one-time contract for network engineering consultants. It is expected that the total contract cost would be $1.5 million, with $1 million to be spent in 2016-17 and $500,000 in 2017-18.

   Currently, there are about 1.7 million wirelines, or landlines, in California, 7.4 percent of all telephone lines. CPUC's service quality program and contains five service quality measures and related standards for assessing the quality of telephone service. The out-of-service (OOS) metric is to repair 90 percent of outages of landlines within 24 hours. The results for this metric are collected monthly and reported quarterly. AT&T and Verizon, which have between 85 percent and 88 percent of the residential and small business wireline customers in the state, have consistently failed to meet this metric. Specifically, during the years 2010 through 2014, AT&T's average annual OOS repair results within 24 hours were: 50 percent, 67 percent, 71 percent, 67 percent, and 60 percent, respectively. For the same period, Verizon's average annual OOS repair results within 24 hours were: 76 percent, 73 percent, 72 percent, 70 percent, and 68 percent respectively.

   Pursuant to a CPUC decision, CPUC staff is directed to retain a consulting firm with communications network experience to examine AT&T's and Verizon's network facilities, review company policies and procedures for network maintenance, repair and replacement; advise Communications Division management and CPUC decision makers' on technical telephone and communications network issues; prepare a report on the results of the examination and testify before the CPUC should hearings be held.

   Staff Comment: At this time there is a proposed decision related to this issue under consideration by the CPUC. The request for this study may be unnecessary because it has already been established by the CPUC that providers of telephone services are not meeting the OOS metric.

   Staff Recommendation. Reject the Governor’s proposal.

DISCUSSION / VOTE ISSUES

3360 CALIFORNIA ENERGY COMMISSION (CEC)

Issue 1: SB 350 and AB 802 Implementation (Heard on March 10)

Background: SB 350 (de Léon), Chapter 547, Statutes of 2015, requires the CEC to establish annual targets for statewide energy efficiency savings and demand reductions to achieve a cumulative doubling of energy efficiency savings in electricity and natural gas, final end uses of retail customers by January 1, 2030.

AB 802 (Williams), Chapter 590, Statutes of 2015, establishes a building energy use benchmarking and public disclosure program for nonresidential and multifamily buildings. The bill requires the CEC, in collaboration with the California Public Utilities Commission (CPUC), to implement a statewide public energy efficiency benchmarking program, establish statewide benchmarking and information technology reporting, conduct education and outreach, and assess progress toward efficiency goals and future energy consumption needs.

Governor's January Proposal: The Governor's budget requests 29.5 permanent positions, and ongoing contract funds of $3.5 million, for a total request of $7.6 million from the Cost of Implementation Account, Air Pollution Control Fund, to implement SB 350. The budget separately requests eight permanent positions, and $500,000 in baseline technical support, for a total request of $1.6 million from the Energy Resources Programs Account (ERPA), to implement AB 802.

Governor's May Revision Proposal. The Governor's May Revision adjusts the SB 350 proposal by shifting funding from the Cost of Implementation Account ($7.6 million) to the Air Pollution Control Fund, on a one-time basis. Budget bill language provides the necessary authority for the use of penalty monies for this purpose on a one-time basis.

Staff Comments: Staff has further reviewed the proposals with the commission and recommends approval of the budget proposal with the May Revision adjustments. Additionally, following the subcommittee discussion, concerns were raised that the studies conducted by the Independent System Operator regarding regionalization of the electricity grid pursuant to SB 350 should be more adequately reviewed. Staff recommends a third party review these studies and report back to the Legislature. Further, concerns have been raised about the ability of the state to understand systemwide natural gas emissions for the purposes of tracking and ranking these emissions. Staff recommends directing CEC to track and rank natural gas emissions in order to provide the state with the information it needs to better evaluate the overall natural gas system.

Staff Recommendation: (1) Approve as proposed with the May Revision funding adjustments. (2) Approve the following trailer bill language:

(1) The studies conducted by the Independent System Operator pursuant to Section 359(e)(1) of the Public Utilities Code shall be reviewed by an independent third party, to be chosen by one representative each jointly appointed by the Assembly, the Senate, and the Governor, to determine whether the studies adequately consider the

overall benefits to ratepayers, including the creation or retention of jobs and other benefits to the California economy, environmental impacts in California and elsewhere, impacts in disadvantaged communities, emissions of greenhouse gases and other air pollutants, and reliability and integration of renewable energy resources. The independent third party shall include its findings in a written report, to be submitted to the governor and the relevant fiscal and policy committees of both houses of the Legislature, by June 30, 2017.

(2) The California Energy Commission shall, utilizing the best management practices developed by the California Public Utilities Commission and DOGGR, develop a natural gas tracking and rating system that will enable natural gas purchasers in California to evaluate the environmental impact of the vented and fugitive emissions of the gas they procure.

Vote:

Issue 2: American Recovery and Reinvestment Act (ARRA) Investments

Background: On February 17th, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA), otherwise known as the Stimulus Package, to restart the economy. The package contains extensive funding for science, engineering research and infrastructure, and more limited funding for education, social sciences and the arts. States received discretionary funding through the ARRA for a variety of programs, and certain programs received funding through block grants. Through 2013, the CEC administered $314 million in energy efficiency and renewable energy pilot programs under ARRA. These pilot programs influenced the administration of current and ongoing programs, and budget proposals under other funding sources, such as the Greenhouse Gas Reduction Fund (GGRF).

When ARRA ended in 2013, over $30 million of funds remained with sub-recipients who administer the programs, mainly in revolving loan funds. The CEC, as part of its evaluation of these programs, determined that certain programs were under-performing and is now proposing to use the funds for a different purpose.

Governor's Proposal: The CEC is requesting $8 million in federal fund authority in the budget year, and $2.5 million through 2026-27, to implement both voluntary and mandatory programs to increase energy efficiency in existing buildings, and to conduct a competitive grant program to facilitate more effective use of local government knowledge and authority to promote and conduct energy efficiency improvements in existing buildings. The proposal also requests federal fund transfer authority to shift $5 million (ARRA funds) to the Department of General Services for the Energy Efficiency State Property Revolving Fund loan program.

Staff Comments: The need to promote energy efficiency at the local level is critical to making the state more energy efficient. The CEC has multiple programs that address this need, and the Legislature has weighed in on many through statute. Over the past year, several ideas have arisen including the idea that this type of program should be directed toward education of public and private entities, and with the idea of lasting benefits to a broad spectrum of the state's energy users. To that end, the Legislature should consider whether or not the CEC should create a new program to allocate the funding, or rather establish a legislatively-directed program that may be more cross-cutting across all aspects of the local jurisdictions, small and medium businesses, and state agencies.

Staff Recommendation: Approve as proposed.

Vote:

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

Issue 1: California LifeLine Cost Estimates Update (May Revision update and previously heard on March 10, 2016)

Governor's Proposal: The Governor's May Revision proposes to decrease the January budget request for the Universal LifeLine Telephone Service Trust Administrative Committee Fund by $142.4 million. This is a reduction of $134.3 million for local assistance (from a proposed augmentation of $267.4 million for local assistance) and a reduction of $8.1 million for state operations (from a proposed augmentation of $14.2 million for state operations).

Background: The Moore Universal Telephone Service Act, in 1984, set the goal of providing high quality telephone service at affordable rates to eligible low-income households. The Act requires the PUC to annually designate a class of lifeline service necessary to meet minimum residential communications needs, develop eligibility criteria (currently 150 percent of the federal poverty level), and set rates for the lifeline services, which are required to be not more than 50 percent of the rate for basic telephone service. Over the years, the definition of a "basic service", that has included only traditional wireline (landline), has been considered in a broader context of new technologies and trends towards voice, video, and data services.

Under federal and state LifeLine program rules, multiple participants are permitted at a single residential if the participants are separate households. A household includes adults and children who are living together at the same address as one economic unit. An economic unit consists of all adults (persons at least 18 years old unless emancipated) contributing to and sharing the household's income and expenses. Only one discount is provided per household.

For each household enrolled in the program, CPUC provides telephone companies (carriers) a maximum monthly state subsidy that is based on 55 percent of the most expensive basic landline service from the four largest carriers. The subsidy is meant to offset the lower rate charged to the consumer. In 2016, the maximum state subsidy is about $13 a month. The federal government also administers the federal Lifeline program that provides a monthly discount of about $9. In addition, the state provides (1) a per enrollee monthly payment to cover carriers' administrative costs, (2) a one-time connection subsidy for new enrollees or enrollees that switch plans, and (3) a subsidy to cover other telephone taxes and surcharges for LifeLine enrollees.

The revenues to fund the program are collected from a surcharge on telephone bills for non-LifeLine customers. The CPUC adjusts the level of the surcharge based on its projections of the amount of revenue needed to cover the costs of the program.

Program Participation Dramatically Increased Since Expansion to Wireless Service. In January, 2014, the CPUC issued a decision authorizing voluntary participation in the program by wireless service providers to offer discounted wireless service plans to low-income households that include wireless voice, text, and data services. Since this change, there has been substantial growth in the program and the number of subscribers doubled from fiscal year 2013-14 to 2014-15—with all of the growth in the number of wireless subscribers and a reduction in the number of wireline subscribers. The table below shows the year over year growth in the number of subscribers since 2006-07. Program costs also have increased substantially over the same time period and the surcharge to fund the program was recently increased to 5.5 percent. This chart has been updated to reflect the information provided by CPUC at the May Revision.

Changes in the LifeLine Program Since 2006-07

Universal LifeLine

A	B	C	D	E	F	G	H	I	J	K
Fiscal Year	Surchage	State Operations including TPA	TPA	Carrier claims	Number of Applications	Wireline subscribers	Wireless subscribers	Total subsrcribers	Eligible Households (150% FPL)	Participation Rate
2006/07	1.29%	$ 41,599,002	$ 31,789,749.00	$ 252,426,883	7,152,297	3,012,892	-	3,012,892	2,522,407	119%
2007/08	1.15%	$ 39,466,669	$ 34,868,887.00	$ 224,944,358	9,497,381	2,371,842	-	2,371,842	2,468,051	96%
2008/09	1.15%	$ 55,059,418	$ 34,081,996.00	$ 205,737,424	10,237,685	2,037,062	-	2,037,062	2,542,795	80%
2009/10	1.15%	$ 38,954,760	$ 28,661,742.25	$ 203,572,985	6,909,963	1,846,711	-	1,846,711	2,649,959	70%
2010/11	1.15%	$ 30,970,208	$ 17,036,031.53	$ 219,352,498	5,964,323	1,691,348	-	1,691,348	2,897,943	58%
2011/12	1.15%	$ 23,940,469	$ 16,160,291.00	$ 231,848,942	6,886,264	1,518,763	-	1,518,763	3,063,944	50%
2012/13	1.15%	$ 22,149,437	$ 16,012,453.00	$ 199,706,702	3,170,943	1,173,692	-	1,173,692	3,059,176	38%
2013/14	1.15%	$ 20,896,962	$ 13,780,816.00	$ 172,014,995	2,740,319	947,959	90,656	1,038,615	3,085,547	34%
2014/15	2.40%	$ 18,327,290	$ 14,006,955.00	$ 277,400,000	4,755,441	727,526	1,439,796	2,167,322	3,066,894	71%
2015/16 (Jul - Feb 2016)	3.80%	$ 14,058,730	$ 11,475,103	$ 266,448,668	1,033,561	664,365	1,552,303	2,216,668	3,066,894	72%
FY 15/16	5.50%	$ 21,483,000	$ 16,935,138	$ 462,046,748	4,425,506.00	599,248.00	1,392,230.00	1,991,478	3,066,894	65%
FY 16/17 (projection)	3.80%	$ 25,777,892	$ 18,586,271	$ 457,345,097	6,654,542.00	672,206.00	2,322,338.00	2,994,544	4,170,115	72%

Source: CPUC
Below letters corresponds to the letters above.

B: 1.15 percent effective April 1, 2007; 2.40 percent effective January 1, 2015; 3.80 percent effective August 1, 2015; and 5.50 percent effective October 1, 2015.

C: State Operation increased in FY 2008/09 due to increased marketing costs.

E: 2015/16 carrier claims are July - Jan 2016 and include $53,204,069 of 2014/15 claims that were paid out of 2015/16.

J: The number of eligible households in FY 2016/17 is 200 percent of the federal poverty level.

Wireless Plans Are Diverse, but Many Plans Are Free to Enrollees. A diverse set of wireless plans are available for LifeLine customers. Although all plans currently include at least 1,000 monthly voice minutes, plans offer different monthly rates, additional voice minutes, text messaging, and data. As of August 2015, there were 34 LifeLine wireless plans available and 21 of the available plans (62 percent) were offered at no cost to customers. Of the 21 plans that were offered for no cost:

- 14 plans included unlimited voice minutes.
- 14 plans included unlimited text messages.
- Seven plans included some data.

Ensuring Eligibility and Minimizing Fraud. Prior to 2007, participants self-certified their eligibility and carriers enrolled participants. The very high participation rate in 2006 triggered the CPUC and Federal Communications Commission to require a third-party administrator (TPA) to determine eligibility and manage the consumer participation in the program. Shortly after the introduction of a TPA, participation decreased sharply in 2007 and 2008. Today, participants establish eligibility either through evidence of participation in other federal public assistance programs (i.e. CalFresh, Medicare, Section 8 housing) or by submitting evidence of income. Applications include both applications to determine initial eligibility and annual renewals; however program eligibility does not require an annual verification of income eligibility. Applicants provide supporting documentation and information under penalty of perjury.

In addition to the automated, upfront fraud checks performed by the TPA, periodic detailed queries are conducted to detect and eliminate fraudulent behavior. As an example, the TPA, at the CPUC's request, examined all addresses where more than one participant receives discounts.

The CPUC is working with Federal Communications Commission to investigate the results of this analysis. Another example is an annual manual fraud analysis performed jointly by the TPA and the commission. A detailed manual comparison of all information submitted by consumers, including qualifying program documentation, is used along with results of identity verification to detect fraud. This process takes about three to four months to complete. The program removes activity determined to be fraudulent immediately. In addition, potential duplicates that are identified are removed.

In addition to automated and manual fraud preventions measures, carrier claims are periodically audited. The CPUC is currently in a procurement process to select auditors who will audit the wireless carriers claims submitted in 2014.

As a result of the automated anti-fraud mechanisms, applications are identified and rejected as being duplicative. These potential participants never receive discounts. Between September 2014 and today, approximately 2,920 of the 2.4 million California LifeLine participants have been identified and removed for fraudulent behavior. Very few of these participants have appealed.

May Revision: As part of the May Revision, at the Legislature's request, CPUC prepared a caseload and cost estimate package that provides revised projections of the current and budget year local assistance costs for the Universal Lifeline program. For 2015-16, CPUC estimates lifeline expenditures will total $483.5 million, which is an increase of $137.8 or 40 percent, compared to the 2016-17 Governor's Budget. This projected increase in expenditures is due to increased carrier claims from wireless service providers. In addition, $53.2 million of the 2015-16 appropriation was used to pay 2014-15 carrier claims.

In 2016-17, the May Revision estimates total state operations and local assistance costs of $483.1 million, which is a decrease of $142.4 million from the January proposal. For the revised estimate, CPUC has had over a year of actual participation data allowing for more accurate forecasting.

Legislative Analyst's Office (LAO) Analysis: The LAO has raised no concerns with the revised estimate.

Staff Question for CPUC:

1. Please describe the primary drivers of changes in the estimate and uncertainties such as the impact of the elimination and reintroduction of the connection/ conversion subsidy.
2. Please discuss the fund balance and the surcharge rate reduction anticipated for 2016-17.

Staff Comment: The updated caseload estimates the Administration provided at the May Revision use more recent and complete data to provide a better estimate of program costs.

Staff Recommendation: Approve the May Revision caseload and cost estimates for the Lifeline program.

Vote:

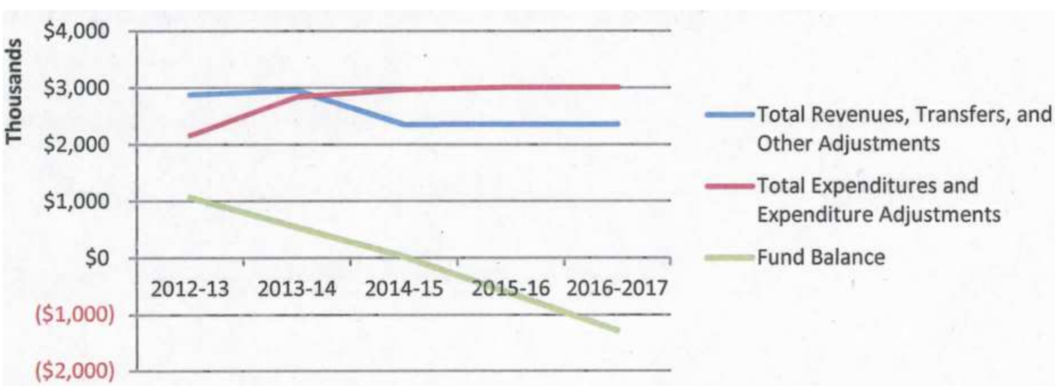
Issue 2: Transportation Rate Fund Trailer Bill Language (April Finance Letter)

Governor's Proposal: The April finance letter requests the Public Utilities (PU) Code be amended to increase the maximum fee that can be charged to household goods movers from 0.7 percent to 1.0 percent to maintain solvency in the Transportation Rate Fund.

Background: The Public Utilities Commission Transportation Rate Fund (Fund 0412) is used to fund CPUC's work to license and regulate household goods movers (1,045 movers as of March 31, 2016) that move household goods and personal belonging over the public highways in California. The fund supports 15 positions that perform this work. The fund's main source of revenue is quarterly fees household goods movers pay to the CPUC. PU Code Section 5003.2 currently sets the maximum rate for this quarterly fee at 0.7 percent of household goods mover's gross revenue (set in 2006), which is the rate the CPUC has charged since 2006.

Quarterly fees are based on gross reported household good's movers' incomes, and revenue has decreased in recent years. In addition, in 2013-14, expenditures increased significantly (by about $650,000) due to a change in how CPUC overhead for increases in employee compensation and other adjustments is allocated, rather than as a result of program growth. As shown in the figure below, these changes are resulting in expenditures exceeding revenues.

Transportation Rate Fund Revenues Have Declined and Expenditures Have Increased



Staff Questions for CPUC

1. Please describe the enforcement activities that will be underway in the future, the timeline for this to occur, and discuss why past enforcement efforts may not have been adequately robust.

Staff Comments: Some portion of the household goods carrier market is unlicensed which may have contributed to the decline in revenues. According to CPUC, it is aware of some deficiencies in its enforcement activities and has efforts underway to improve enforcement, including an effort to reengage management at Yelp, Craigslist, and other online bulletin boards to reduce postings from unlicensed moving companies, to use these boards as leads to unlicensed, carriers, and to increase litigation against such carriers. The CPUC will also provide additional tools to investigators to increase the number of sting operations, particularly in local jurisdictions where the district attorney is willing to prosecute criminal cases.

The subcommittee may want to consider not approving the Governor’s proposal to raise the possible maximum fee at this time and instead have the CPUC report in January 2017 on the number of investigators conducting enforcement of household goods carriers; past and current efforts; future efforts; and options to provide adequate funding for this program.

Staff Recommendation: Reject the Governor’s proposal and adopt supplemental reporting language that requires CPUC to report by January 1, 2017 on the number of investigators conducting enforcement of household goods carriers; past and current efforts; future efforts; and options to provide adequate funding for this program.

Vote:

Issue 3: Operations-Related Trailer Bill Language (Legislative Proposal)

Proposal: The Assembly adopted placeholder trailer bill language to do the following.

- Require CPUC to report on its business process inventory efforts in March of 2017.
- Require CPUC to report on options to expand its operations and staff outside of the San Francisco headquarters.

Background: In a prior hearing this year, the Subcommittee approved two proposals 1) $5.3 million for eFiling administration support platform creation and business configuration projects and 2) information technology restructuring which provided CPUC 24 permanent positions for its information technology service branch. In part, the expectation is that these additional resources would be used to improve the effectiveness and internal operations of CPUC and help make CPUC a more modern and transparent entity overall.

Also, as part of its modernization efforts, CPUC is in the process of informally categorizing its business processes. Such an effort can provide the framework for future technology improvements or, the creation of performance metrics that will allow for greater transparency of the performance of the Commission.

In addition, the Subcommittee also approved in a prior hearing a request for six positions to work on workforce planning and development. Staff training and workforce planning have been identified as a central deficiency of the CPUC, which has resulted in staff turnover and uneven performance.

Staff Comment: The Assembly adopted placeholder trailer requiring CPUC to report on its business process inventory efforts in March of 2017. This report would allow the Subcommittee to assess the improvements of the operations at CPUC. The Assembly also adopted placeholder trailer bill language to require CPUC to report on options to expand its operations and staff outside of the San Francisco headquarters. The purpose of this report is to explore options for leveraging additional facilities in areas of the state, like Sacramento, which would allow the CPUC to collaborate with other departments and also allow staff more opportunities for growth in promotion in other state departments.

Staff Recommendation: Conform to the Assembly's adopted of placeholder trailer bill language requiring 1) CPUC to report on its business process inventory efforts in March of 2017 and 2) CPUC to report on options to expand its operations and staff outside of the San Francisco headquarters.

Vote:

Issue 4: Green Tariff SB 43 (Legislative Proposal)

Proposal: The proposed change would remove the sunset from SB 43 (Wolk), Chapter 413, Statutes of 2013 as follows.

> SEC. 2. Section 2834 of the Public Utilities Code is repealed.
> ~~2834.This chapter shall remain in effect only until January 1, 2019, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2019, deletes or extends that date.~~

Background: SB 43 directed the CPUC to approve green tariff shared renewables (GTSR) programs ensuring that customers of Southern California Edison, San Diego Gas &Electric and Pacific Gas & Electric investor-owned utilities (IOUs) have the ability to subscribe to up to 600 megawatts of offsite renewable energy projects and receive utility bill credits in return. Shared renewables programs offer access to up to 100 percent renewable energy to the many Californians who cannot install renewables on their own property: renters, people whose homes are shaded or poorly oriented, small businesses who lease, space limited public entities, and consumers who lack sufficient credit, among others.

The CPUC adopted a decision implementing parts of SB 43 in mid-2015 that lays out the program design for the three IOU's green tariff programs. In April 2016, the CPUC issued a proposed decision for the enhanced community renewables portion of the GTSR proceeding. It is unknown when the CPUC will issue a final decision for this part of the proceeding. Given how long the rulemaking has taken at the CPUC, 2019 is not an appropriate date to sunset the program.

The sunset in current law would end the statutory requirement that the IOUs offer the Green Tariff Shared Renewable (GTSR) program to customers. This proposal would delete the program sunset of January 1, 2019. The program will now end when the 600 megawatt cap of the program is reached.

Staff Recommendation: Approve as proposed.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Tuesday, May 17, 2016
10:00 a.m.
State Capitol - Room 112

Consultants: Catherine Freeman and Farra Bracht

Part B—Energy
Outcomes

VOTE-ONLY ISSUES

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8660	**California Public Utilities Commission**	
Issue 1	Implementation of SB 380 (Pavley)	3
Issue 2	Biogas Study-Trailer Bill Language	3
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Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-651-1505. Requests should be made one week in advance whenever possible.

DISCUSSION / VOTE ISSUES

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VOTE-ONLY ISSUES

3360 CALIFORNIA ENERGY COMMISSION

1. **Spring Finance Letter—Title 20 Appliance Efficiency Standards Compliance Assistance and Enforcement Program.** The spring finance letter requests two permanent positions to support the Title 20 Appliance Efficiency Standards Compliance Assistance and Enforcement Program. Senate Bill 454 (Pavley), Chapter 591, Statutes of 2011, authorized the commission to establish an administrative enforcement process for violations of the commission's appliance efficiency standards, with penalties up to $2,500 per violation. The requested staff resources will conduct investigations to uncover violations leading to penalties levied through a formal administrative adjudication, mutual settlement or litigation, and conduct compliance assistance, outreach and education to stakeholders on how to comply with the commission's regulations. Total funding request for this proposal is $275,000 from the Appliance Efficiency Enforcement Subaccount.

Staff Recommendation: Approve as proposed. **Vote: 2-1 (Nielsen, no)**

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION (CPUC)

1. **Implementation of SB 380 (Pavley).** SB 380 (Pavley), Chapter 14, Statutes of 2016, was chaptered on May 10. The bill requires **~~$2.7~~ $2.1** million from the Public Utilities Commission Utilities Reimbursement Account to the CPUC for additional staffing and procurement of technical services to conduct public hearings, proceedings, analysis, complex modeling, staff training, equipment, and travel to perform analysis of the impacts of a full or partial closure of Aliso Canyon**.**

Staff Recommendation: Approve as proposed. **Vote: 3-0. Agenda corrected to $2.1 million.**

2. **Trailer Bill Language: Biogas Study (previously heard on March 10, 2016).** The budget proposes trailer bill language that would request the California Council on Science and Technology conduct a study analyzing the regional and gas corporation specific issues relating to the minimum heating value specifications adopted by the CPUC for biomethane before it can be injected into common carrier gas pipelines. If the California Council on Science and Technology agrees to undertake and complete the study, the bill would require each gas corporation operating common carrier pipelines in California to proportionately contribute to the expenses to undertake the study with the cost recoverable in rates, but would authorize the CPUC to modify a specified decision to allocate money that would be made available for certain incentives to instead be made available to pay for costs of the study so as to not further burden ratepayers with additional expense. If the study is completed, the bill would require the CPUC to reevaluate requirements adopted by the CPUC for injection of biomethane into common carrier pipelines and, if appropriate, change those requirements or adopt new requirements, giving due deference to the conclusions and recommendations made in the study.

Staff Comment: At this time, there is a policy bill, AB 2206 (Williams) moving through the policy process on this topic.

Staff Recommendation: Approve as proposed. **Vote: 2-1 (Nielsen, no)**

3. **Funding for Network Engineer Consultants (previously heard on March 10, 2016).** The budget proposes $1 million in reimbursable authority for a one-time contract for network engineering consultants. It is expected that the total contract cost would be $1.5 million, with $1 million to be spent in 2016-17 and $500,000 in 2017-18.

   Currently, there are about 1.7 million wirelines, or landlines, in California, 7.4 percent of all telephone lines. CPUC's service quality program and contains five service quality measures and related standards for assessing the quality of telephone service. The out-of-service (OOS) metric is to repair 90 percent of outages of landlines within 24 hours. The results for this metric are collected monthly and reported quarterly. AT&T and Verizon, which have between 85 percent and 88 percent of the residential and small business wireline customers in the state, have consistently failed to meet this metric. Specifically, during the years 2010 through 2014, AT&T's average annual OOS repair results within 24 hours were: 50 percent, 67 percent, 71 percent, 67 percent, and 60 percent, respectively. For the same period, Verizon's average annual OOS repair results within 24 hours were: 76 percent, 73 percent, 72 percent, 70 percent, and 68 percent respectively.

   Pursuant to a CPUC decision, CPUC staff is directed to retain a consulting firm with communications network experience to examine AT&T's and Verizon's network facilities, review company policies and procedures for network maintenance, repair and replacement; advise Communications Division management and CPUC decision makers' on technical telephone and communications network issues; prepare a report on the results of the examination and testify before the CPUC should hearings be held.

   Staff Comment: At this time there is a proposed decision related to this issue under consideration by the CPUC. The request for this study may be unnecessary because it has already been established by the CPUC that providers of telephone services are not meeting the OOS metric.

   Staff Recommendation. Reject the Governor’s proposal. **Vote: 3-0 to reject.**

DISCUSSION / VOTE ISSUES

3360 CALIFORNIA ENERGY COMMISSION (CEC)

Issue 1: SB 350 and AB 802 Implementation (Heard on March 10)

Background: SB 350 (de Léon), Chapter 547, Statutes of 2015, requires the CEC to establish annual targets for statewide energy efficiency savings and demand reductions to achieve a cumulative doubling of energy efficiency savings in electricity and natural gas, final end uses of retail customers by January 1, 2030.

AB 802 (Williams), Chapter 590, Statutes of 2015, establishes a building energy use benchmarking and public disclosure program for nonresidential and multifamily buildings. The bill requires the CEC, in collaboration with the California Public Utilities Commission (CPUC), to implement a statewide public energy efficiency benchmarking program, establish statewide benchmarking and information technology reporting, conduct education and outreach, and assess progress toward efficiency goals and future energy consumption needs.

Governor's January Proposal: The Governor's budget requests 29.5 permanent positions, and ongoing contract funds of $3.5 million, for a total request of $7.6 million from the Cost of Implementation Account, Air Pollution Control Fund, to implement SB 350. The budget separately requests eight permanent positions, and $500,000 in baseline technical support, for a total request of $1.6 million from the Energy Resources Programs Account (ERPA), to implement AB 802.

Governor's May Revision Proposal. The Governor's May Revision adjusts the SB 350 proposal by shifting funding from the Cost of Implementation Account ($7.6 million) to the Air Pollution Control Fund, on a one-time basis. Budget bill language provides the necessary authority for the use of penalty monies for this purpose on a one-time basis.

Staff Comments: Staff has further reviewed the proposals with the commission and recommends approval of the budget proposal with the May Revision adjustments. Additionally, following the subcommittee discussion, concerns were raised that the studies conducted by the Independent System Operator regarding regionalization of the electricity grid pursuant to SB 350 should be more adequately reviewed. Staff recommends a third party review these studies and report back to the Legislature. Further, concerns have been raised about the ability of the state to understand systemwide natural gas emissions for the purposes of tracking and ranking these emissions. Staff recommends directing CEC to track and rank natural gas emissions in order to provide the state with the information it needs to better evaluate the overall natural gas system.

Staff Recommendation: (1) Approve as proposed with the May Revision funding adjustments. (2) Approve the following trailer bill language:

(1) The studies conducted by the Independent System Operator pursuant to Section 359(e)(1) of the Public Utilities Code shall be reviewed by an independent third party, to be chosen by one representative each jointly appointed by the Assembly, the Senate, and the Governor, to determine whether the studies adequately consider the

overall benefits to ratepayers, including the creation or retention of jobs and other benefits to the California economy, environmental impacts in California and elsewhere, impacts in disadvantaged communities, emissions of greenhouse gases and other air pollutants, and reliability and integration of renewable energy resources. The independent third party shall include its findings in a written report, to be submitted to the governor and the relevant fiscal and policy committees of both houses of the Legislature, by June 30, 2017.

(2) The California Energy Commission shall, utilizing the best management practices developed by the California Public Utilities Commission and DOGGR, develop a natural gas tracking and rating system that will enable natural gas purchasers in California to evaluate the environmental impact of the vented and fugitive emissions of the gas they procure.

Vote: 2-1 (Nielsen, no)

Issue 2: American Recovery and Reinvestment Act (ARRA) Investments

Background: On February 17th, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA), otherwise known as the Stimulus Package, to restart the economy. The package contains extensive funding for science, engineering research and infrastructure, and more limited funding for education, social sciences and the arts. States received discretionary funding through the ARRA for a variety of programs, and certain programs received funding through block grants. Through 2013, the CEC administered $314 million in energy efficiency and renewable energy pilot programs under ARRA. These pilot programs influenced the administration of current and ongoing programs, and budget proposals under other funding sources, such as the Greenhouse Gas Reduction Fund (GGRF).

When ARRA ended in 2013, over $30 million of funds remained with sub-recipients who administer the programs, mainly in revolving loan funds. The CEC, as part of its evaluation of these programs, determined that certain programs were under-performing and is now proposing to use the funds for a different purpose.

Governor's Proposal: The CEC is requesting $8 million in federal fund authority in the budget year, and $2.5 million through 2026-27, to implement both voluntary and mandatory programs to increase energy efficiency in existing buildings, and to conduct a competitive grant program to facilitate more effective use of local government knowledge and authority to promote and conduct energy efficiency improvements in existing buildings. The proposal also requests federal fund transfer authority to shift $5 million (ARRA funds) to the Department of General Services for the Energy Efficiency State Property Revolving Fund loan program.

Staff Comments: The need to promote energy efficiency at the local level is critical to making the state more energy efficient. The CEC has multiple programs that address this need, and the Legislature has weighed in on many through statute. Over the past year, several ideas have arisen including the idea that this type of program should be directed toward education of public and private entities, and with the idea of lasting benefits to a broad spectrum of the state's energy users. To that end, the Legislature should consider whether or not the CEC should create a new program to allocate the funding, or rather establish a legislatively-directed program that may be more cross-cutting across all aspects of the local jurisdictions, small and medium businesses, and state agencies.

Staff Recommendation: Approve as proposed.

Vote: 2-1 (Nielsen, no)

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

Issue 1: California LifeLine Cost Estimates Update (May Revision update and previously heard on March 10, 2016)

Governor's Proposal: The Governor's May Revision proposes to decrease the January budget request for the Universal LifeLine Telephone Service Trust Administrative Committee Fund by $142.4 million. This is a reduction of $134.3 million for local assistance (from a proposed augmentation of $267.4 million for local assistance) and a reduction of $8.1 million for state operations (from a proposed augmentation of $14.2 million for state operations).

Background: The Moore Universal Telephone Service Act, in 1984, set the goal of providing high quality telephone service at affordable rates to eligible low-income households. The Act requires the PUC to annually designate a class of lifeline service necessary to meet minimum residential communications needs, develop eligibility criteria (currently 150 percent of the federal poverty level), and set rates for the lifeline services, which are required to be not more than 50 percent of the rate for basic telephone service. Over the years, the definition of a "basic service", that has included only traditional wireline (landline), has been considered in a broader context of new technologies and trends towards voice, video, and data services.

Under federal and state LifeLine program rules, multiple participants are permitted at a single residential if the participants are separate households. A household includes adults and children who are living together at the same address as one economic unit. An economic unit consists of all adults (persons at least 18 years old unless emancipated) contributing to and sharing the household's income and expenses. Only one discount is provided per household.

For each household enrolled in the program, CPUC provides telephone companies (carriers) a maximum monthly state subsidy that is based on 55 percent of the most expensive basic landline service from the four largest carriers. The subsidy is meant to offset the lower rate charged to the consumer. In 2016, the maximum state subsidy is about $13 a month. The federal government also administers the federal Lifeline program that provides a monthly discount of about $9. In addition, the state provides (1) a per enrollee monthly payment to cover carriers' administrative costs, (2) a one-time connection subsidy for new enrollees or enrollees that switch plans, and (3) a subsidy to cover other telephone taxes and surcharges for LifeLine enrollees.

The revenues to fund the program are collected from a surcharge on telephone bills for non-LifeLine customers. The CPUC adjusts the level of the surcharge based on its projections of the amount of revenue needed to cover the costs of the program.

Program Participation Dramatically Increased Since Expansion to Wireless Service. In January, 2014, the CPUC issued a decision authorizing voluntary participation in the program by wireless service providers to offer discounted wireless service plans to low-income households that include wireless voice, text, and data services. Since this change, there has been substantial growth in the program and the number of subscribers doubled from fiscal year 2013-14 to 2014-15—with all of the growth in the number of wireless subscribers and a reduction in the number of wireline subscribers. The table below shows the year over year growth in the number of subscribers since 2006-07. Program costs also have increased substantially over the same time period and the surcharge to fund the program was recently increased to 5.5 percent. This chart has been updated to reflect the information provided by CPUC at the May Revision.

Changes in the LifeLine Program Since 2006-07

Universal LifeLine

A	B	C	D	E	F	G	H	I	J	K
Fiscal Year	Surchage	State Operations including TPA	TPA	Carrier claims	Number of Applications	Wireline subscribers	Wireless subscribers	Total subsrcribers	Eligible Households (150% FPL)	Participation Rate
2006/07	1.29%	$ 41,599,002	$ 31,789,749.00	$ 252,426,883	7,152,297	3,012,892	-	3,012,892	2,522,407	119%
2007/08	1.15%	$ 39,466,669	$ 34,868,887.00	$ 224,944,358	9,497,381	2,371,842	-	2,371,842	2,468,051	96%
2008/09	1.15%	$ 55,059,418	$ 34,081,996.00	$ 205,737,424	10,237,685	2,037,062	-	2,037,062	2,542,795	80%
2009/10	1.15%	$ 38,954,760	$ 28,661,742.25	$ 203,572,985	6,909,963	1,846,711	-	1,846,711	2,649,959	70%
2010/11	1.15%	$ 30,970,208	$ 17,036,031.53	$ 219,352,498	5,964,323	1,691,348	-	1,691,348	2,897,943	58%
2011/12	1.15%	$ 23,940,469	$ 16,160,291.00	$ 231,848,942	6,886,264	1,518,763	-	1,518,763	3,063,944	50%
2012/13	1.15%	$ 22,149,437	$ 16,012,453.00	$ 199,706,702	3,170,943	1,173,692	-	1,173,692	3,059,176	38%
2013/14	1.15%	$ 20,896,962	$ 13,780,816.00	$ 172,014,995	2,740,319	947,959	90,656	1,038,615	3,085,547	34%
2014/15	2.40%	$ 18,327,290	$ 14,006,955.00	$ 277,400,000	4,755,441	727,526	1,439,796	2,167,322	3,066,894	71%
2015/16 (Jul - Feb 2016)	3.80%	$ 14,058,730	$ 11,475,103	$ 266,448,668	1,033,561	664,365	1,552,303	2,216,668	3,066,894	72%
FY 15/16	5.50%	$ 21,483,000	$ 16,935,138	$ 462,046,748	4,425,506.00	599,248.00	1,392,230.00	1,991,478	3,066,894	65%
FY 16/17 (projection)	3.80%	$ 25,777,892	$ 18,586,271	$ 457,345,097	6,654,542.00	672,206.00	2,322,338.00	2,994,544	4,170,115	72%

Source: CPUC

Below letters corresponds to the letters above.

B: 1.15 percent effective April 1, 2007; 2.40 percent effective January 1, 2015; 3.80 percent effective August 1, 2015; and 5.50 percent effective October 1, 2015.

C: State Operation increased in FY 2008/09 due to increased marketing costs.

E: 2015/16 carrier claims are July - Jan 2016 and include $53,204,069 of 2014/15 claims that were paid out of 2015/16.

J: The number of eligible households in FY 2016/17 is 200 percent of the federal poverty level.

Wireless Plans Are Diverse, but Many Plans Are Free to Enrollees. A diverse set of wireless plans are available for LifeLine customers. Although all plans currently include at least 1,000 monthly voice minutes, plans offer different monthly rates, additional voice minutes, text messaging, and data. As of August 2015, there were 34 LifeLine wireless plans available and 21 of the available plans (62 percent) were offered at no cost to customers. Of the 21 plans that were offered for no cost:

- 14 plans included unlimited voice minutes.
- 14 plans included unlimited text messages.
- Seven plans included some data.

Ensuring Eligibility and Minimizing Fraud. Prior to 2007, participants self-certified their eligibility and carriers enrolled participants. The very high participation rate in 2006 triggered the CPUC and Federal Communications Commission to require a third-party administrator (TPA) to determine eligibility and manage the consumer participation in the program. Shortly after the introduction of a TPA, participation decreased sharply in 2007 and 2008. Today, participants establish eligibility either through evidence of participation in other federal public assistance programs (i.e. CalFresh, Medicare, Section 8 housing) or by submitting evidence of income. Applications include both applications to determine initial eligibility and annual renewals; however program eligibility does not require an annual verification of income eligibility. Applicants provide supporting documentation and information under penalty of perjury.

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May Revision: As part of the May Revision, at the Legislature's request, CPUC prepared a caseload and cost estimate package that provides revised projections of the current and budget year local assistance costs for the Universal Lifeline program. For 2015-16, CPUC estimates lifeline expenditures will total $483.5 million, which is an increase of $137.8 or 40 percent, compared to the 2016-17 Governor's Budget. This projected increase in expenditures is due to increased carrier claims from wireless service providers. In addition, $53.2 million of the 2015-16 appropriation was used to pay 2014-15 carrier claims.

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Legislative Analyst's Office (LAO) Analysis: The LAO has raised no concerns with the revised estimate.

Staff Question for CPUC:

1. Please describe the primary drivers of changes in the estimate and uncertainties such as the impact of the elimination and reintroduction of the connection/ conversion subsidy.

2. Please discuss the fund balance and the surcharge rate reduction anticipated for 2016-17.

Staff Comment: The updated caseload estimates the Administration provided at the May Revision use more recent and complete data to provide a better estimate of program costs.

Staff Recommendation: Approve the May Revision caseload and cost estimates for the Lifeline program.

Vote: 2-1 (Nielsen, no)

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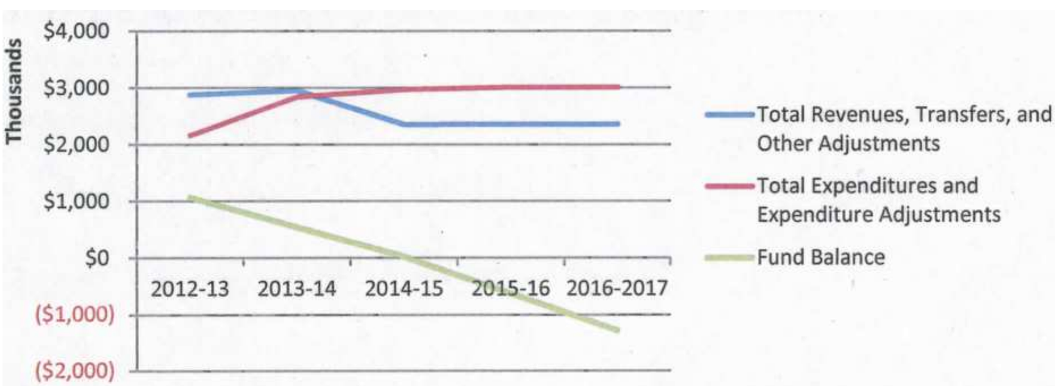
Governor's Proposal: The April finance letter requests the Public Utilities (PU) Code be amended to increase the maximum fee that can be charged to household goods movers from 0.7 percent to 1.0 percent to maintain solvency in the Transportation Rate Fund.

Background: The Public Utilities Commission Transportation Rate Fund (Fund 0412) is used to fund CPUC's work to license and regulate household goods movers (1,045 movers as of March 31, 2016) that move household goods and personal belonging over the public highways in California. The fund supports 15 positions that perform this work. The fund's main source of revenue is quarterly fees household goods movers pay to the CPUC. PU Code Section 5003.2 currently sets the maximum rate for this quarterly fee at 0.7 percent of household goods mover's gross revenue (set in 2006), which is the rate the CPUC has charged since 2006.

Quarterly fees are based on gross reported household good's movers' incomes, and revenue has decreased in recent years. In addition, in 2013-14, expenditures increased significantly (by about $650,000) due to a change in how CPUC overhead for increases in employee compensation and other adjustments is allocated, rather than as a result of program growth. As shown in the figure below, these changes are resulting in expenditures exceeding revenues.

Transportation Rate Fund Revenues Have Declined and Expenditures Have Increased



Staff Questions for CPUC

1. Please describe the enforcement activities that will be underway in the future, the timeline for this to occur, and discuss why past enforcement efforts may not have been adequately robust.

Staff Comments: Some portion of the household goods carrier market is unlicensed which may have contributed to the decline in revenues. According to CPUC, it is aware of some deficiencies in its enforcement activities and has efforts underway to improve enforcement, including an effort to reengage management at Yelp, Craigslist, and other online bulletin boards to reduce postings from unlicensed moving companies, to use these boards as leads to unlicensed, carriers, and to increase litigation against such carriers. The CPUC will also provide additional tools to investigators to increase the number of sting operations, particularly in local jurisdictions where the district attorney is willing to prosecute criminal cases.

The subcommittee may want to consider not approving the Governor's proposal to raise the possible maximum fee at this time and instead have the CPUC report in January 2017 on the number of investigators conducting enforcement of household goods carriers; past and current efforts; future efforts; and options to provide adequate funding for this program.

Staff Recommendation: Reject the Governor's proposal and adopt supplemental reporting language that requires CPUC to report by January 1, 2017 on the number of investigators conducting enforcement of household goods carriers; past and current efforts; future efforts; and options to provide adequate funding for this program.

Vote: 3-0 to adopt staff recommendation (reject proposal and approve SRL).

Issue 3: Operations-Related Trailer Bill Language (Legislative Proposal)

Proposal: The Assembly adopted placeholder trailer bill language to do the following.

- Require CPUC to report on its business process inventory efforts in March of 2017.
- Require CPUC to report on options to expand its operations and staff outside of the San Francisco headquarters.

Background: In a prior hearing this year, the Subcommittee approved two proposals 1) $5.3 million for eFiling administration support platform creation and business configuration projects and 2) information technology restructuring which provided CPUC 24 permanent positions for its information technology service branch. In part, the expectation is that these additional resources would be used to improve the effectiveness and internal operations of CPUC and help make CPUC a more modern and transparent entity overall.

Also, as part of its modernization efforts, CPUC is in the process of informally categorizing its business processes. Such an effort can provide the framework for future technology improvements or, the creation of performance metrics that will allow for greater transparency of the performance of the Commission.

In addition, the Subcommittee also approved in a prior hearing a request for six positions to work on workforce planning and development. Staff training and workforce planning have been identified as a central deficiency of the CPUC, which has resulted in staff turnover and uneven performance.

Staff Comment: The Assembly adopted placeholder trailer requiring CPUC to report on its business process inventory efforts in March of 2017. This report would allow the Subcommittee to assess the improvements of the operations at CPUC. The Assembly also adopted placeholder trailer bill language to require CPUC to report on options to expand its operations and staff outside of the San Francisco headquarters. The purpose of this report is to explore options for leveraging additional facilities in areas of the state, like Sacramento, which would allow the CPUC to collaborate with other departments and also allow staff more opportunities for growth in promotion in other state departments.

Staff Recommendation: Conform to the Assembly's adopted of placeholder trailer bill language requiring 1) CPUC to report on its business process inventory efforts in March of 2017 and 2) CPUC to report on options to expand its operations and staff outside of the San Francisco headquarters.

Vote: 2-0(Nielsen, not voting)

Issue 4: Green Tariff SB 43 (Legislative Proposal)

Proposal: The proposed change would remove the sunset from SB 43 (Wolk), Chapter 413, Statutes of 2013 as follows.

> SEC. 2. Section 2834 of the Public Utilities Code is repealed.
> ~~2834.This chapter shall remain in effect only until January 1, 2019, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2019, deletes or extends that date.~~

Background: SB 43 directed the CPUC to approve green tariff shared renewables (GTSR) programs ensuring that customers of Southern California Edison, San Diego Gas &Electric and Pacific Gas & Electric investor-owned utilities (IOUs) have the ability to subscribe to up to 600 megawatts of offsite renewable energy projects and receive utility bill credits in return. Shared renewables programs offer access to up to 100 percent renewable energy to the many Californians who cannot install renewables on their own property: renters, people whose homes are shaded or poorly oriented, small businesses who lease, space limited public entities, and consumers who lack sufficient credit, among others.

The CPUC adopted a decision implementing parts of SB 43 in mid-2015 that lays out the program design for the three IOU's green tariff programs. In April 2016, the CPUC issued a proposed decision for the enhanced community renewables portion of the GTSR proceeding. It is unknown when the CPUC will issue a final decision for this part of the proceeding. Given how long the rulemaking has taken at the CPUC, 2019 is not an appropriate date to sunset the program.

The sunset in current law would end the statutory requirement that the IOUs offer the Green Tariff Shared Renewable (GTSR) program to customers. This proposal would delete the program sunset of January 1, 2019. The program will now end when the 600 megawatt cap of the program is reached.

Staff Recommendation: Approve as proposed.

Vote: 2-1 (Nielsen, no) to delete the sunset.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Wednesday, May 18, 2016
9:30 a.m.
State Capitol - Room 112

Consultants: Catherine Freeman

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VOTE-ONLY CALENDAR

0540 SECRETARY FOR NATURAL RESOURCES

1. **Implementation of AB 142 (Bigelow), Chapter 661, Statutes of 2015.** The budget requests a one-time appropriation of $125,000 Environmental License Plate Fund (ELPF) to hire a contractor to compile a report, as required by AB 142. Pursuant to AB 142, the Upper Mokelumne Watershed Authority will reimburse the state $125,000 for the study. AB 142 requires the Secretary for Natural Resources to submit a report that analyzes the suitability or non-suitability of certain sections of the Mokelumne River for state wild and scenic river designation to the Governor and the Legislature, by December 31, 2017.

2. **Timber Regulation and Forest Restoration Public Process and Technical Support.** The budget requests to make ongoing $230,000 (Timber Regulation and Forest Restoration Fund) to support public involvement processes, technical assistance, and scientific guidance (funds were previously a limited-term pilot project). The proposal also includes trailer bill language to permit providing reasonable per diem compensation to persons, other than public agency staff, who are serving on program advisory committees or working groups.

3. **River Parkways and Cultural and Historical Endowment Reappropriation.** The state is currently providing statewide oversight and administering grant programs for propositions 12, 13, 40, 50, 84 and 1. This request would reappropriate the remaining balances of appropriations from the River Parkways and the California Cultural and Historical Endowment programs within these bond measures so that ongoing projects can be completed and so that the remaining funds can be awarded. Funds will be awarded through the current solicitation of River Parkways and the Museum Grant Program. Awards will be announced during the first quarter of 2016-17.

4. **San Joaquin River Settlement (Proposition 84) and Fish Hatchery Expansion.** The budget requests to appropriate a total of $32,531,000 (Proposition 84) for implementation of the San Joaquin River Restoration Settlement, of which $15,983,000 will be used for the construction of a fish hatchery, and $16,548,000 will be used to reimburse the Department of Water Resources and Department of Fish and Wildlife for work across all aspects of the San Joaquin River Restoration Project.

Staff Recommendation: Approve as proposed.

Vote:

3100 CALIFORNIA SCIENCE CENTER AND CALIFORNIA AFRICAN AMERICAN MUSEUM

1. **Bathroom and Drinking Fountain Renovations at the California African American Museum (CAAM).** The budget requests $275,000 (Exposition Park Improvement Fund [EPIF]) that will provide funding for the complete and comprehensive renovation of four bathrooms and the replacement of the two wall-mounted drinking fountains inside the CAAM building both for employees and guests. CAAM receives 300 guests and patrons on a daily basis and renovating the bathrooms and replacing the drinking fountains will improve patrons experience and the overall appearance of the entire facility. *Staff recommends adding $2 million (General Fund) to provide deferred maintenance and to improve exhibit and art storage at the museum.*

2. **Exposition Park Public Safety Staffing.** The Office of Exposition Park Management (Expo Park) requests $ 1.5 million (EPIF) annually, for two years, to provide funding to continue management of the Department of Public Safety by the California Highway Patrol. The resources are needed to provide professional safety and security for both the millions of visitors to the park, and the employees.

3. **Exposition Park Reimbursement Authority Increase.** The Office of Exposition Park Management requests an increase of the annual baseline reimbursement authority from its current amount of $508,000 to $638,000, to pay for annual assessments levied against the EPIF and address critical deferred park maintenance, major repairs, and capital improvements and to help meet assessment obligations and improve overall security.

4. **Office of Exposition Park Assistant General Manager.** The budget requests $150,000 (EPIF) and one position (assistant general manager [GM]) to assist in park operations. The workload of the GM has increased greatly over the past two years. Examples of additional workload include: the addition of at least one National Football League (NFL) team with a possibility of a second NFL team, three major capital projects within the park-the building of a new soccer stadium, the renovation of the Coliseum, the construction of the Science Center Phase 3, increased special events, increased contracts and the prospective bid for the 2024 Olympic Games. Additionally, the office is requesting to include provisional language, which would allow augmentations to the EPIF for operational costs associated with major events at the park.

5. **Increased Contracted Services**. The May Revision requests an increase of $515,000 to provide funding for increased parking and landscaping contracts at Expo Park. Specifically, the request includes $335,000 to fund a new parking operator contract beginning July 1, 2016, and $180,000 for a 12-month period to reflect increased landscaping costs.

Staff Recommendation: Approve as proposed including an additional $2 million General Fund for the California African American Museum.

Vote:

3340 California Conservation Corps

1. **May Revise Technical Adjustment.** The May Revise requests an increase of $10,000 (Proposition 39) to provide for a technical adjustment for program delivery costs within the Energy Corps program that were inadvertently omitted when preparing the Governor's budget.

Staff Recommendation: Approve as proposed.

Vote:

3480 Department of Conservation

1. **Legislative Proposal for Best Practices for Well Abandonment.** As follow up to the extensive budget and policy hearings on Aliso Canyon, adopt trailer bill language to require that, on or before January 1, 2019, the Division of Oil, Gas and Geothermal Resources shall develop, through a public process, with input from independent experts, stakeholders and the public, "best practices" for the design, maintenance, monitoring, operation, data reporting and plugging and abandonment of gas storage wells.

Staff Recommendation: Approve Item 1.

Vote:

3540 Department of Forestry and Fire Protection (CalFIRE)

1. **Reappropriations and Technical Adjustments (Spring Finance Letter).** The department has a residual balance of funds for managing seized illegal fireworks. This proposal would allow for ongoing fireworks management through the 2016 fireworks season. The spring finance letter also requests to correct a technical error in the January budget for contract county wage adjustments and reimbursements, including $1,000 for lease revenue debt service.

2. **Aviation Contracts.** The budget requests to increase support for fixed-wing aviation contracted services by $3.5 million in the budget year, and increasing to $9 million in four years. This is the result of a new contract signed with DynCorp International, LLC (DynCorp) after a successful request for proposal (RFP) bid to provide fixed-wing and rotary fleet. DynCorp provides pilots to operate fixed-wing aircraft, as well as maintenance technicians for both the department's fixed-wing and rotary fleet. This item was heard on March 17 and held open.

3. **Exclusive Use Helicopters.** Consistent with previous years, the May Revision requests $10.4 million General Fund one-time in 2016-17 for exclusive use helicopter contracts and ground crew temporary help position authority. These resources will supplement CalFIRE's existing fleet on fire incidents as necessary during emergency operations throughout the State of California.

Staff Recommendation: Approve as proposed.

Vote:

3600 DEPARTMENT OF FISH AND WILDLIFE

1. **Sacramento and San Joaquin River Tributaries.** The department requests $816,000 (General Fund) and one permanent position to complete negotiations in tributaries to the Sacramento-San Joaquin rivers for settlements that create water supply and regulatory certainty for water users and improve ecological flow and habitat for species. This issue was heard and approved in 2015. This proposal would complete the project.

2. **Loan Repayments—Oil Spill Response Trust Fund.** The May Revision requests a technical adjustment to allow the department loan authority from the Renewable Resources Trust Fund to the Oil Spill Response Trust Fund in order to allow the department to repay the balance of the loan, $3.5 million. The May Revision also requests to extend the repayment of $35 million of the $40 million Oil Spill Response Trust Fund transferred to the General Fund as a loan. Trailer bill language is included to release the obligation of the state oil spill administrator to collect oil spill response fees otherwise required to maintain the fund balance and to update the required dates for the repayment of loans.

Staff Recommendation: Approve as proposed.

Vote:

3760 STATE COASTAL CONSERVANCY

1. **Proposition 1 Proposal.** The budget requests $12.4 million (Proposition 1) for local assistance and capital outlay and program delivery as follows: (1) local assistance and capital outlay: $11.9 million; and, (2) program delivery of $500,000. These amounts represent an incremental increase to the amounts proposed for appropriation to the conservancy. The funds would be used for purposes of protecting rivers, lakes, streams, coastal waters, and watersheds in the coastal and San Francisco Bay Area regions, consistent with the bond.

2. **Habitat Conservation Fund Reversions.** The spring finance letter requests reversion of the remaining reimbursement authority from several past years' items of appropriation from the Habitat Conservation Fund (Fund 0262). The conservancy expects no further reimbursements into these items of appropriation and no longer needs the remaining reimbursement authority associated with the items.

Staff Recommendation: Approve as proposed.

3780 NATIVE AMERICAN HERITAGE COMMISSION

1. **Reappropriation.** The May Revision requests reappropriation of $997,000 (General Fund) to provide for the completion of a geographic database of California Environmental Quality Act agencies as they pertain to tribal boundaries. The database is required by AB 52 (Gatto), Chapter 532, Statutes of 2014. The reappropriation is required because the delays in hiring for these activities. The commission states that the positions are filled and the project can be completed within the reappropriation timeframe.

Staff Recommendation: Approve as proposed.

Vote:

3790 DEPARTMENT OF PARKS AND RECREATION

1. **Vessel Operator Certification Program.** Harbors and Navigation Code (HNC) Section 678.7(a) authorizes a transfer totaling $4 million (Harbors and Watercraft Revolving Fund) to the vessel operator certification account, of which $1 million has been transferred to date. The department requests the balance of $3 million be authorized for transfer in 2016-17. These funds will be used to support an existing appropriation to implement the requirements of SB 941 (Hill), Chapter 433, Statutes of 2014, which establishes the Vessel Operator Card Program.

2. **Community Outreach Pilot Program.** The budget requests $690,000 over two years from the State Parks Protection Fund, and three positions, for a pilot project to engage underserved and underrepresented communities. The pilot is a component of the relevancy committee's initiative "Engaging Underserved Populations with State Parks." Specifically, the project would establish state park community liaisons in the Bay Area and Angeles districts who will conduct outreach and engage local community members to create exhibits, tours, demonstrations, and other programs. The department states that the goal of the project is to identify best practices in outreach, engagement, cultural relevancy, and partnerships that can be scaled throughout the state parks system.

3. **Spring Finance Letter Capital Outlay Proposals.** The budget requests reappropriation of existing Capital Outlay appropriations to allow for the completion of projects currently in process. These include: (1) El Capitan State Beach: construct new lifeguard operations

facility; Torrey Pines State Natural Reserve: utility modernization; (2) Gaviota State Park: main water supply upgrades; (3) Heber Dunes State Vehicular Recreation Area: water system upgrades; and, (4) McArthur-Burney Falls Memorial State Park: ramp and boarding float replacement. Spring finance letter reappropriations include Off-Highway Vehicle Fund projects, posted spring letter Proposition 84 items, South Yuba Bridge, updates to January proposals, and SPRF ongoing projects including Angel Island, Mendocino Headlands, Leo Carrillo, and McArthur-Burney.

4. **Extensions of Liquidation.** The budget requests extension of liquidation for two local assistance grants in the Habitat Conservation Fund Program that supports acquisition, enhancement, restoration, and development of animal habitats. The projects were delayed due to technical studies and permit requirements.

Staff Recommendation: Approve as proposed.

Vote:

3820 SAN FRANCISCO BAY CONSERVATION DEVELOPMENT COMMISSION (BCDC)

1. **Co-Location to Regional Headquarters.** The May Revision requests funds to relocate BCDC offices into the Metropolitan Transportation Commission's new regional agency headquarters building in San Francisco at 375 Beale Street. This request requires a one-time augmentation of $350,000 (General Fund) to provide funding for costs associated with BCDC's relocation to 375 Beale. BCDC does not have available funds for this co-location project, and is statutorily required to be located in San Francisco. This item has been heard multiple times in the subcommittee in 2014 and 2015 with recommendations to support the co-location move.

Staff Recommendation: Approve as proposed.

Vote:

3860 DEPARTMENT OF WATER RESOURCES

1. **System Reoperation Program and Surface Storage Program.** The spring finance letter requests various reversions and appropriations anew to continue the system reoperation programs and surface storage program. The original work plan prepared in 2009 was to complete the studies by 2014. However, the study proved to be very complex and required extensive engagement with stakeholders. As a result, the project schedule was extended to 2017. Phase 3 of the study was completed in 2015. Phase 4 of the study was planned to be completed in 2017. However, two major statutes (Sustainable Groundwater Management Act and Proposition 1) were enacted in 2014 that have changed water management in California. The future analyses will need to incorporate and analyze the implementation of these statutes in the evaluation of reoperation strategies. This necessitates extension of the study schedule to 2021. The surface storage program request ($225,000 reversion and appropriation anew)

continues studies for the various surface storage studies previously approved by the Legislature.

2. **Spring Finance Letter Technical Adjustments, Reappropriations, Extensions of Liquidation and Reversions.** The spring finance letter requests reappropriations, extensions of liquidation periods, and technical adjustments for various funds. These technical changes are critical to various projects which cannot be completed by June 30, 2016. This includes the following previously approved proposals: (1) water recycling and desalination feasibility studies; (2) flood corridor program; (3) Yuba-Feather flood protection program; (4) desalination grant projects; (5) water use efficiency grants; (6) integrated regional water management program and grants; and, (7) Proposition 1 programs.

3. **May Revision Loan Payment Deferrals.** The May Revision requests to defer repayment of: (1) $1.1 million General Fund loan to the California Water Fund; and, (2) $2.4 million (General Fund) to the Environmental Water Fund.

Staff Recommendation: Approve as proposed.

Vote:

3900 AIR RESOURCES BOARD (ARB)

1. **Enhanced Fleet Modernization Program.** The budget requests requesting a one-time $4.6 million direct appropriation from the Enhanced Fleet Modernization Subaccount (EFMS) in order to continue to partner with the Department of Consumer Affairs (DCA), Bureau of Automotive Repair (BAR), in managing the Enhanced Fleet Modernization Program (EFMP). ARB previously has a direct appropriation of $2.8 million from EFMS for the ARB portion of operating EFMP. This proposal would increase ARB's 2016-17 spending authority by $4.6 million, to a total of $7.4 million. The ARB and BAR are required to reduce the number of passenger vehicles, light duty trucks, and medium duty trucks that are high polluters. The appropriation from the EFMS will allow ARB to meet the high demand for EFMP.

2. **Litigating Civil Penalties.** The budget requests $3.2 million from the Air Pollution Control Fund, and eight positions for program and litigation costs associated with litigating civil penalties concerning Volkswagen, and others for using "defeat devices" on diesel engines. Additionally, $1 million is requested for a one-time equipment purchase and $1 million is requested to contract with the State Attorney General. This proposal is for resources to thoroughly investigate and prepare a civil litigation case concerning Volkswagen, Audi and Porsche vehicles using defeat devices to circumvent emission test procedures. Current resources are inadequate to support work on this investigation and litigation because this case requires a major effort due to the number and types of vehicles and the volume of documentation needed. This case is significant with potential penalties in the hundreds of millions of dollars. Proceeds from regulation violations are deposited in the Air Pollution Control Fund.

3. **Sustainable Freight Action Plan and Implementation.** The budget requests eight positions and $200,000 per year in contract funds from the Motor Vehicle Account. This includes one air resources supervisor 1, one staff air pollution specialist, one air resources engineer, and three air pollution specialists to meet the increased workload to negotiate, develop, and implement emission reduction measures and to further sustainable freight pathways to zero and near-zero emissions; develop and implement corridor level freight pilot projects; develop and implement a freight facility handbook; as well as provide support for other activities and deliverables to further sustainable freight.

4. **SB 350 Implementation.** The budget requests three permanent full-time positions to support a better understanding of plug-in electric vehicle energy demand projections and environmental benefits associated with plug-in electric vehicle use in California, including in low-income and disadvantaged communities, evaluate and report on how to increase access to zero or near-zero transportation for low-income customers, and develop greenhouse gas planning targets, for the integrated resource plans (IRPs) they are tasked with developing for the electricity sector and investor-owned and public utilities, which will need to increase their overall renewable portfolio to 50 percent. These activities are critical so that the Air Resources Board can meet its obligations under SB 350 (De León), Chapter 547, Statutes of 2015, and the state can meet its near- and long-term climate goals and reduce dependence on traditional fossil fuels. *The LAO recommends adopting this on a limited-term basis, and the Assembly concurs with this action. Staff recommends a conforming action.*

5. **Implementation of AB 1496 (Methane Emission Measurement).** The budget requests $580,000 and four new permanent full-time positions, $790,000 in annual contract funding, and $60,000 for a one time equipment funding from the Cost of Implementation Account to meet the legislative requirements of AB 1496 (Thurmond), Chapter 604, Statutes of 2015, to carry out measurements of high-emission methane "hot spots" and conduct life-cycle greenhouse gas emission analysis in the natural gas sector.

Staff Recommendation: Approve as proposed with a conforming action on Item 4 to make the position funding limited-term.

Vote:

3940 State Water Resources Control Board (SWRCB)

1. **Drinking Water Program—Federally Mandated Inspections Workload.** The budget requests 10 positions and $1.4 million (Safe Drinking Water Account (SDWA)) to increase compliance with United States Environmental Protection Agency (US EPA) federal requirements related to drinking water, for which the Division of Drinking Water (DDW) is responsible. Specifically, the State Water Board requests 10 positions in the northern and southern California field operations branches. The DDW has a significant backlog in federally-mandated water system inspections (i.e., sanitary surveys), including small water systems in severely disadvantaged communities. These positions will increase the number of federally-required sanitary surveys completed annually.

2. **Governor's Budget and Spring Finance Letter Technical Adjustments, Reappropriations and Reversions.** The budget requests (1) reversion of unused state operations and local assistance authority; (2) re-appropriation of local assistance authority to align with encumbrance dates in Proposition 1; and, (3) the appropriation of funds in 84 to ensure the purpose of the bonds is met with the funding of new projects. Additionally, the SWRCB requests that these funds be available for encumbrance until June 30, 2019 and liquidation until June 30, 2021. The budget also requests a reappropriation to extend the encumbrance and liquidation period of the local assistance funds in the site cleanup subaccount (SCS) and the replacing, removing, or upgrading underground storage tanks (RUST) loans from the fiscal year 2015-16 appropriation. The SWRCB requests that the re-appropriated funds be available for encumbrance until June 30, 2018 and liquidation until June 30, 2021. The Governor's 2015-16 budget inadvertently left out this request for extended encumbrance and liquidation periods.

3. **High Speed Rail Authority—Expedited Permitting.** The budget requests $387,000 in annual reimbursement spending authority and 3.3 permanent positions to address federally-required water quality 401 certification needs and oversight of the high speed rail (HSR) project in order to meet the High Speed Rail Authority's (HSRA) requested permitting schedule. The scheduled 401 certification work requested by the HSRA will require approximately 17,500 hours of work over and above normal 401 certification workload, and then oversight once project certification is completed, as construction continues.

4. **Leviathan Mine Workload.** The budget requests $211,000 ongoing General Fund and 1.9 permanent positions to support workload needed to implement and oversee provisions set forth in the "Leviathan Mine Site Work and Cost Allocation Settlement Agreement" between Atlantic Richfield Company and state parties, including the Lahontan Water Board. Funded work would include review of remedial investigation and feasibility study work plans and reports prepared for the Leviathan Mine superfund site pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and participating in the natural resource damage assessment (NRDA) regarding releases from Leviathan Mine site.

5. **Drought Activities.** The budget requests an increase of $21.4 million for one year for continued drought-related activities. Of this amount, $5.4 million General Fund will support water rights activities, $1.0 million Cleanup and Abatement Account will support water quality efforts, and $15 million in one-time local assistance Cleanup and Abatement Account grants will support projects that provide water systems with both interim and permanent solutions to drought emergencies.

6. **Proposition 1 Water Commission.** The budget requests one position and $130,000 reimbursement authority to provide technical assistance and policy expertise under an interagency agreement with the Department of Water Resources to support the development and implementation of the California Water Commission's Proposition 1 Water Storage Investment Program.

7. **Water Rights Permitting (Heard on April 7).** The budget requests seven positions and $851,000 (Water Rights Fund) to process applications to appropriate water, petitions to change existing rights, wastewater change petitions, and licensing of water rights. The program is funded through fees charged to water right permit and license holders. The SWRCB estimates that this proposal would increase water right's permits, licenses, and application fees by approximately eight percent.

8. **Board Member Per Diem.** The Governor proposes $335,000 (various special funds) for increased regional board member per diem payments. The proposal increases Regional Water Board member per diem from $100 to $500. It also authorizes board members to receive one day's per diem to review materials in preparation for board meetings. Further, it deletes provisions stating that board members receiving unrelated salary are not eligible for per diem and caps total statewide expenditures for board member per diem in lieu of the current cap for each regional board. This cap is in accordance with the increased per diem payments proposed and assumes each regional board meets once monthly. *This item was approved by the subcommittee as proposed. The Assembly budget subcommittee approved this proposal but reduced the per diem amount to $250 per diem (maximum). Staff recommends taking a conforming action.*

9. **May Revision Loan Deferrals.** The May Revision requests deferral of a $1.6 million General Fund loan to the Drinking Water Operator Certification Special Account until June 30, 2019.

Staff Recommendation: Approve as proposed with a conforming action on Item 8 to reduce the maximum per diem amount to $250.

Vote:

3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL (HEARD ON APRIL 21)

1. **Hazardous Waste Management Permitting Support.** The Governor proposes an increase of $1.2 million (Hazardous Waste Control Account) to make permanent eight, limited-term, positions that are set to expire at the end of the current year. These positions were previously provided to address a hazardous waste permit renewal backlog, as well as to update cost estimates associated with closing hazardous waste facilities.

2. **Enhanced Permitting Capacity and Support**. The department requests $2.4 million from the Hazardous Waste Control Account, and 15 positions within the permitting division, to fully implement process improvements under the permit enhancement work plan. The proposal is intended to sustain timely permitting actions, mitigate the incidence of facilities operating for extended periods of time on expired permits, and improve enforcement.

3. **Trailer Bill Language.** The department requests trailer bill language to eliminate the option to pay a flat fee for a permit application in lieu of a fee for service so that permit applicants pay the full costs associated with permitting efforts. The Administration believes this will

significantly reduce staff time on permit applications and align revenues with expenditures in the future.

4. **Strategic Program Development.** The Governor requests an augmentation of $747,000 ($347,000 from Hazardous Waste Control Account and $373,000 from the Toxic Substances Control Account), and conversion of five positions from limited-term to permanent. The department intends to have the five positions report, as a team, to the existing Special Assistant for Program Review. The team will work systematically through the department's core programs and support services to evaluate the strengths, weaknesses, opportunities, and threat in program and service functions. The team will prioritize areas or issues for development.

5. **Office of Environmental Justice and Tribal Affairs.** The Governor requests an augmentation of $881,000 ($441,000 from Toxic Substances Control Account and $440,000 from Hazardous Waste Control Account), and six positions, to create the proposed Office of Environmental Justice and Tribal Affairs. The proposal is intended to strengthen the coordination of environmental justice and tribal affairs activities and to enhance engagement with impacted communities. The office will also identify and address gaps within its own programs that may contribute to unequal environmental protections or outcomes in these communities, and broaden the transparency of and access to DTSC programs.

6. **Independent Review Panel—Legislative Proposal.** The Legislature heard from the Senate appointee to the DTSC Independent Review Panel (IRP). In order to continue to facilitate this work, staff proposes to add two permanent positions with limited-term funding, to allow for more continuity of staffing for the IRP, with budget bill language requiring the department to provide access to the IRP to state facilities and workers in order to provide a more robust review of the department.

Staff Recommendation: Approve as proposed.

Vote:

3970 DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

1. **Settlement Fees for Public Service Announcements.** The May Revision requests $150,000 (Integrated Waste Management Account), one-time, to develop public service announcements regarding the proper handling and disposal of universal and household hazardous waste, including electronic waste. This funding is the result of a settelement agreement that specifies the use of these funds.

Staff Recommendation: Approve as proposed.

Vote:

8570 CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE (CDFA)

1. **Network of California Fairs Oversight.** The May Revision requests two permanent positions (one agricultural program supervisor and one attorney) and $435,000 (Fair and Exposition Fund) in 2016-17 and $392,000, ongoing, the Fairs and Expositions Branch to improve of the oversight of the activities of the 79 fairs (of which 77 are active) that make up the network of California fairs. The department workload includes supervision of fair meetings, legal counsel, and management of deferred maintenance funds.

2. **Alternative Fuels Quality and Oversight Program.** The May Revision requests $1.1 million (Cost of Implementation Account, Air Pollution Control Fund) in 2016-17 and $1.4 million, annually thereafter, to establish the Alternative Fuels Quality and Oversight Program to regulate alternative transportation fuels. The funds will support 5.8 existing, but unfunded, positions in 2016-17 and an additional 2.5 existing, but unfunded, positions annually thereafter.

3. **Medical Marijuana Regulation Projects.** The May Revision requests $2 million (Medical Marijuana Regulation and Safety Act Fund [MMRSAF]), one-time, be allocated in 2016-17 for project management and support services of the licensing and track and trace solutions. The specific categories and estimates may change as CDFA completes its market research and makes decisions (e.g. whether the solution will be Software as a Service or not). However, the current estimates are as follows on the next page:

Workload	Cost Estimate
Vendor's Hardware	$750,000
Systems Integrator	$250,000
Security Evaluation	$50,000
Technical Lead	$150,000
Quality Manager	$50,000
Data Manager	$240,000
Requirements/Test	$240,000
Training	$50,000
Architect	$220,000
Total	**$2,000,000**

The CDFA also requests budget bill language allowing for a one-time MMRSAF augmentation in 2016-17 upon approval of the Director of Finance and subject to a 30-day notification to the Joint Legislative Budget Committee. The provisional language will allow the CDFA to complete its market research and present its findings to the Director of Finance who will then determine the amount to be allocated and provide notification to the Joint Legislative Budget Committee. The CDFA anticipates market research will be completed in the Fall of 2016. Due to the short duration of the services (18 months) and the expertise needed with some of these positions, it is not feasible to hire state staff to perform these functions.

LAO Recommendation. "We recommend approval of the $2 million request to provide one-time funding for contract management and support services. We further recommend the Legislature adopt modified budget bill language that will require CDFA to report specific information regarding the proposed IT projects as part of the 30 day notification letter to the Chairperson of the JLBC. Doing so would provide the Legislature with key information to inform its review of the proposed augmentation. Our recommended language is attached."

Staff Recommendation: Approve as proposed with LAO recommended budget bill language to require CDFA to report specific information regarding the proposed IT projects (Item 3).

Vote:

(ENVIRONMENTAL JUSTICE AND LEAD EXPOSURE MAY REVISION PROPOSALS

Issue 1: Environmental Justice Proposal

Governor's May Revision Proposal. The May Revision includes $904,000 (various special funds) to make permanent a pilot project designed to reduce adverse environmental impacts in the most vulnerable communities in California. The proposal supports increased enforcement and compliance initiatives in more areas identified as disadvantaged in the state. The proposal is a collaboration proposal between the Office of the Secretary and four of its boards and departments (Air Resources Board (ARB), CalRecycle, Department of Pesticide Regulation (DPR), and the State Water Board). Specifically, the request is for six permanent full-time positions for a total of $904,000 annually, to increase coordinated enforcement and compliance efforts in areas of the state disproportionately burdened by the greatest concentration of environmental hazards.

The resources requested through this proposal are intended to increase coordination among Cal-EPA boards and departments and with local, state, and federal regulatory and law enforcement agencies to facilitate compliance and enforcement efforts across all media (air, water, toxics, solid waste, and pesticides). The efforts of this team are intended to improve the involvement of disadvantaged communities in the decision making processes that affect their health and local living conditions.

Specifically the proposal includes the following:

Department	Request	Fund Source
Air Resources Board	$140,000 (one position)	Air Pollution Control Fund
Department of Pesticide Regulation	$140,000 (one position)	Department of Pesticide Regulation Fund (Mill Assessment)
State Water Resources Control Board	$140,000 (one position)	Underground Storage Tank Cleanup Fund
CalRecycle	$140,000 (one position)	Multiple special funds
Cal-EPA	$344,000 (two positions)	Unified Program Account

Staff Comments. The proposal's intent is laudable, and to the extent that the funds are being used to increase enforcement within the specific authorizations set forth in statute, then the proposal is within the scope of the Cal-EPA budget. The secretary should be prepared to discuss:

(1) Why the State Water Board is using the Underground Storage Tank Cleanup Fund rather than the Waste Discharge Permit Fund for an enforcement positions that likely will focus on waste discharge;

(2) Why Cal-EPA is using the Unified Program Account which is derived from fees collected by each certified unified program agency, and was assessed on persons regulated by the program, rather than the General Fund or fines and penalties.

(3) How the secretary will measure and report outcomes to the public on this new program.

Staff Recommendation. Approve as proposed.

Vote:

Issue 2: Lead Exposure Proposals

Governor's May Revision Proposal. The Governor's May Revision includes two proposals intended to reduce lead and pesticide exposure, particularly related to children's health.

1. **Local Lead Water Testing and Public Education (State Water Board).** The May Revision requests $480,000 Safe Drinking Water Account and two positions for the State Water Board to: (1) address US Environmental Protection Agency-identified deficiencies in the State Water Board reporting of public water system compliance with federal reporting requirements, and (2) develop and implement guidance documents based on the federal Lead and Copper Rule to improve tools for public water systems and their customers, including local educational agencies.

   This two-part request is for $480,000 Safe Drinking Water Account for two years, and $240,000 ongoing in out-years and two Division of Drinking Water (DDW) positions to provide resources to improve the ability of the DDW to provide more accurate, timely, and complete reporting of California drinking water data. The two-year limited-term resources will work to develop and distribute guidance and informational documentation based on the federal Lead and Copper Rule for public water systems to help improve local public health outcomes.

2. **Listing Lead Acid Batteries (Department of Toxic Substances Control [DTSC]).** The May Revision proposes $255,000 (Toxic Substances Control Account), and two positions, to evaluate listing lead acid batteries as "priority products" subject to safer consumer product regulations. As part of a hazardous waste source reduction initiative, DTSC will conduct research, engage with stakeholders, evaluate options, and implement recommended actions to better protect the people and environment of California from adverse impacts related to the manufacture, use, recycling and disposal of lead acid batteries.

Staff Comments. Staff recommends approval of the Governor's proposal. The state's data on lead exposure needs improvement. These proposals move the state toward better reporting and data on both exposure and source of lead in the environment. In order to put the state fully into compliance with the US Environmental Agency Lead and Copper Rule, the state would need a total of four new positions.

Staff Recommendation. Approve as proposed with two additional positions to the state water board for full federal compliance.

Vote:

Issue 3: Pesticide Air Monitoring Network

Governor's May Revision Proposal. The May Revision requests $2.3 million (Department of Pesticide Regulation Fund and Air Pollution Control Fund civil penalties) and five positions to the Department of Pesticide Regulation (DPR) and Air Resources Board (ARB) to expand the current network of year-round pesticide air monitoring, enhance pesticide laboratory analysis capabilities, and resume previously suspended seasonal ambient pesticide monitoring to better evaluate the impact of pesticides on children's health and in disadvantaged communities.

Specifically the proposal requests $2.3 million in 2016-17 and $1.6 million 2017-18 to expand and strengthen California's existing pesticide air monitoring network as follows:

1. **Department of Pesticide Regulation.** The DPR is requesting $1 million in 2016-17 and $962,000 in 2017-18 (DPR Fund). Funding will be used to; (1) revise the site selection process to include the consideration of children's health (schools) and environmental justice factors; (2) increase the number of communities being monitored from six to eight; (3) increase the number of pesticides and time periods monitored; and, (4) conduct three intensive seasonal monitoring studies each year. This request includes $62,000 for one-time purchases for DPR supplies, services, and equipment; a $70,000 DPR contract for sampling remote site(s), a $100,000 DPR contract to improve the sampling and laboratory methods, and a $548,000 DPR contract with California Department of Food and Agriculture for additional laboratory analyses.

2. **Air Resources Board.** The ARB is requesting $1.3 million in 2016-17 and $596,000 in 2017-18 for a two-year limited term. Of the 2016-17 requested funds, $715,000 in one-time equipment purchases and $136,000 in maintenance expenses will be funded by civil penalty revenues from the Air Pollution Control Fund (APCF). Of the 2017-18 requested funds, $136,000 in maintenance expenses will be funded by civil penalty revenues from the APCF. The DPR Fund will cover the remainder of the ARB's costs in 2016-17 ($463,000) and 2017-2018 ($460,000). The requested funds will be used to expand the current network of year-round pesticide air monitoring stations, enhance pesticide laboratory analysis capabilities, and resume seasonal ambient pesticide monitoring in environmental justice communities. This proposal includes provisional language specifying that APCF civil penalties can be used for the one-time equipment and maintenance costs.

Staff Comments. Increased protection of individuals exposed to pesticides is part of the core mission of DPR. The departments should be prepared to discuss:

1. What data was used to determine that this proposal is necessary, including exposure data?
2. How will outcomes be measured for this two-year pilot program?
3. How will residents be apprised of concerns raised by the increase monitoring—including should the pilot project determine that there are unacceptable levels of pesticides in certain areas?

Staff Recommendation. Approve as proposed.

Vote:

MAY REVISION DROUGHT PROPOSALS AND JANUARY BUDGET UPDATE

Issue 1: Drought Proposals

Governor's January Budget (Open Items). The following items are currently open from the January budget. Specifically, the subcommittee held open the Department of Water Resources item to determine if the $42 million salinity barriers would be necessary after May Revision. Staff was directed at during the April 7 hearing to add LAO recommended reports on measureable outcomes and lessons learned to the final item.

1. **3600 Department of Fish and Wildlife—Augmentation for Drought Activities.** The budget requests $17.7 million ($2 million Hatcheries and Inland Fisheries Fund and $15.7 million General Fund), and a continuation of 13 limited-term positions provided in 2015 for emergency drought response. The department plans to focus on high-priority areas including: (1) emergency help for winter- and spring-run Chinook salmon on the Sacramento River; (2) monitoring salmon and smelt populations; (3) preventative management actions to avoid commercial fishery impacts; and, (4) increased enforcement and general monitoring.

2. **3860 Department of Water Resources—Drought Activities (Heard on April 7).** The Governor's 2016-17 budget includes $64 million (General Fund) in support of continuing emergency response activities associated with the state's current drought. The proposal has three main elements: (1) $17 million in support of 25 positions that are undertaking drought response activities; (2) $5 million to assist disadvantaged communities with emergency water supply and public health issues associated with drought conditions; and (3) $42 million for Delta salinity barrier construction work (the removal in fall 2016 if installed in spring 2016, and the reinstallation, if necessary, in spring 2017).

Governor's May Revision Proposals. The Governor's budget proposed $323.1 million to continue the state's emergency response to the drought. This included several proposals that assumed the drought would continue at levels in previous years, statewide. Drought conditions continue, particularly in Southern California, leading the Administration to propose additional funding to continue its drought efforts statewide, and to address impacts of the multi-year drought on forests and wildlife. The budget removes $42 million (General Fund) to reflect that the removal of the salinity barriers in the Delta will not be necessary.

1. **Tree Removal.** The May Revision includes $11 million (General Fund) to CalFIRE to assist in the removal and disposal of trees in high hazard areas. This includes: (1) $6 million for grants to local entities for removal of hazardous trees that pose a threat to public health and safety; (2) $5 million for equipment and personnel for hazardous tree removal and fuels reduction efforts; and, (3) trailer bill language to allow small biomass facilities to defer certain system interconnection costs.

2. **Department of Fish and Wildlife.** The May Revision includes $4.2 million (General Fund), on a one-time basis, for the following delta smelt-related proposals: (1) $2 million for a habitat restoration and food production adaptive management pilot project; (2) $1.8 million for enhanced aquatic weed control; and, $400,000 for continued monitoring and targeted studies. The budget also reflects a decrease of $4.2 million to reflect improved

conditions in the north, reducing the necessity for fish recues and water infrastructure and conveyance improvements.

3. **Local Assistance for Small Communities.** The May Revision includes $5 million (General Fund) to the Department of Water Resources (DWR) to provide emergency drinking water support for small communities. This is in addition to $5 million included in the January budget.

4. **Public Education.** The May Revision reduces by $3 million (General Fund) in the DWR budget to reflect the reduced need for statewide water saving public education campaigns.

5. **Drought Preparedness and Resilience for Urban Water Agencies.** To effect long-term water conservation, the May Revision includes $4.5 million (General Fund) to DWR and the State Water Resources Control Board (SWRCB) to review and update local water shortage contingency plans, develop recommendations for new water use efficacy targets, and to establish a permanent urban water use efficiency data tracking system.

6. **Facilitation Support for Groundwater Sustainability Agencies.** The May Revision includes $1 million (General Fund) for DWR to support local public agencies with facilitations services as they implement new groundwater laws.

7. **Statewide Agricultural Land Use Data.** The May Revision includes $1 million (General Fund), one-time, to DWR to support the use of remote sensing technology to establish statewide agricultural land use data, in order to support new groundwater law requirements. *The Assembly suggests adopting budget bill language to require DWR to collaborate with other state agencies that have agricultural land-use data.*

8. **Salinity Barriers Reduction and Reappropriation.** The May Revision reduces by $42 million (General Fund) originally intended for the installation of emergency salinity barriers in the Delta. The May Revision requests reappropriation of various special funds should the barriers be necessary in 2017.

Staff Comments. Staff recommends approval of the Governor's proposals. The May Revision proposals address current needs and appropriately amend down various costs will focusing efforts on emerging issues. Staff have concerns with the biomass interconnection trailer bill language and recommend this be moved to conference for further review.

Staff Recommendations.

(1) Approve as revised with agriculture budget bill language on Item 7.

(2) Approve LAO recommended reporting language requiring the department to, on or before January 1, 2020, provide the Legislature with a plan for ongoing program reforms, and an evaluation of the success of the reforms put forth in this proposal.

(3) Reject without prejudice the biomass interconnection trailer bill language included in the tree removal proposal for further review during conference committee.

Vote:

(MULTIPLE) CANNABIS CULTIVATION TRAILER BILL

Issue 1: Cannabis Trailer Bill Language

Governor's May Revision Proposal. The subcommittee heard the Governor's budget implementation of medical marijuana laws passed in 2015 on March 3 and approved the proposals on May 5. The Governor submitted trailer bill language (TBL) with the May Revision to revise and clarify the certain aspects of the of the medical marijuana legislative package passed last year. The proposal includes the following changes, all within the Business and Professions Code:

1. **Clarifying Agency Roles in Protecting Streams.** The TBL clarifies that the State Water Resources Control Board (state water board), rather than the California Department of Food and Agriculture (CDFA), is the agency responsible for ensuring individual and cumulative effects of water diversion and discharge do not affect instream flows needed for fish (migration, spawning, and rearing) and to maintain natural flow variability. The state water board must consult with CDFA and the California Department of Fish and Wildlife (DFW) in developing requirements. Requirements established by the state water board and DFW to protect instream flows must be included in CDFA's cannabis cultivation licenses.

2. **Licensing and Enforcement.** The TBL establishes requirements for water supply information when growers apply for a license from CDFA as follows:
   - For the first five years, requires that all CDFA licenses must include a pending application, registration or other water right documentation filed with the state water board.
   - Beginning 2020, all licenses must have a valid water right. *Business & Prof. Code, Section 19332.2*

   The TBL specifies that CDFA licenses will include applicable in-stream flow requirements set by SWRCB and DFW. *Business & Prof. Code, Section 19332.2e.* The TBL specifies that CDFA licenses must also specify that they are not effective until the licensee has received a DFW-issued lake and streambed alteration agreement or is told by CDFW that it is not needed. *Business & Prof. Code, Section 19332.2.*

3. **Coordination of DFW and SWRCB.** The TBL gives DFW the authority to advise a cultivator that a streambed alteration agreement is not necessary if the license includes streamflow and other protective measures specified by DFW and the state water board. Also allows DFW to develop a general agreement for cannabis cultivation. *Fish and Game Code Sections 1602(c) and 1617.* The TBL clarifies state water board has enforcement authority if water is diverted or used for cannabis cultivation and: (1) a CDFA license is required, but not obtained; or (2) the diversion does not comply with the requirements to protect instream flows established by the state water board or DFW. This impacts Water Code, sections 1831(cease and desist order) and 1847 (administrative fines).

4. **Process to Protect Instream Flows.** The TBL provides interim requirements directing the state water board (through existing process for adopting water quality policies) to establish

interim requirements to protect instream flows pending development of long-term requirements. This is designed to enable the state water board to act quickly to address impacts to fish and wildlife. Once requirements are developed, the state water board and DFW will implement a coordinated registration program for small irrigation operations (similar to existing registration program in all or portions of five North Coast counties). *Business & Prof. Code, Section 19332(e).*

The TBL authorizes DFW to create, using emergency regulations, interim requirements to protect fish and wildlife from the impact of diversions from cannabis cultivation. These interim requirements may be in addition to the state water board's instream flow measures. DFW interim requirements remain in place until long-term requirements to protect instream flows are adopted by the state water board. *Business & Prof. Code, Section 19332(e).*

The TBL provides long-term requirements directing the state water board, in consultation with CDFW, to adopt principles and guidelines to maintain instream flows where cannabis cultivation has the potential to substantially affect instream flows. *Business & Prof. Code, Section 19332(e).*

5. **Environmental Review.** The TBL exempts the state water board and DFW streamflow requirements from the California Environmental Quality Act (CEQA). For the long-term flows, however, the legislation requires an impacts analysis with less potential for delay: the state water board must identify significant environmental impacts and alternatives or mitigation to reduce them, and it must consider public comments on the analysis prior to adoption. *Business & Prof. Code, Section 19332(e).*

Staff Comments. Staff commends the efforts of the Administration to provide clarification to the package of laws passed in 2015. Many of these changes are necessary in order to allow departments to move forward with regulation of this newly legal product. However certain questions have been raised about the trailer bill language including:

1. If this is cleanup legislation, why would we insert lengthy water and instream flow requirements into the Business and Professions Code, rather than simply reference existing or enhanced water codes?
2. Why are we treating marijuana crops differently than other crops? Should we expect special treatment of, say, alfalfa or almond crops? Why not simply require marijuana growers to adhere to California's strict water laws?
3. CEQA exemptions should be used only in the most dire of situations. To be sure, the state needs to move quickly to address concerns about instream flows and water quality concerns, particularly in the north state. What other options have been explored for expediting this proposal?

Staff Recommendation. Reject proposal without prejudice in order to work with the Administration address various concerns raised above. Staff recommends the Administration set up a working group with legislative policy and budget staff specifically on the water and agriculture aspects of the cannabis trailer bill to work through necessary language changes.

Vote:

3480 DEPARTMENT OF CONSERVATION

Issue 1: Williamson Act Contracts

Background. The Williamson Act allows cities and counties to enter into contracts with landowners to restrict certain property to open space and agricultural uses. In return for these restrictions, the property owners pay reduced property taxes because the land is assessed at a lower-than-maximum level. The amount of the state subvention to localities is based on the amount and type of land under contract, but is always less than the actual reduction in local property tax revenues. The Department of Conservation (DOC), which administers the program, estimates that individual landowners save anywhere from 20 percent to 75 percent in reduced property taxes each year, depending upon their circumstances.

The contracts entered into between local governments and property owners are ten-year contracts. Such contracts are typically renewed each year for an additional year, such that the term on the contract remains at a constant ten years. In the event the contract is not renewed, the tax on the property gradually returns over a ten-year period to the level at which comparable but unrestricted land is taxed. The Williamson Act subventions were eliminated in the 2008 budget; however, those holding contracts are obligated to continue to prevent their land from development. Should a landowner decide to cancel the contract prior to reaching full term, the landowner is required to pay a cancellation fee equal to 12.5 percent of the cancellation valuation of the property.

Statute requires that the first $2.5 million of the revenue be deposited in the Soil Conservation Fund at the DOC. All funds in excess of this amount are returned to the General Fund.

Governor's January Proposal. The Governor's budget continues to support statute and makes no change to the funding amounts.

Alternative Proposal. An alternative proposal suggests that instead of returning funds to the General Fund, these monies should be directed to the DOC for land and open space protections, soil protections, sustainable agriculture practices and other beneficial practices including the support of resource conservation districts. In past years, the amount directed to the General Fund has ranged from $0 to $23 million depending on the number of contract cancelations, which is dependent upon the overall real estate sector economy, averaging about $4 million per year.

Subcommittee Options. The subcommittee may consider: (1) continue with the existing program pursuant to statute, sending all funds in excess of $2.5 million to the General Fund; (2) propose to direct those funds to other purposes, such as the DOC resource protection programs; or, (3) raise the cap on the amount directed to the department to $5 million to allow for more funding in good years.

Motion and Vote:

3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CALFIRE)

Issue 1: Helicopter Procurement (Heard on March 17)

Background. The subcommittee heard extensive testimony from the department, Legislative Analyst's Office, and stakeholders at its March 17 hearing. The subcommittee members expressed support for the replacement of the helicopter fleet, but requested more information prior to approval of the request. After that date, the Department of General Services (DGS) received several bids for the helicopter procurement. However, a technical issue arose in the procurement, whereupon DGS and CalFIRE determined it necessary to re-issue the Invitation for Bid. The department has kept legislative staff involved throughout the process and has been open with any changes necessary to the bid procedures.

Governor's January Proposal. The Governor's January budget includes a one-line "miscellaneous adjustment" in the amount of $100 million that the Department of Finance has indicated is a placeholder for the helicopter purchase.

Governor's May Revision Proposal. The May Revision requests are $12 million (General Fund) to purchase one helicopter in 2016-17, with provisional language to allow, upon notification to the Joint Legislative Budget Committee, the following:

a. Department of Finance (DOF) to augment the item for the actual single helicopter procurement cost, related fees, and support costs following JLBC notification. The notification will include: (a) the model of helicopter being acquired; (b) the cost per unit; (c) procurement cost by fiscal year; and, (d) delivery schedule.

b. DOF to augment the item for capital outlay costs associated with studies, acquisition, preliminary plans, and working drawings for helicopter facility modifications.

Staff Comments. The May Revision request strikes an appropriate balance between the need to move forward with procurement of the helicopters and the need for staff, stakeholders and the public to be well-informed of the final cost of the full procurement. Staff anticipates that the department will present a proposal in the 2017-18 budget cycle with details including long-term capital outlay costs, staffing and operations costs, and projected decreases in maintenance costs related to the helicopter procurement. Prior to further purchase of helicopters, the department will be required to discuss its assessment of the selected vehicle and its capabilities long-term for the CalFIRE mission.

LAO Recommendation. The LAO has posted a recommendation to modify the proposed language to provide some limits on the augmentations the Administration could make regarding the purchase of the single helicopter and the capital outlay augmentations associated with the proposal.

Staff Recommendation. Approve May Revision proposal with LAO recommendations.

Vote:

Issue 2: Professional Standards Program (Heard on March 17)

Governor's Proposal. The Governor's budget proposes $4.4 million ($3.7 million ongoing) primarily from the General Fund, and 14 permanent positions to establish a professional standards program in headquarters, which would include a unit to provide additional oversight for internal investigations and adverse actions, as well as expand manager and supervisor training. The proposed positions would conduct administrative and background investigations, provide more training to managers and supervisors, and develop guidelines to promote consistent application of penalties.

Under the proposal, much of the workload in 2016–17 would focus on developing and standardizing policies and processes, as well as training all department managers and supervisors on implementing these procedures. After 2016–17, the nature of the workload would shift to focusing on ongoing training, document review, routine investigations, and oversight. The program is, in part, a response to recent concerns regarding the department's hiring and promotion practices and other allegations of employee misconduct.

LAO Recommendation. "Given the uncertainty about the department's ongoing workload related to the new professional standards program, we recommend that the Legislature approve the additional ongoing resources proposed on a three–year limited–term basis. This timeframe would allow the department to fully implement the program over a period of time before evaluating the program's ongoing workload needs. This would also provide an opportunity for the Legislature and administration to evaluate the effectiveness of the proposed program before committing ongoing resources."

Staff Comments. In the hearing on March 17, representatives from one of the 13 CalFIRE employee unions objected to the proposal, stating that this was an over-reaction to a single incident at the academy. The director testified that in 2015, CalFIRE processed over 70 letters of warning, 60 terminations with cause, 100 notices of adverse actions, 47 equal employment opportunity investigations, and countless other investigations, such as employee and citizen complaints.

The subcommittee asked the department to meet with the union leadership. The department leadership met with the union in three dedicated meetings totaling over 10 hours from March through April, in addition to informal telephone conversations. While staff respects the union position, any large department with complex human interactions including living situations, public encounters, stressful situations, should warrant a thorough professional standards program. Much like the California Highway Patrol, when it reconsidered how it manages professional standards, this proposal seems like a step forward for CalFIRE.

Staff recommends approving the proposal on a three-year basis with annual reporting to the budget committees in the budget process on how the program is working.

Staff Recommendation. Hold open.

Issue 3: Legislative Proposals

Background. The subcommittee may wish to consider these priority items for the budget.

1. **State Responsibility Area (SRA) Local Assistance ($10 million General Fund).** In the 2014-15 budget, the Legislature added $10 million (SRA Fire Prevention Fund) for local grants pursuant to Public Resources Code 4214 (d), which specifies that the allowable fire prevention activities from the SRA Fund includes grants to fire safe councils, local conservation corps, grants to nonprofit organizations that can complete a fire prevention project applicable to the SRA, public education to reduce the fire risk in the SRA, and other fire prevention activities. In the 2015-16 budget, the Legislature again included $5 million for similar purposes. The Governor's budget did not continue this funding and no explanation has been given as to why this is not an ongoing, baseline, expenditure for the SRA Fire Prevention Fund.

2. **Contract County Capital Outlay ($250,000 General Fund).** In previous years, contract counties (those counties providing wildland fire services in their respective jurisdictions while not duplicating services), have received minor capital outlay funding as a part of their contracts. According to the Attorney General, the contracts are based on "like" funding, which includes minor capital outlay. This amount totals about $250,000 per year, which was eliminated in 2013. The Department of Finance considers this part of the reductions made during the fiscal downturn. However, the policy decision to eliminate these funds from the contracts that was not related to the fiscal outlook of the state. This cut was not enumerated for the Legislature in budget reduction proposals in previous years, and therefore should be considered as part of the baseline for contract counties. The Senate included this item in its 2015-16 budget. The item was removed from the final budget after negotiation with the Department of Finance.

3. **Forest Health Trailer Bill Language (Heard on March 17).** Staff proposes to add trailer bill language to provide guidance to CalFIRE in its spending of greenhouse gas emission reduction funds. Draft trailer bill and budget bill language would specify: (1) Wildlife Conservation Board be charged with allocating $25 million (in collaboration with CalFIRE) for working forest conservation easements, and including two positions for this collaboration; (2) of the amount provided $5 million would be invested in prescribed fire and/or managed ignition landscape projects; (3) landscape level projects would be subject to certain limitations in order to achieve maximum benefit to forest health; (4) exceptions would be made for direct high hazard zones as part of the Tree Mortality Task Force; (5) for a period of three years, Tuolumne County would be required to fund the project with the existing $80 million Housing and Urban Development disaster resilience grant; and, (6) the Air Resources Board will provide to the Legislature a greenhouse gas emission inventory for the forest and working lands sector.

Staff Recommendation. Staff recommends approving the items as outlined above.

Vote.

3790 DEPARTMENT OF PARKS AND RECREATION

Issue 1: Base Funding to Maintain Operations

Governor's Proposal. The Governor's budget requests another one-time increase of $16,968,000 in spending authority from the State Parks and Recreation Fund to sustain its operations and maintain its base support budget. Additionally, the proposal requests a one-time redirection of $31,000,000 in fuel tax revenues to the State Parks and Recreation Fund (SPRF) to maintain fund solvency.

Legislative Analyst's Office (LAO) Analysis and Recommendation. The LAO provides the following analysis:

> **Continues One–Time SPRF Augmentation.** The Governor proposes a one– time $17 million increase in SPRF spending authority. This would provide a similar funding level from SPRF as in the past two fiscal years. (Similar one–time increases were included in the past two budgets as well.) The department anticipates providing an ongoing budgetary solution as part of the 2017-18 budget.
>
> **Redirect Fuel Taxes From OHV Trust Fund to SPRF. Due** to the structural shortfall in SPRF and the depletion of the SPRF fund balance, the administration requests a one–time redirection of $31 million in fuel tax revenues to SPRF. This money would otherwise be deposited in the OHV Trust Fund to support the state's eight State Vehicular Recreation Areas (SVRAs) and other programs for Off Highway Vehicle (OHV) users. The OHV Trust Fund balance is significant. Even with the proposed transfer, the Governor's budget estimates a year–end fund balance of $149 million in 2016–17.
>
> **OHV Revenue Transfer Is Legal . . .** We note that fuel tax revenues have been redirected from the OHV Trust Fund in the past. Specifically, the 2011 Budget Act provided for a redirection to the General Fund of about $10 million per year in fuel tax revenue that had previously been designated for deposit in the OHV Trust Fund. At that time, the California Attorney General issued an opinion that such a redirection was legal because (1) the OHV Trust Fund was established by the Legislature, and (2) the redirected revenue is not subject to constitutional restrictions on spending gas tax revenues since it is from OHVs rather than from motor vehicles used on public streets and highways. Thus, the Governor's proposed redirection to SPRF would be legal for the same reasons.
>
> **. . . But Raises Policy Questions.** Current statute requires that this fuel tax revenue go to the OHV Division. Consequently, the proposed redirection would not only reduce revenues to support OHV activities, it would also represent a policy shift in the use of the funds. The revenue deposited in the OHV Trust Fund is intended to reflect tax revenues from purchases made by OHV users. Therefore, using the money for SVRAs and other activities that support OHV recreation provides a direct benefit to these tax payers. However, if the Legislature does not wish to redirect this money to SPRF, it would need to either (1) provide a one–time transfer from another funding source—such as the General Fund—to maintain parks funding at its current level or (2) reduce the level of state funding for parks operations and capital projects. We note that in 2015, the Legislature adopted budget trailer legislation requiring the California Department of Transportation to reevaluate how the amount of fuel sales attributable to recreational use

of OHVs is calculated. That report was due January 1, 2016 but has not yet been provided to the Legislature. The report could potentially impact the amount of revenue for the OHV Trust Fund.

LAO Recommendations. One–Time Augmentation Makes Sense but Requires Decision on Fund Source. We find that the one–time $17 million augmentation to SPRF makes sense, as the amount of the augmentation is consistent with the past two years and will allow DPR to maintain current service levels. We have no specific recommendations with regard to the administration's proposed redirection of fuel tax revenue to SPRF to address the fund's structural shortfall in 2016–17. The transfer is legal and the fund that the revenue would otherwise go to—the OHV Trust Fund—can support it. However, we do note that it reduces funding available for OHV activities. The only alternative that we have identified is a transfer from the General Fund. We recommend the Legislature choose the funding source that aligns with its priorities regarding OHV–related activities and other competing General Fund priorities.

Information on Progress–to–Date Should Be Provided. While we understand that DPR is still in the process of developing and implementing changes to address its budgetary and programmatic challenges, it should be able to report on the status of its current efforts and how successful its changes have been thus far. Therefore, we recommend that the Legislature require the department to report at legislative budget hearings this spring on the following items:

- The implementation of the Parks Forward Commission recommendations and Transformation Team progress, including expected completion dates.

- The Revenue Generation program—including a description of the revenue–generating projects that have been completed or are currently underway, the amount of additional revenue these projects have generated, and where and how this revenue has been spent.

- The range of options the department is considering to achieve a long–term budget solution, including the role that the department anticipates revenue generation playing.

Staff Comments. Staff concurs with the LAO's assessment of the OHV transfer and the overall budget assessment. As pointed out, the transfer is legal and the OHV Trust Fund is able to support this on a one-time basis. The Assembly approved the item and adopted budget bill language stating: *"it is the intent of the Legislature that his OHV fund transfer be one-time in nature for the purpose of maintaining existing service levels at state parks with the expectation that the department will provide a sustainable solution to balance the State Parks and Recreation Fund as part of the Governor's January 10, 2017 budget proposal."*

Staff Recommendation. Approve as proposed with Assembly-proposed budget bill language.
Vote:

Issue 2: Public Beach Restoration Program

Governor's Spring Finance Letter Proposal. The spring finance letter requests an increase of $2.6 million from the Public Beach Restoration Fund (PBRF) to administer its previously proposed Public Beach Restoration Act projects. Additionally, this proposal requests an increase of $700,000 from the Harbors and Watercraft Revolving Fund (HWRF) to support a Beach Erosion Control project. Previously-requested funding was calculated based on an assumed 50-50 state-local cost-share ratio. However, the Public Beach Restoration Act requires the funding of the nonfederal project cost for restoration, nourishment, or enhancement of non-state public beaches to be 85 percent with a 15 percent match from local sponsors, provided as funds or in-kind services. The proposed increase of $2.6 million seeks to fix this technical funding discrepancy and provide the 85-15 state to local match ratio.

Harbors and Navigation Code § 69.9(b) specifies that any funding from PBRF must be split 40-60 between projects north and south of the border between the counties of San Luis Obispo and Monterey, respectively. Since there were not sufficient projects in the northern region approved for 2016-17, the department requests provisional language that will allow for these critical projects to proceed regardless of geographic location.

Recent Reports on Beach Nourishment and Sedimentation. Multiple recent reports from the Scripps Institute and UC Davis indicate that beach nourishment projects may have a negative impact on this fragile environment. Impacts include: (1) burying sand-dwelling invertebrates; (2) reducing prey availability for shorebirds and fish; (3) and, contributing to the long-term negative impacts of ecosystems.

Dam Removal Projects Increase Sediment. At the same time, recent dam removal projects have yielded surprisingly positive results regarding sedimentation. The removal of the Elwha dam in Washington State carried such significant amounts of sediment from behind the dam rebuilding riverbanks and gravel bars and, in and around the river's mouth, that it created some 70 acres of new beach and riverside estuary habitat for Dungeness crabs, sand lance, surf smelt, clams, and other species.

Staff Comments. Staff has concerns with continued increases in the beach replenishment program while little is being done to increase sediment deposits from dam removal in the same areas. The state is investing $250 million (bond funds) in the Klamath Dam removal but no funding was proposed for Southern California dam removal—including the well-documented Matilija Dam in Ventura County.

Staff Recommendation. Approve as proposed on a one-time basis. Include supplemental reporting language requiring the Secretary for Natural Resources to report to the Legislature, on or before January 10, 2017, on what obstacles exist to funding to both beach replenishment projects and natural sedimentation projects such as dam removal with this fund source.

Vote:

Issue 3: California History Interpretation Pilot Program

Governor's May Revision Proposal. The department requests an increase of $348,000 (State Parks Protection Fund) to fund a two-year pilot project to develop and improve public interpretation through a new collaborative partnership with the University of California at California Citrus State Historic Park and El Presidio de Santa Barbara State Historic Park. A successful pilot project will establish the foundation for a new model for interpretation of history and culture through state parks. This project, along with the community liaison project included in the Governor's January budget, is intended to create culturally relevant interpretive and environmental programs, making services more relevant to a broader and more diverse group of people. The department will also seek expansion of this project through partnerships and philanthropic support.

The pilot program's purpose is to identify, analyze, develop, and test structures, curriculum, practices, and partnerships for establishing and stewarding an enhanced interpretation and education program system-wide. This improved framework will make park interpretation as culturally-relevant and inclusive to as many visitors as possible and, in doing so; institutionalize inherent opportunities for civic dialogue and engagement within the state park system.

The ultimate goal is to develop a program framework for integrating applied scholarship through partnerships with California's public higher education systems that can be taken to scale throughout the state park system. Such programs could then be expanded to other historical and cultural programs, as well as to other academic programs customized for the needs of each park, region, or community across the state.

Staff Comments. The department's proposal is innovative. The department should be prepared to discuss the following:

1. What other pilot programs are being considered to increase cultural and historical awareness in state parks?

2. Was a request for proposals issued for this pilot program? What other entities would be interested in such a project?

3. How will the department evaluate the effectiveness of this pilot program and with what criteria?

Staff Recommendation. Approve as proposed.

Vote:

3860 Department of Water Resources (heard on April 7)

Issue 1: Delta Habitat Conservation and Conveyance Program (DHCCP)

Background. The DHCCP was established in 2008 to implement a gubernatorial directive to address both water supply issues and environmental concerns related to the Delta. Specific goals of DHCCP include protecting and restoring Delta habitat and studying improved methods to reduce the impact of water conveyance on the Delta.

Governor's January Proposal. The budget requests the conversion of 38 limited-term positions to permanent positions. These positions are intended to carry out the preliminary design phase activities within components of the Delta Habitat Conservation and Conveyance Program (DHCCP). This proposal includes no funding request as the positions are funded by the State Water Project and have no impact on the state's annual budget act.

Previous Subcommittee Action. The subcommittee held this proposal open on April 7.

Alternate Proposal. Staff recommends the department amend its January proposal as follows:

- The conversion of only three positions (the only ones currently filled) to permanent to be consistent with prior Legislative action to not approve as permanent until filled; and
- The extension of 17 of the limited-term positions for two additional years.

Since the development of the January BCP, the timeline for when the Environmental Impact Report (EIR) will be final, and subsequently when the Department will begin filling the positions, has been identified as Fall 2016. Since the staffing need will not be for a complete fiscal year, the department should reduce the overall number of positions that would be needed in 2016-17, and is also proposing that those be limited-term to ensure appropriate oversight before they would be made permanent.

Staff Recommendation. Staff recommends approving the revised proposal from 38 permanent positions to three permanent positions and 17 two-year limited-term positions. This is comparable to the anticipate workload and should be supported.

Staff further recommends supplemental reporting language requiring the Administration to report to the Legislature the financial assurances required in order to complete the WaterFix proposal, on or before November 30, 2016.

Recommendation: Approve: (1) alternate position request; and, (2) proposed supplemental reporting language.

Vote:

3900 California Air Resources Board

Issue 1: Short-Lived Climate Pollutant (SLCP) and Post 2020 Proposals

Background. This item was heard and held open on April 21.

Governor's Proposals. The Governor's budget includes several proposals funded by the COIA. These are in addition to several major programs funded by the GGRF. The COIA proposals include:

Summary of Governor's Proposals to Develop Regulations for Post-2020 GHG Goals

Proposal	Funding and Positions Requested	Primary Justification
Clean Bus and Truck Standards	$1.2 million and four positions	Governor's GHG goals, AB 32, and federal air standards
Advanced Clean Cars Program	$580,000 and four positions	Governor's GHG goals and federal air standards
SLCP (SB 605)	$1.4 million and five positions	SLCP strategy, AB 32, and Governor's GHG goals

GHG = greenhouse gas and SLCP = short-lived climate pollutant. Source: Legislative Analyst's Office.

LAO Recommendation. "We recommend modifying the Governor's proposal in two ways: (1) rejecting requests related to the Administration's long-term GHG goals and implementing the SLCP strategy and (2) identifying alternative funding sources for air quality activities."

Staff Comments. The LAO provides a good analysis of the issues surrounding SLCP and the regulatory approach provided by ARB. After the LAO analysis was completed, the Administration reported on strategies to achieve GHG emission reductions from SLCP, which have a number of co-benefits including the reduction of public health, air and water quality impacts. Other funding sources, such as the Air Pollution Control Fund and Inspection Repair Fund have been suggested for the various proposals and concerns have been raised about funding proposals before the ARB adopts the SLCP plan.

Staff Recommendations. Approve with the following changes:

1. Shift funding to the Air Pollution Control Fund for the SLCP;
2. Add budget bill language requiring the ARB to adopt the SLCP plan prior to expenditure of funds;
3. Shift funding to the Vehicle Inspection Repair Fund for the remaining two proposals on a one-time basis.

Vote:

Issue 2: Motor Vehicle Insurance Account Assessment (MVIA)

Background. Because the state is self-insured, when traffic accidents occur, Department of General Services (DGS) pays any settlements or judgements from the MVIA, Fund 0026. Pursuant to the State Administrative Manual, DGS pays the first $1 million liability per accident. All state agencies pay annual premiums to Office of Risk Management (ORIM). When a settlement or a judgement is made against the state concerning an automobile accident, ORIM pays the settlement of judgement and the affected department reimburses the MVIA the amount in excess of $1 million.

In 2011, an ARB employee was involved in an accident that resulting in a judgement against the state. Initially, DGS budgeted $3 million for the settlement. The judge increased the settlement to $10 million. In anticipation of the victim receiving a judgement in this case, DGS began increasing the ARB MVIA assessment in 2012-13. The state is appealing the case and the outcome will not be known until midyear. Assuming the judgement stands and is neither increased nor decreased, this one-time expenditure authority increase will be the final MVIA assessment increase and the ARB payment will be reduced beginning in 2017-18.

May Revision Proposal. The May Revision requests one-time expenditure authority from the Air Pollution Control Fund (APCF) to reimburse ORIM for a payment made by DGS on behalf of the Air Resources Board (ARB) for a $10 million judgement associated with a car accident in 2011.

Staff Comments. Staff is concerned that: (1) the amount to be paid is under appeal and therefore it is not certain that the full $10 million will be necessary; and (2) this type of payment usually is drawn from multiple funds, not a single funding source; (3) the size of the fund balance or fund source should not determine payout, rather that this should be considered well ahead of time, or be drawn from the General Fund.

Staff Recommendations. Due to the timing of the issue, staff recommends approval of this proposal. Staff further recommends the ARB report, at budget hearings in 2017, on its plan to address future insurance claims.

Vote:

Issue 3: Specialty Equipment Market Association (SEMA) Proposed Fee

Proposal. Manufacturers of emissions-related motor vehicle parts submit applications to the California Air Resources Board for executive orders evidencing that a part does not reduce the effectiveness of a motor vehicle pollution control device or cause a vehicle to fail to comply with applicable state or federal emissions standards.

SEMA participants state that applying for and obtaining an executive order from the ARB for aftermarket part is currently taking up to two years for processing and they believe that implementing a fee to provide funds directly to ARB for additional staff to reduce processing would be beneficial. SEMA proposes trailer bill language that would impose a fee on applications submitted to the ARB board under California Vehicle Code Section 27156. Fees received by the ARB would be credited to the Executive Order Processing Fund, a special fund established for the purpose of facilitating the timely processing of applications submitted under California Vehicle Code Section 27156.

Staff Comments. The proposal emerged late in the budget process and the department has not had time to fully vet the issue. In concept, the proposals makes sense—establishing a fee would be necessary should the budget support additional positions to move this program more quickly. However without a thorough analysis by the ARB, staff cannot recommend an appropriate fee amount, nor advise whether or not this proposal should be considered in isolation.

Staff Recommendations. No action. Request the ARB work with the SEMA constituents over the summer to determine if a fee is appropriate, at what amount, and with what metrics for success.

Vote:

3940 State Water Resources Control Board

Issue 1: Public Water System Consolidation

Background. SB 88 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2016, provided new, limited authority for the state water board to order consolidation of failing water systems. The limited authority provides a mechanism for the state water board to ensure safe, reliable drinking water where an existing water system is unable to do so and the failing system can be economically consolidated with a nearby system. The new authority has enabled the State Water Board to commence consolidation of several failing water systems, and one consolidation will be complete in June 2016.

The state water board has encountered circumstances when the consolidation authority is unavailable, but consolidation makes public health and economic sense. The present authority does not allow the State Water Board to order consolidation when a disadvantaged community lies within a city and is served by a small failing system. A common example is a mobile home or trailer park located within a city, but served by its own well and distribution system. Similarly, the consolidation authority is not available to address unsafe water served by certain schools, labor camps, and institutions located within a city.

Proposed Trailer Bill Language. The proposed trailer bill addresses these concerns in a targeted fashion. The trailer bill:

- Addresses the "donut hole" where certain failing water systems are located within a city. Allows the State Water Board to order consolidation where a disadvantaged community, within a city but served by a separate small water system serving 5-14 residences, consistently fails to provide safe drinking water.
- Provides similar authority to address non-community water systems, such as schools and labor camps, serving disadvantaged communities located in cities.
- Allows what are often the most economical consolidations to proceed, because these are water systems already surrounded by infrastructure for an existing public water system.
- Maintains existing financial and legal protections for the public water systems that would be ordered to consolidate with a failing system.

Staff Recommendation. Staff concurs with the concern that the there is a gap in the ability of the state to facilitate water interconnections. Staff recommends approving the proposal as placeholder in order for the Legislature and public to review the proposed language (posted on the Department of Finance website) through conference committee.

Vote:

Issue 2: Drinking Water Program Expenditure Cap

Background. SB 83 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2015, established a statutory cap for 2016-17 on the amount of funds received for the State Water Board's administration of the California Safe Drinking Water Act. The amount of the cap was set at $30.4 million. The amount of the cap was incorrectly calculated and did not take proper account of all the sources of funds used to support the administration of the California Safe Drinking Water Act, nor did it account for additional program costs to satisfy statutory obligations.

May Revision Proposal. The May Revision includes proposed trailer bill that will increase the cap to $38 million which properly accounts for the additional fund sources and program expenditures.

Proposed Trailer Bill Language. The proposed trailer bill would amend Health and Safe Code Section 116590, as follows:

> (a) Funds received by the state board pursuant to this chapter shall be deposited into the Safe Drinking Water Account that Account, which is hereby established, and shall be available for use by the state board, upon appropriation by the Legislature, for the purpose of providing funds necessary to administer this chapter. Funds in the Safe Drinking Water Account shall not be expended for any purpose other than as set forth in this chapter.
>
> (b) A public water system may be permitted to may collect a fee from its customers to recover the fees paid by the public water system pursuant to this chapter.
>
> (c) The total amount of funds received for state operations program costs to administer this chapter for fiscal year 2016–17 shall not exceed ~~thirty million four hundred fifty thousand dollars ($30,450,000)~~ thirty eight million fifty eight thousand dollars ($38,058,000) and the total amount of funds received for administering this chapter for each fiscal year thereafter shall not increase by more than 5 percent of the amount received in the previous fiscal year plus any changes to salary, benefit, and retirement adjustments contained in each annual Budget Act.
>
> (d) This section shall become operative on July 1, 2016.

Staff Recommendation. Staff concurs that the trailer bill language is necessary to continue program delivery as required by the budget.

Vote:

3970 Department of Resources Recycling and Recovery (CalRecycle)

Issue 1: Beverage Container Recycling Program

Convenience Zone Pilot Programs. An overview of this program was heard on April 21. The Administration, the Legislative Analyst's Office (LAO), and members of the public testified that a reform package would stabilize funding within the Beverage Container Recycling Fund (BCRF) for the program. The LAO overview of the program provided at the hearing is available at lao.ca.gov. Immediate concerns have been raised regarding the closure of multiple recycling centers due to the scrap value of recycled materials, thus challenging the ability of retailers to provide recycling opportunities to consumers.

The Administration is in year two of a multi-year study about convenience zones. Convenience zones increase the geographic dispersal of locations where beverage containers can be redeemed. A convenience zone is required by law to have within the zone's boundaries, a recycling center that redeems all California Redemption Value (CRV) containers. A convenience zone with a recycler inside its boundaries is considered a served zone. Convenience zone recyclers provide opportunities to redeem containers near where beverages were purchased.

Staff Comments. Staff has met with stakeholders and agrees that the Administration should come up with an interim program reform that addresses the following items: (1) processing fee offsets; (2) enforcement relief; (3) handling fees; and, (4) processing payments. In the interim, staff recommends providing the Administration with more information regarding convenience zones. In addition to the data being gathered by the department, a real-world convenience zone study would inform the department of other methods of recycling, particularly in areas that are very challenged by convenience.

1. **Convenience Pilot Programs.** Allow up to three jurisdictions (one, each, urban in northern and southern California, and one rural) to create a convenience pilot program that would waive convenience requirements. This would sunset June 30, 2020. A total of $100,000 per jurisdiction would be included in the pilot program.

Staff Recommendation. Staff recommends approval of the convenience zone pilot program.

Vote:

8570 CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE (CDFA)

Issue 1: Pest Prevention Funding

Background. The following is a summary of funding for three programs (all funds including federal, special funds and state funds):

Program	2014-15*	2015-16 (estimated)	2016-17 (proposed)
Plant Health and Pest Prevention Services Division	$126.3	$122.2	$131.0
Asian Citrus Psyllid/ Huanglongbing (HLB)	*$ 23.7*	*$26.6*	*$27.7*
Pierce's Disease Management	$21.1	$23.9	$21.4

*2014-15 represents past year actual expenditures

* In 15-16 we have budget authority for $162.2 million, but we will likely only realize about $122.2 million

Increase General Funding Requested. The subcommittee received a request to increase funding for the above programs by $5 million each. This would be a partial a restoration of the $22 million General Fund reduction in 2013 that was mostly backfilled by industry funds and federal funds.

Staff Comments. Staff concurs that pest prevention is a serious and important mission of the state, and that the beneficiaries should continue to contribute to pest prevention that benefits specific industries such as wine grape growers or citrus. However, there is a role for the General Fund to play, upon availability. This should be directed to areas were industry is not able to fully address issue facing a broader stakeholder group.

As discussed in the April 21 hearing, the use of neonicotinoids in residential areas is causing concern for wild bee populations. Meetings with industry have confirmed that residential application of neonicotinoids are of particular concern.

Staff Recommendation. Approve $15 million with the following budget bill language:
Of the amount provided, $5 million may be used for Pierces disease management; $5 million may be used for overall pest health and pest prevention; and $5 million shall be used for Asian Citrus Psyllid control as follows: (1) $4.25 million for residential application by California Department of Food and Agriculture in quarantine areas; and $750,000 for an interagency agreement with the California Department of Pesticide Regulation to provide a consumer product database for a residential level study the impacts of ornamental uses of neonicotinoids, including the impacts of neonicotinoid treated seed and plants sold at the retail level.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Wednesday, May 18, 2016
9:30 a.m.
State Capitol - Room 112

Consultants: Catherine Freeman

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VOTE-ONLY CALENDAR

0540 SECRETARY FOR NATURAL RESOURCES

1. **Implementation of AB 142 (Bigelow), Chapter 661, Statutes of 2015.** The budget requests a one-time appropriation of $125,000 Environmental License Plate Fund (ELPF) to hire a contractor to compile a report, as required by AB 142. Pursuant to AB 142, the Upper Mokelumne Watershed Authority will reimburse the state $125,000 for the study. AB 142 requires the Secretary for Natural Resources to submit a report that analyzes the suitability or non-suitability of certain sections of the Mokelumne River for state wild and scenic river designation to the Governor and the Legislature, by December 31, 2017.

2. **Timber Regulation and Forest Restoration Public Process and Technical Support.** The budget requests to make ongoing $230,000 (Timber Regulation and Forest Restoration Fund) to support public involvement processes, technical assistance, and scientific guidance (funds were previously a limited-term pilot project). The proposal also includes trailer bill language to permit providing reasonable per diem compensation to persons, other than public agency staff, who are serving on program advisory committees or working groups.

3. **River Parkways and Cultural and Historical Endowment Reappropriation.** The state is currently providing statewide oversight and administering grant programs for propositions 12, 13, 40, 50, 84 and 1. This request would reappropriate the remaining balances of appropriations from the River Parkways and the California Cultural and Historical Endowment programs within these bond measures so that ongoing projects can be completed and so that the remaining funds can be awarded. Funds will be awarded through the current solicitation of River Parkways and the Museum Grant Program. Awards will be announced during the first quarter of 2016-17.

4. **San Joaquin River Settlement (Proposition 84) and Fish Hatchery Expansion.** The budget requests to appropriate a total of $32,531,000 (Proposition 84) for implementation of the San Joaquin River Restoration Settlement, of which $15,983,000 will be used for the construction of a fish hatchery, and $16,548,000 will be used to reimburse the Department of Water Resources and Department of Fish and Wildlife for work across all aspects of the San Joaquin River Restoration Project.

Staff Recommendation: Approve as proposed.

Vote: Item 3: 3-0

Items 1, 2, 4: 2-1 (Nielsen, no)

3100 California Science Center and California African American Museum

1. **Bathroom and Drinking Fountain Renovations at the California African American Museum (CAAM).** The budget requests $275,000 (Exposition Park Improvement Fund [EPIF]) that will provide funding for the complete and comprehensive renovation of four bathrooms and the replacement of the two wall-mounted drinking fountains inside the CAAM building both for employees and guests. CAAM receives 300 guests and patrons on a daily basis and renovating the bathrooms and replacing the drinking fountains will improve patrons experience and the overall appearance of the entire facility. *Staff recommends adding $2 million (General Fund) to provide deferred maintenance and to improve exhibit and art storage at the museum.*

2. **Exposition Park Public Safety Staffing.** The Office of Exposition Park Management (Expo Park) requests $ 1.5 million (EPIF) annually, for two years, to provide funding to continue management of the Department of Public Safety by the California Highway Patrol. The resources are needed to provide professional safety and security for both the millions of visitors to the park, and the employees.

3. **Exposition Park Reimbursement Authority Increase.** The Office of Exposition Park Management requests an increase of the annual baseline reimbursement authority from its current amount of $508,000 to $638,000, to pay for annual assessments levied against the EPIF and address critical deferred park maintenance, major repairs, and capital improvements and to help meet assessment obligations and improve overall security.

4. **Office of Exposition Park Assistant General Manager.** The budget requests $150,000 (EPIF) and one position (assistant general manager [GM]) to assist in park operations. The workload of the GM has increased greatly over the past two years. Examples of additional workload include: the addition of at least one National Football League (NFL) team with a possibility of a second NFL team, three major capital projects within the park-the building of a new soccer stadium, the renovation of the Coliseum, the construction of the Science Center Phase 3, increased special events, increased contracts and the prospective bid for the 2024 Olympic Games. Additionally, the office is requesting to include provisional language, which would allow augmentations to the EPIF for operational costs associated with major events at the park.

5. **Increased Contracted Services**. The May Revision requests an increase of $515,000 to provide funding for increased parking and landscaping contracts at Expo Park. Specifically, the request includes $335,000 to fund a new parking operator contract beginning July 1, 2016, and $180,000 for a 12-month period to reflect increased landscaping costs.

Staff Recommendation: Approve as proposed including an additional $2 million General Fund for the California African American Museum.

Vote: To approve staff recommendation: 3-0

3340 California Conservation Corps

1. **May Revise Technical Adjustment.** The May Revise requests an increase of $10,000 (Proposition 39) to provide for a technical adjustment for program delivery costs within the Energy Corps program that were inadvertently omitted when preparing the Governor's budget.

Staff Recommendation: Approve as proposed.

Vote: 3-0

3480 Department of Conservation

1. **Legislative Proposal for Best Practices for Well Abandonment.** As follow up to the extensive budget and policy hearings on Aliso Canyon, adopt trailer bill language to require that, on or before January 1, 2019, the Division of Oil, Gas and Geothermal Resources shall develop, through a public process, with input from independent experts, stakeholders and the public, "best practices" for the design, maintenance, monitoring, operation, data reporting and plugging and abandonment of gas storage wells.

Staff Recommendation: Approve Item 1.

Vote: 2-1 (Nielsen, no)

3540 Department of Forestry and Fire Protection (CalFIRE)

1. **Reappropriations and Technical Adjustments (Spring Finance Letter).** The department has a residual balance of funds for managing seized illegal fireworks. This proposal would allow for ongoing fireworks management through the 2016 fireworks season. The spring finance letter also requests to correct a technical error in the January budget for contract county wage adjustments and reimbursements, including $1,000 for lease revenue debt service.

2. **Aviation Contracts.** The budget requests to increase support for fixed-wing aviation contracted services by $3.5 million in the budget year, and increasing to $9 million in four years. This is the result of a new contract signed with DynCorp International, LLC (DynCorp) after a successful request for proposal (RFP) bid to provide fixed-wing and rotary fleet. DynCorp provides pilots to operate fixed-wing aircraft, as well as maintenance technicians for both the department's fixed-wing and rotary fleet. This item was heard on March 17 and held open.

3. **Exclusive Use Helicopters.** Consistent with previous years, the May Revision requests $10.4 million General Fund one-time in 2016-17 for exclusive use helicopter contracts and ground crew temporary help position authority. These resources will supplement CalFIRE's existing fleet on fire incidents as necessary during emergency operations throughout the State of California.

Staff Recommendation: Approve as proposed.

Vote: 3-0

3600 DEPARTMENT OF FISH AND WILDLIFE

1. **Sacramento and San Joaquin River Tributaries.** The department requests $816,000 (General Fund) and one permanent position to complete negotiations in tributaries to the Sacramento-San Joaquin rivers for settlements that create water supply and regulatory certainty for water users and improve ecological flow and habitat for species. This issue was heard and approved in 2015. This proposal would complete the project.

2. **Loan Repayments—Oil Spill Response Trust Fund.** The May Revision requests a technical adjustment to allow the department loan authority from the Renewable Resources Trust Fund to the Oil Spill Response Trust Fund in order to allow the department to repay the balance of the loan, $3.5 million. The May Revision also requests to extend the repayment of $35 million of the $40 million Oil Spill Response Trust Fund transferred to the General Fund as a loan. Trailer bill language is included to release the obligation of the state oil spill administrator to collect oil spill response fees otherwise required to maintain the fund balance and to update the required dates for the repayment of loans.

Staff Recommendation: Approve as proposed.

Vote: 2-1 (Nielsen, no)

3760 STATE COASTAL CONSERVANCY

1. **Proposition 1 Proposal.** The budget requests $12.4 million (Proposition 1) for local assistance and capital outlay and program delivery as follows: (1) local assistance and capital outlay: $11.9 million; and, (2) program delivery of $500,000. These amounts represent an incremental increase to the amounts proposed for appropriation to the conservancy. The funds would be used for purposes of protecting rivers, lakes, streams, coastal waters, and watersheds in the coastal and San Francisco Bay Area regions, consistent with the bond.

2. **Habitat Conservation Fund Reversions.** The spring finance letter requests reversion of the remaining reimbursement authority from several past years' items of appropriation from the Habitat Conservation Fund (Fund 0262). The conservancy expects no further reimbursements into these items of appropriation and no longer needs the remaining reimbursement authority associated with the items.

Staff Recommendation: Approve as proposed.

Vote: 3-0

3780 NATIVE AMERICAN HERITAGE COMMISSION

1. **Reappropriation.** The May Revision requests reappropriation of $997,000 (General Fund) to provide for the completion of a geographic database of California Environmental Quality Act agencies as they pertain to tribal boundaries. The database is required by AB 52 (Gatto), Chapter 532, Statutes of 2014. The reappropriation is required because the delays in hiring for these activities. The commission states that the positions are filled and the project can be completed within the reappropriation timeframe.

Staff Recommendation: Approve as proposed.

Vote: 3-0

3790 DEPARTMENT OF PARKS AND RECREATION

1. **Vessel Operator Certification Program.** Harbors and Navigation Code (HNC) Section 678.7(a) authorizes a transfer totaling $4 million (Harbors and Watercraft Revolving Fund) to the vessel operator certification account, of which $1 million has been transferred to date. The department requests the balance of $3 million be authorized for transfer in 2016-17. These funds will be used to support an existing appropriation to implement the requirements of SB 941 (Hill), Chapter 433, Statutes of 2014, which establishes the Vessel Operator Card Program.

2. **Community Outreach Pilot Program.** The budget requests $690,000 over two years from the State Parks Protection Fund, and three positions, for a pilot project to engage underserved and underrepresented communities. The pilot is a component of the relevancy committee's initiative "Engaging Underserved Populations with State Parks." Specifically, the project would establish state park community liaisons in the Bay Area and Angeles districts who will conduct outreach and engage local community members to create exhibits, tours, demonstrations, and other programs. The department states that the goal of the project is to identify best practices in outreach, engagement, cultural relevancy, and partnerships that can be scaled throughout the state parks system.

3. **Spring Finance Letter Capital Outlay Proposals.** The budget requests reappropriation of existing Capital Outlay appropriations to allow for the completion of projects currently in process. These include: (1) El Capitan State Beach: construct new lifeguard operations facility; Torrey Pines State Natural Reserve: utility modernization; (2) Gaviota State Park: main water supply upgrades; (3) Heber Dunes State Vehicular Recreation Area: water system upgrades; and, (4) McArthur-Burney Falls Memorial State Park: ramp and boarding float replacement. Spring finance letter reappropriations include Off-Highway Vehicle Fund projects, posted spring letter Proposition 84 items, South Yuba Bridge, updates to January proposals, and SPRF ongoing projects including Angel Island, Mendocino Headlands, Leo Carrillo, and McArthur-Burney.

4. **Extensions of Liquidation.** The budget requests extension of liquidation for two local assistance grants in the Habitat Conservation Fund Program that supports acquisition, enhancement, restoration, and development of animal habitats. The projects were delayed due to technical studies and permit requirements.

Staff Recommendation: Approve as proposed.

Vote: Items 3, 4: 3-0 Items 1, 2: 2-1 (Nielsen, no)

3820 SAN FRANCISCO BAY CONSERVATION DEVELOPMENT COMMISSION (BCDC)

1. **Co-Location to Regional Headquarters.** The May Revision requests funds to relocate BCDC offices into the Metropolitan Transportation Commission's new regional agency headquarters building in San Francisco at 375 Beale Street. This request requires a one-time augmentation of $350,000 (General Fund) to provide funding for costs associated with BCDC's relocation to 375 Beale. BCDC does not have available funds for this co-location project, and is statutorily required to be located in San Francisco. This item has been heard multiple times in the subcommittee in 2014 and 2015 with recommendations to support the co-location move.

Staff Recommendation: Approve as proposed.

Vote: 2-1 (Nielsen, no)

3860 DEPARTMENT OF WATER RESOURCES

1. **System Reoperation Program and Surface Storage Program.** The spring finance letter requests various reversions and appropriations anew to continue the system reoperation programs and surface storage program. The original work plan prepared in 2009 was to complete the studies by 2014. However, the study proved to be very complex and required extensive engagement with stakeholders. As a result, the project schedule was extended to 2017. Phase 3 of the study was completed in 2015. Phase 4 of the study was planned to be completed in 2017. However, two major statutes (Sustainable Groundwater Management Act and Proposition 1) were enacted in 2014 that have changed water management in California. The future analyses will need to incorporate and analyze the implementation of these statutes

in the evaluation of reoperation strategies. This necessitates extension of the study schedule to 2021. The surface storage program request ($225,000 reversion and appropriation anew) continues studies for the various surface storage studies previously approved by the Legislature.

2. **Spring Finance Letter Technical Adjustments, Reappropriations, Extensions of Liquidation and Reversions.** The spring finance letter requests reappropriations, extensions of liquidation periods, and technical adjustments for various funds. These technical changes are critical to various projects which cannot be completed by June 30, 2016. This includes the following previously approved proposals: (1) water recycling and desalination feasibility studies; (2) flood corridor program; (3) Yuba-Feather flood protection program; (4) desalination grant projects; (5) water use efficiency grants; (6) integrated regional water management program and grants; and, (7) Proposition 1 programs.

3. **May Revision Loan Payment Deferrals.** The May Revision requests to defer repayment of: (1) $1.1 million General Fund loan to the California Water Fund; and, (2) $2.4 million (General Fund) to the Environmental Water Fund.

Staff Recommendation: Approve as proposed.

Vote: Items 1, 2: 3-0 Item 3: 2-1 (Nielsen, no)

3900 AIR RESOURCES BOARD (ARB)

1. **Enhanced Fleet Modernization Program.** The budget requests requesting a one-time $4.6 million direct appropriation from the Enhanced Fleet Modernization Subaccount (EFMS) in order to continue to partner with the Department of Consumer Affairs (DCA), Bureau of Automotive Repair (BAR), in managing the Enhanced Fleet Modernization Program (EFMP). ARB previously has a direct appropriation of $2.8 million from EFMS for the ARB portion of operating EFMP. This proposal would increase ARB's 2016-17 spending authority by $4.6 million, to a total of $7.4 million. The ARB and BAR are required to reduce the number of passenger vehicles, light duty trucks, and medium duty trucks that are high polluters. The appropriation from the EFMS will allow ARB to meet the high demand for EFMP.

2. **Litigating Civil Penalties.** The budget requests $3.2 million from the Air Pollution Control Fund, and eight positions for program and litigation costs associated with litigating civil penalties concerning Volkswagen, and others for using "defeat devices" on diesel engines. Additionally, $1 million is requested for a one-time equipment purchase and $1 million is requested to contract with the State Attorney General. This proposal is for resources to thoroughly investigate and prepare a civil litigation case concerning Volkswagen, Audi and Porsche vehicles using defeat devices to circumvent emission test procedures. Current resources are inadequate to support work on this investigation and litigation because this case requires a major effort due to the number and types of vehicles and the volume of

documentation needed. This case is significant with potential penalties in the hundreds of millions of dollars. Proceeds from regulation violations are deposited in the Air Pollution Control Fund.

3. **Sustainable Freight Action Plan and Implementation.** The budget requests eight positions and $200,000 per year in contract funds from the Motor Vehicle Account. This includes one air resources supervisor 1, one staff air pollution specialist, one air resources engineer, and three air pollution specialists to meet the increased workload to negotiate, develop, and implement emission reduction measures and to further sustainable freight pathways to zero and near-zero emissions; develop and implement corridor level freight pilot projects; develop and implement a freight facility handbook; as well as provide support for other activities and deliverables to further sustainable freight.

4. **SB 350 Implementation.** The budget requests three permanent full-time positions to support a better understanding of plug-in electric vehicle energy demand projections and environmental benefits associated with plug-in electric vehicle use in California, including in low-income and disadvantaged communities, evaluate and report on how to increase access to zero or near-zero transportation for low-income customers, and develop greenhouse gas planning targets, for the integrated resource plans (IRPs) they are tasked with developing for the electricity sector and investor-owned and public utilities, which will need to increase their overall renewable portfolio to 50 percent. These activities are critical so that the Air Resources Board can meet its obligations under SB 350 (De León), Chapter 547, Statutes of 2015, and the state can meet its near- and long-term climate goals and reduce dependence on traditional fossil fuels. *The LAO recommends adopting this on a limited-term basis, and the Assembly concurs with this action. Staff recommends a conforming action.*

5. **Implementation of AB 1496 (Methane Emission Measurement).** The budget requests $580,000 and four new permanent full-time positions, $790,000 in annual contract funding, and $60,000 for a one time equipment funding from the Cost of Implementation Account to meet the legislative requirements of AB 1496 (Thurmond), Chapter 604, Statutes of 2015, to carry out measurements of high-emission methane "hot spots" and conduct life-cycle greenhouse gas emission analysis in the natural gas sector.

Staff Recommendation: Approve as proposed with a conforming action on Item 4 to make the position funding limited-term.

Vote: to adopt staff recommendation including Assembly conforming action on item 4:

2-1 (Nielsen, no)

3940 State Water Resources Control Board (SWRCB)

1. **Drinking Water Program—Federally Mandated Inspections Workload.** The budget requests 10 positions and $1.4 million (Safe Drinking Water Account (SDWA)) to increase compliance with United States Environmental Protection Agency (US EPA) federal requirements related to drinking water, for which the Division of Drinking Water (DDW) is

responsible. Specifically, the State Water Board requests 10 positions in the northern and southern California field operations branches. The DDW has a significant backlog in federally-mandated water system inspections (i.e., sanitary surveys), including small water systems in severely disadvantaged communities. These positions will increase the number of federally-required sanitary surveys completed annually.

2. **Governor's Budget and Spring Finance Letter Technical Adjustments, Reappropriations and Reversions.** The budget requests (1) reversion of unused state operations and local assistance authority; (2) re-appropriation of local assistance authority to align with encumbrance dates in Proposition 1; and, (3) the appropriation of funds in 84 to ensure the purpose of the bonds is met with the funding of new projects. Additionally, the SWRCB requests that these funds be available for encumbrance until June 30, 2019 and liquidation until June 30, 2021. The budget also requests a reappropriation to extend the encumbrance and liquidation period of the local assistance funds in the site cleanup subaccount (SCS) and the replacing, removing, or upgrading underground storage tanks (RUST) loans from the fiscal year 2015-16 appropriation. The SWRCB requests that the re-appropriated funds be available for encumbrance until June 30, 2018 and liquidation until June 30, 2021. The Governor's 2015-16 budget inadvertently left out this request for extended encumbrance and liquidation periods.

3. **High Speed Rail Authority—Expedited Permitting.** The budget requests $387,000 in annual reimbursement spending authority and 3.3 permanent positions to address federally-required water quality 401 certification needs and oversight of the high speed rail (HSR) project in order to meet the High Speed Rail Authority's (HSRA) requested permitting schedule. The scheduled 401 certification work requested by the HSRA will require approximately 17,500 hours of work over and above normal 401 certification workload, and then oversight once project certification is completed, as construction continues.

4. **Leviathan Mine Workload.** The budget requests $211,000 ongoing General Fund and 1.9 permanent positions to support workload needed to implement and oversee provisions set forth in the "Leviathan Mine Site Work and Cost Allocation Settlement Agreement" between Atlantic Richfield Company and state parties, including the Lahontan Water Board. Funded work would include review of remedial investigation and feasibility study work plans and reports prepared for the Leviathan Mine superfund site pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and participating in the natural resource damage assessment (NRDA) regarding releases from Leviathan Mine site.

5. **Drought Activities.** The budget requests an increase of $21.4 million for one year for continued drought-related activities. Of this amount, $5.4 million General Fund will support water rights activities, $1.0 million Cleanup and Abatement Account will support water quality efforts, and $15 million in one-time local assistance Cleanup and Abatement Account grants will support projects that provide water systems with both interim and permanent solutions to drought emergencies.

6. **Proposition 1 Water Commission.** The budget requests one position and $130,000 reimbursement authority to provide technical assistance and policy expertise under an

interagency agreement with the Department of Water Resources to support the development and implementation of the California Water Commission's Proposition 1 Water Storage Investment Program.

7. **Water Rights Permitting (Heard on April 7).** The budget requests seven positions and $851,000 (Water Rights Fund) to process applications to appropriate water, petitions to change existing rights, wastewater change petitions, and licensing of water rights. The program is funded through fees charged to water right permit and license holders. The SWRCB estimates that this proposal would increase water right's permits, licenses, and application fees by approximately eight percent.

8. **Board Member Per Diem.** The Governor proposes $335,000 (various special funds) for increased regional board member per diem payments. The proposal increases Regional Water Board member per diem from $100 to $500. It also authorizes board members to receive one day's per diem to review materials in preparation for board meetings. Further, it deletes provisions stating that board members receiving unrelated salary are not eligible for per diem and caps total statewide expenditures for board member per diem in lieu of the current cap for each regional board. This cap is in accordance with the increased per diem payments proposed and assumes each regional board meets once monthly. *This item was approved by the subcommittee as proposed. The Assembly budget subcommittee approved this proposal but reduced the per diem amount to $250 per diem (maximum). Staff recommends taking a conforming action.*

9. **May Revision Loan Deferrals.** The May Revision requests deferral of a $1.6 million General Fund loan to the Drinking Water Operator Certification Special Account until June 30, 2019.

Staff Recommendation: Approve as proposed with a conforming action on Item 8 to reduce the maximum per diem amount to $250.

Vote: Items 2, 4, 6: 3-0 Items 1, 3, 7, 9: 2-1 (Nielsen, no)

Items 5, 8: 2-0 (Nielsen not voting). ***Administration confirmed that the reduction to $250 also reduces the overall budget cap for this item.***

3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL (HEARD ON APRIL 21)

1. **Hazardous Waste Management Permitting Support.** The Governor proposes an increase of $1.2 million (Hazardous Waste Control Account) to make permanent eight, limited-term, positions that are set to expire at the end of the current year. These positions were previously provided to address a hazardous waste permit renewal backlog, as well as to update cost estimates associated with closing hazardous waste facilities.

2. **Enhanced Permitting Capacity and Support**. The department requests $2.4 million from the Hazardous Waste Control Account, and 15 positions within the permitting division, to

fully implement process improvements under the permit enhancement work plan. The proposal is intended to sustain timely permitting actions, mitigate the incidence of facilities operating for extended periods of time on expired permits, and improve enforcement.

3. **Trailer Bill Language.** The department requests trailer bill language to eliminate the option to pay a flat fee for a permit application in lieu of a fee for service so that permit applicants pay the full costs associated with permitting efforts. The Administration believes this will significantly reduce staff time on permit applications and align revenues with expenditures in the future.

4. **Strategic Program Development.** The Governor requests an augmentation of $747,000 ($347,000 from Hazardous Waste Control Account and $373,000 from the Toxic Substances Control Account), and conversion of five positions from limited-term to permanent. The department intends to have the five positions report, as a team, to the existing Special Assistant for Program Review. The team will work systematically through the department's core programs and support services to evaluate the strengths, weaknesses, opportunities, and threat in program and service functions. The team will prioritize areas or issues for development.

5. **Office of Environmental Justice and Tribal Affairs.** The Governor requests an augmentation of $881,000 ($441,000 from Toxic Substances Control Account and $440,000 from Hazardous Waste Control Account), and six positions, to create the proposed Office of Environmental Justice and Tribal Affairs. The proposal is intended to strengthen the coordination of environmental justice and tribal affairs activities and to enhance engagement with impacted communities. The office will also identify and address gaps within its own programs that may contribute to unequal environmental protections or outcomes in these communities, and broaden the transparency of and access to DTSC programs.

6. **Independent Review Panel—Legislative Proposal.** The Legislature heard from the Senate appointee to the DTSC Independent Review Panel (IRP). In order to continue to facilitate this work, staff proposes to add two permanent positions with limited-term funding, to allow for more continuity of staffing for the IRP, with budget bill language requiring the department to provide access to the IRP to state facilities and workers in order to provide a more robust review of the department.

Staff Recommendation: Approve as proposed.

Vote: **Items 1, 2, 4, 5, 6: 2-1 (Nielsen, no)**

Item 3 : 2-1 (Nielsen, no)

3970 Department of Resources Recycling and Recovery

1. **Settlement Fees for Public Service Announcements.** The May Revision requests $150,000 (Integrated Waste Management Account), one-time, to develop public service announcements regarding the proper handling and disposal of universal and household hazardous waste, including electronic waste. This funding is the result of a settelement agreement that specifies the use of these funds.

Staff Recommendation: Approve as proposed.

Vote: 3-0

8570 California Department of Food and Agriculture (CDFA)

1. **Network of California Fairs Oversight.** The May Revision requests two permanent positions (one agricultural program supervisor and one attorney) and $435,000 (Fair and Exposition Fund) in 2016-17 and $392,000, ongoing, the Fairs and Expositions Branch to improve of the oversight of the activities of the 79 fairs (of which 77 are active) that make up the network of California fairs. The department workload includes supervision of fair meetings, legal counsel, and management of deferred maintenance funds.

2. **Alternative Fuels Quality and Oversight Program.** The May Revision requests $1.1 million (Cost of Implementation Account, Air Pollution Control Fund) in 2016-17 and $1.4 million, annually thereafter, to establish the Alternative Fuels Quality and Oversight Program to regulate alternative transportation fuels. The funds will support 5.8 existing, but unfunded, positions in 2016-17 and an additional 2.5 existing, but unfunded, positions annually thereafter.

3. **Medical Marijuana Regulation Projects.** The May Revision requests $2 million (Medical Marijuana Regulation and Safety Act Fund [MMRSAF]), one-time, be allocated in 2016-17 for project management and support services of the licensing and track and trace solutions. The specific categories and estimates may change as CDFA completes its market research and makes decisions (e.g. whether the solution will be Software as a Service or not). However, the current estimates are as follows on the next page:

Workload	Cost Estimate
Vendor's Hardware	$750,000
Systems Integrator	$250,000
Security Evaluation	$50,000
Technical Lead	$150,000
Quality Manager	$50,000
Data Manager	$240,000
Requirements/Test	$240,000
Training	$50,000
Architect	$220,000
Total	**$2,000,000**

The CDFA also requests budget bill language allowing for a one-time MMRSAF augmentation in 2016-17 upon approval of the Director of Finance and subject to a 30-day notification to the Joint Legislative Budget Committee. The provisional language will allow the CDFA to complete its market research and present its findings to the Director of Finance who will then determine the amount to be allocated and provide notification to the Joint Legislative Budget Committee. The CDFA anticipates market research will be completed in the Fall of 2016. Due to the short duration of the services (18 months) and the expertise needed with some of these positions, it is not feasible to hire state staff to perform these functions.

LAO Recommendation. "We recommend approval of the $2 million request to provide one-time funding for contract management and support services. We further recommend the Legislature adopt modified budget bill language that will require CDFA to report specific information regarding the proposed IT projects as part of the 30 day notification letter to the Chairperson of the JLBC. Doing so would provide the Legislature with key information to inform its review of the proposed augmentation. Our recommended language is attached."

Staff Recommendation: Approve as proposed with LAO recommended budget bill language to require CDFA to report specific information regarding the proposed IT projects (Item 3).

Vote: Item 1: 3-0

Items 2, 3: 2-1 (Nielsen, no)

(ENVIRONMENTAL JUSTICE AND LEAD EXPOSURE MAY REVISION PROPOSALS

Issue 1: Environmental Justice Proposal

Governor's May Revision Proposal. The May Revision includes $904,000 (various special funds) to make permanent a pilot project designed to reduce adverse environmental impacts in the most vulnerable communities in California. The proposal supports increased enforcement and compliance initiatives in more areas identified as disadvantaged in the state. The proposal is a collaboration proposal between the Office of the Secretary and four of its boards and departments (Air Resources Board (ARB), CalRecycle, Department of Pesticide Regulation (DPR), and the State Water Board). Specifically, the request is for six permanent full-time positions for a total of $904,000 annually, to increase coordinated enforcement and compliance efforts in areas of the state disproportionately burdened by the greatest concentration of environmental hazards.

The resources requested through this proposal are intended to increase coordination among Cal-EPA boards and departments and with local, state, and federal regulatory and law enforcement agencies to facilitate compliance and enforcement efforts across all media (air, water, toxics, solid waste, and pesticides). The efforts of this team are intended to improve the involvement of disadvantaged communities in the decision making processes that affect their health and local living conditions.

Specifically the proposal includes the following:

Department	Request	Fund Source
Air Resources Board	$140,000 (one position)	Air Pollution Control Fund
Department of Pesticide Regulation	$140,000 (one position)	Department of Pesticide Regulation Fund (Mill Assessment)
State Water Resources Control Board	$140,000 (one position)	Underground Storage Tank Cleanup Fund
CalRecycle	$140,000 (one position)	Multiple special funds
Cal-EPA	$344,000 (two positions)	Unified Program Account

Staff Comments. The proposal's intent is laudable, and to the extent that the funds are being used to increase enforcement within the specific authorizations set forth in statute, then the proposal is within the scope of the Cal-EPA budget. The secretary should be prepared to discuss:

(1) Why the State Water Board is using the Underground Storage Tank Cleanup Fund rather than the Waste Discharge Permit Fund for an enforcement positions that likely will focus on waste discharge;

(2) Why Cal-EPA is using the Unified Program Account which is derived from fees collected by each certified unified program agency, and was assessed on persons regulated by the program, rather than the General Fund or fines and penalties.

(3) How the secretary will measure and report outcomes to the public on this new program.

Staff Recommendation. Approve as proposed.

Vote: 2-1 (Nielsen, no)

Issue 2: Lead Exposure Proposals

Governor's May Revision Proposal. The Governor's May Revision includes two proposals intended to reduce lead and pesticide exposure, particularly related to children's health.

1. **Local Lead Water Testing and Public Education (State Water Board).** The May Revision requests $480,000 Safe Drinking Water Account and two positions for the State Water Board to: (1) address US Environmental Protection Agency-identified deficiencies in the State Water Board reporting of public water system compliance with federal reporting requirements, and (2) develop and implement guidance documents based on the federal Lead and Copper Rule to improve tools for public water systems and their customers, including local educational agencies.

   This two-part request is for $480,000 Safe Drinking Water Account for two years, and $240,000 ongoing in out-years and two Division of Drinking Water (DDW) positions to provide resources to improve the ability of the DDW to provide more accurate, timely, and complete reporting of California drinking water data. The two-year limited-term resources will work to develop and distribute guidance and informational documentation based on the federal Lead and Copper Rule for public water systems to help improve local public health outcomes.

2. **Listing Lead Acid Batteries (Department of Toxic Substances Control [DTSC]).** The May Revision proposes $255,000 (Toxic Substances Control Account), and two positions, to evaluate listing lead acid batteries as "priority products" subject to safer consumer product regulations. As part of a hazardous waste source reduction initiative, DTSC will conduct research, engage with stakeholders, evaluate options, and implement recommended actions to better protect the people and environment of California from adverse impacts related to the manufacture, use, recycling and disposal of lead acid batteries.

Staff Comments. Staff recommends approval of the Governor's proposal. The state's data on lead exposure needs improvement. These proposals move the state toward better reporting and data on both exposure and source of lead in the environment. In order to put the state fully into compliance with the US Environmental Agency Lead and Copper Rule, the state would need a total of four new positions.

Staff Recommendation. Approve as proposed with two additional positions to the state water board for full federal compliance.

Vote: 2-1 (Nielsen, no)

Issue 3: Pesticide Air Monitoring Network

Governor's May Revision Proposal. The May Revision requests $2.3 million (Department of Pesticide Regulation Fund and Air Pollution Control Fund civil penalties) and five positions to the Department of Pesticide Regulation (DPR) and Air Resources Board (ARB) to expand the current network of year-round pesticide air monitoring, enhance pesticide laboratory analysis capabilities, and resume previously suspended seasonal ambient pesticide monitoring to better evaluate the impact of pesticides on children's health and in disadvantaged communities.

Specifically the proposal requests $2.3 million in 2016-17 and $1.6 million 2017-18 to expand and strengthen California's existing pesticide air monitoring network as follows:

1. **Department of Pesticide Regulation.** The DPR is requesting $1 million in 2016-17 and $962,000 in 2017-18 (DPR Fund). Funding will be used to; (1) revise the site selection process to include the consideration of children's health (schools) and environmental justice factors; (2) increase the number of communities being monitored from six to eight; (3) increase the number of pesticides and time periods monitored; and, (4) conduct three intensive seasonal monitoring studies each year. This request includes $62,000 for one-time purchases for DPR supplies, services, and equipment; a $70,000 DPR contract for sampling remote site(s), a $100,000 DPR contract to improve the sampling and laboratory methods, and a $548,000 DPR contract with California Department of Food and Agriculture for additional laboratory analyses.

2. **Air Resources Board.** The ARB is requesting $1.3 million in 2016-17 and $596,000 in 2017-18 for a two-year limited term. Of the 2016-17 requested funds, $715,000 in one-time equipment purchases and $136,000 in maintenance expenses will be funded by civil penalty revenues from the Air Pollution Control Fund (APCF). Of the 2017-18 requested funds, $136,000 in maintenance expenses will be funded by civil penalty revenues from the APCF. The DPR Fund will cover the remainder of the ARB's costs in 2016-17 ($463,000) and 2017-2018 ($460,000). The requested funds will be used to expand the current network of year-round pesticide air monitoring stations, enhance pesticide laboratory analysis capabilities, and resume seasonal ambient pesticide monitoring in environmental justice communities. This proposal includes provisional language specifying that APCF civil penalties can be used for the one-time equipment and maintenance costs.

Staff Comments. Increased protection of individuals exposed to pesticides is part of the core mission of DPR. The departments should be prepared to discuss:

1. What data was used to determine that this proposal is necessary, including exposure data?
2. How will outcomes be measured for this two-year pilot program?
3. How will residents be apprised of concerns raised by the increase monitoring—including should the pilot project determine that there are unacceptable levels of pesticides in certain areas?

Staff Recommendation. Approve as proposed.

Vote: 2-1 (Nielsen, no)

MAY REVISION DROUGHT PROPOSALS AND JANUARY BUDGET UPDATE

Issue 1: Drought Proposals

Governor's January Budget (Open Items). The following items are currently open from the January budget. Specifically, the subcommittee held open the Department of Water Resources item to determine if the $42 million salinity barriers would be necessary after May Revision. Staff was directed at during the April 7 hearing to add LAO recommended reports on measureable outcomes and lessons learned to the final item.

1. **3600 Department of Fish and Wildlife—Augmentation for Drought Activities.** The budget requests $17.7 million ($2 million Hatcheries and Inland Fisheries Fund and $15.7 million General Fund), and a continuation of 13 limited-term positions provided in 2015 for emergency drought response. The department plans to focus on high-priority areas including: (1) emergency help for winter- and spring-run Chinook salmon on the Sacramento River; (2) monitoring salmon and smelt populations; (3) preventative management actions to avoid commercial fishery impacts; and, (4) increased enforcement and general monitoring.

2. **3860 Department of Water Resources—Drought Activities (Heard on April 7).** The Governor's 2016-17 budget includes $64 million (General Fund) in support of continuing emergency response activities associated with the state's current drought. The proposal has three main elements: (1) $17 million in support of 25 positions that are undertaking drought response activities; (2) $5 million to assist disadvantaged communities with emergency water supply and public health issues associated with drought conditions; and (3) $42 million for Delta salinity barrier construction work (the removal in fall 2016 if installed in spring 2016, and the reinstallation, if necessary, in spring 2017).

Governor's May Revision Proposals. The Governor's budget proposed $323.1 million to continue the state's emergency response to the drought. This included several proposals that assumed the drought would continue at levels in previous years, statewide. Drought conditions continue, particularly in Southern California, leading the Administration to propose additional funding to continue its drought efforts statewide, and to address impacts of the multi-year drought on forests and wildlife. The budget removes $42 million (General Fund) to reflect that the removal of the salinity barriers in the Delta will not be necessary.

1. **Tree Removal.** The May Revision includes $11 million (General Fund) to CalFIRE to assist in the removal and disposal of trees in high hazard areas. This includes: (1) $6 million for grants to local entities for removal of hazardous trees that pose a threat to public health and safety; (2) $5 million for equipment and personnel for hazardous tree removal and fuels reduction efforts; and, (3) trailer bill language to allow small biomass facilities to defer certain system interconnection costs.

2. **Department of Fish and Wildlife.** The May Revision includes $4.2 million (General Fund), on a one-time basis, for the following delta smelt-related proposals: (1) $2 million for a habitat restoration and food production adaptive management pilot project; (2) $1.8 million for enhanced aquatic weed control; and, $400,000 for continued monitoring and targeted studies. The budget also reflects a decrease of $4.2 million to reflect improved

conditions in the north, reducing the necessity for fish recues and water infrastructure and conveyance improvements.

3. **Local Assistance for Small Communities.** The May Revision includes $5 million (General Fund) to the Department of Water Resources (DWR) to provide emergency drinking water support for small communities. This is in addition to $5 million included in the January budget.

4. **Public Education.** The May Revision reduces by $3 million (General Fund) in the DWR budget to reflect the reduced need for statewide water saving public education campaigns.

5. **Drought Preparedness and Resilience for Urban Water Agencies.** To effect long-term water conservation, the May Revision includes $4.5 million (General Fund) to DWR and the State Water Resources Control Board (SWRCB) to review and update local water shortage contingency plans, develop recommendations for new water use efficacy targets, and to establish a permanent urban water use efficiency data tracking system.

6. **Facilitation Support for Groundwater Sustainability Agencies.** The May Revision includes $1 million (General Fund) for DWR to support local public agencies with facilitations services as they implement new groundwater laws.

7. **Statewide Agricultural Land Use Data.** The May Revision includes $1 million (General Fund), one-time, to DWR to support the use of remote sensing technology to establish statewide agricultural land use data, in order to support new groundwater law requirements. *The Assembly suggests adopting budget bill language to require DWR to collaborate with other state agencies that have agricultural land-use data.*

8. **Salinity Barriers Reduction and Reappropriation.** The May Revision reduces by $42 million (General Fund) originally intended for the installation of emergency salinity barriers in the Delta. The May Revision requests reappropriation of various special funds should the barriers be necessary in 2017.

Staff Comments. Staff recommends approval of the Governor's proposals. The May Revision proposals address current needs and appropriately amend down various costs will focusing efforts on emerging issues. Staff have concerns with the biomass interconnection trailer bill language and recommend this be moved to conference for further review.

Staff Recommendations.

(1) Approve as revised with agriculture budget bill language on Item 7.

(2) Approve LAO recommended reporting language requiring the department to, on or before January 1, 2020, provide the Legislature with a plan for ongoing program reforms, and an evaluation of the success of the reforms put forth in this proposal.

(3) Reject without prejudice the biomass interconnection trailer bill language included in the tree removal proposal for further review during conference committee.

Vote: Motions to adopt staff recommendation. Items 1, 2: 3-0; Item 3: 2-1 (Nielsen, no).

(MULTIPLE) CANNABIS CULTIVATION TRAILER BILL

Issue 1: Cannabis Trailer Bill Language

Governor's May Revision Proposal. The subcommittee heard the Governor's budget implementation of medical marijuana laws passed in 2015 on March 3 and approved the proposals on May 5. The Governor submitted trailer bill language (TBL) with the May Revision to revise and clarify the certain aspects of the of the medical marijuana legislative package passed last year. The proposal includes the following changes, all within the Business and Professions Code:

1. **Clarifying Agency Roles in Protecting Streams.** The TBL clarifies that the State Water Resources Control Board (state water board), rather than the California Department of Food and Agriculture (CDFA), is the agency responsible for ensuring individual and cumulative effects of water diversion and discharge do not affect instream flows needed for fish (migration, spawning, and rearing) and to maintain natural flow variability. The state water board must consult with CDFA and the California Department of Fish and Wildlife (DFW) in developing requirements. Requirements established by the state water board and DFW to protect instream flows must be included in CDFA's cannabis cultivation licenses.

2. **Licensing and Enforcement.** The TBL establishes requirements for water supply information when growers apply for a license from CDFA as follows:
   - For the first five years, requires that all CDFA licenses must include a pending application, registration or other water right documentation filed with the state water board.
   - Beginning 2020, all licenses must have a valid water right. *Business & Prof. Code, Section 19332.2*

   The TBL specifies that CDFA licenses will include applicable in-stream flow requirements set by SWRCB and DFW. *Business & Prof. Code, Section 19332.2e.* The TBL specifies that CDFA licenses must also specify that they are not effective until the licensee has received a DFW-issued lake and streambed alteration agreement or is told by CDFW that it is not needed. *Business & Prof. Code, Section 19332.2.*

3. **Coordination of DFW and SWRCB.** The TBL gives DFW the authority to advise a cultivator that a streambed alteration agreement is not necessary if the license includes streamflow and other protective measures specified by DFW and the state water board. Also allows DFW to develop a general agreement for cannabis cultivation. *Fish and Game Code Sections 1602(c) and 1617.* The TBL clarifies state water board has enforcement authority if water is diverted or used for cannabis cultivation and: (1) a CDFA license is required, but not obtained; or (2) the diversion does not comply with the requirements to protect instream flows established by the state water board or DFW. This impacts Water Code, sections 1831(cease and desist order) and 1847 (administrative fines).

4. **Process to Protect Instream Flows.** The TBL provides interim requirements directing the state water board (through existing process for adopting water quality policies) to establish

interim requirements to protect instream flows pending development of long-term requirements. This is designed to enable the state water board to act quickly to address impacts to fish and wildlife. Once requirements are developed, the state water board and DFW will implement a coordinated registration program for small irrigation operations (similar to existing registration program in all or portions of five North Coast counties). *Business & Prof. Code, Section 19332(e).*

The TBL authorizes DFW to create, using emergency regulations, interim requirements to protect fish and wildlife from the impact of diversions from cannabis cultivation. These interim requirements may be in addition to the state water board's instream flow measures. DFW interim requirements remain in place until long-term requirements to protect instream flows are adopted by the state water board. *Business & Prof. Code, Section 19332(e).*

The TBL provides long-term requirements directing the state water board, in consultation with CDFW, to adopt principles and guidelines to maintain instream flows where cannabis cultivation has the potential to substantially affect instream flows. *Business & Prof. Code, Section 19332(e).*

5. **Environmental Review.** The TBL exempts the state water board and DFW streamflow requirements from the California Environmental Quality Act (CEQA). For the long-term flows, however, the legislation requires an impacts analysis with less potential for delay: the state water board must identify significant environmental impacts and alternatives or mitigation to reduce them, and it must consider public comments on the analysis prior to adoption. *Business & Prof. Code, Section 19332(e).*

Staff Comments. Staff commends the efforts of the Administration to provide clarification to the package of laws passed in 2015. Many of these changes are necessary in order to allow departments to move forward with regulation of this newly legal product. However certain questions have been raised about the trailer bill language including:

1. If this is cleanup legislation, why would we insert lengthy water and instream flow requirements into the Business and Professions Code, rather than simply reference existing or enhanced water codes?
2. Why are we treating marijuana crops differently than other crops? Should we expect special treatment of, say, alfalfa or almond crops? Why not simply require marijuana growers to adhere to California's strict water laws?
3. CEQA exemptions should be used only in the most dire of situations. To be sure, the state needs to move quickly to address concerns about instream flows and water quality concerns, particularly in the north state. What other options have been explored for expediting this proposal?

Staff Recommendation. Reject proposal without prejudice in order to work with the Administration address various concerns raised above. Staff recommends the Administration set up a working group with legislative policy and budget staff specifically on the water and agriculture aspects of the cannabis trailer bill to work through necessary language changes.

Vote: 3-0 to reject without prejudice.

3480 DEPARTMENT OF CONSERVATION

Issue 1: Williamson Act Contracts

Background. The Williamson Act allows cities and counties to enter into contracts with landowners to restrict certain property to open space and agricultural uses. In return for these restrictions, the property owners pay reduced property taxes because the land is assessed at a lower-than-maximum level. The amount of the state subvention to localities is based on the amount and type of land under contract, but is always less than the actual reduction in local property tax revenues. The Department of Conservation (DOC), which administers the program, estimates that individual landowners save anywhere from 20 percent to 75 percent in reduced property taxes each year, depending upon their circumstances.

The contracts entered into between local governments and property owners are ten-year contracts. Such contracts are typically renewed each year for an additional year, such that the term on the contract remains at a constant ten years. In the event the contract is not renewed, the tax on the property gradually returns over a ten-year period to the level at which comparable but unrestricted land is taxed. The Williamson Act subventions were eliminated in the 2008 budget; however, those holding contracts are obligated to continue to prevent their land from development. Should a landowner decide to cancel the contract prior to reaching full term, the landowner is required to pay a cancellation fee equal to 12.5 percent of the cancellation valuation of the property.

Statute requires that the first $2.5 million of the revenue be deposited in the Soil Conservation Fund at the DOC. All funds in excess of this amount are returned to the General Fund.

Governor's January Proposal. The Governor's budget continues to support statute and makes no change to the funding amounts.

Alternative Proposal. An alternative proposal suggests that instead of returning funds to the General Fund, these monies should be directed to the DOC for land and open space protections, soil protections, sustainable agriculture practices and other beneficial practices including the support of resource conservation districts. In past years, the amount directed to the General Fund has ranged from $0 to $23 million depending on the number of contract cancelations, which is dependent upon the overall real estate sector economy, averaging about $4 million per year.

Subcommittee Options. The subcommittee may consider: (1) continue with the existing program pursuant to statute, sending all funds in excess of $2.5 million to the General Fund; (2) propose to direct those funds to other purposes, such as the DOC resource protection programs; or, (3) raise the cap on the amount directed to the department to $5 million to allow for more funding in good years.

Motion and Vote: To raise the cap on the amount directed to the department to $5 million to allow for more funding in good years. **Vote: 3-0.**

3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION (CALFIRE)

Issue 1: Helicopter Procurement (Heard on March 17)

Background. The subcommittee heard extensive testimony from the department, Legislative Analyst's Office, and stakeholders at its March 17 hearing. The subcommittee members expressed support for the replacement of the helicopter fleet, but requested more information prior to approval of the request. After that date, the Department of General Services (DGS) received several bids for the helicopter procurement. However, a technical issue arose in the procurement, whereupon DGS and CalFIRE determined it necessary to re-issue the Invitation for Bid. The department has kept legislative staff involved throughout the process and has been open with any changes necessary to the bid procedures.

Governor's January Proposal. The Governor's January budget includes a one-line "miscellaneous adjustment" in the amount of $100 million that the Department of Finance has indicated is a placeholder for the helicopter purchase.

Governor's May Revision Proposal. The May Revision requests are $12 million (General Fund) to purchase one helicopter in 2016-17, with provisional language to allow, upon notification to the Joint Legislative Budget Committee, the following:

a. Department of Finance (DOF) to augment the item for the actual single helicopter procurement cost, related fees, and support costs following JLBC notification. The notification will include: (a) the model of helicopter being acquired; (b) the cost per unit; (c) procurement cost by fiscal year; and, (d) delivery schedule.

b. DOF to augment the item for capital outlay costs associated with studies, acquisition, preliminary plans, and working drawings for helicopter facility modifications.

Staff Comments. The May Revision request strikes an appropriate balance between the need to move forward with procurement of the helicopters and the need for staff, stakeholders and the public to be well-informed of the final cost of the full procurement. Staff anticipates that the department will present a proposal in the 2017-18 budget cycle with details including long-term capital outlay costs, staffing and operations costs, and projected decreases in maintenance costs related to the helicopter procurement. Prior to further purchase of helicopters, the department will be required to discuss its assessment of the selected vehicle and its capabilities long-term for the CalFIRE mission.

LAO Recommendation. The LAO has posted a recommendation to modify the proposed language to provide some limits on the augmentations the Administration could make regarding the purchase of the single helicopter and the capital outlay augmentations associated with the proposal.

Staff Recommendation. Approve May Revision proposal with LAO recommendations.

Vote: 3-0 to approve staff recommendation.

Issue 2: Professional Standards Program (Heard on March 17)

Governor's Proposal. The Governor's budget proposes $4.4 million ($3.7 million ongoing) primarily from the General Fund, and 14 permanent positions to establish a professional standards program in headquarters, which would include a unit to provide additional oversight for internal investigations and adverse actions, as well as expand manager and supervisor training. The proposed positions would conduct administrative and background investigations, provide more training to managers and supervisors, and develop guidelines to promote consistent application of penalties.

Under the proposal, much of the workload in 2016–17 would focus on developing and standardizing policies and processes, as well as training all department managers and supervisors on implementing these procedures. After 2016–17, the nature of the workload would shift to focusing on ongoing training, document review, routine investigations, and oversight. The program is, in part, a response to recent concerns regarding the department's hiring and promotion practices and other allegations of employee misconduct.

LAO Recommendation. "Given the uncertainty about the department's ongoing workload related to the new professional standards program, we recommend that the Legislature approve the additional ongoing resources proposed on a three–year limited–term basis. This timeframe would allow the department to fully implement the program over a period of time before evaluating the program's ongoing workload needs. This would also provide an opportunity for the Legislature and administration to evaluate the effectiveness of the proposed program before committing ongoing resources."

Staff Comments. In the hearing on March 17, representatives from one of the 13 CalFIRE employee unions objected to the proposal, stating that this was an over-reaction to a single incident at the academy. The director testified that in 2015, CalFIRE processed over 70 letters of warning, 60 terminations with cause, 100 notices of adverse actions, 47 equal employment opportunity investigations, and countless other investigations, such as employee and citizen complaints.

The subcommittee asked the department to meet with the union leadership. The department leadership met with the union in three dedicated meetings totaling over 10 hours from March through April, in addition to informal telephone conversations. While staff respects the union position, any large department with complex human interactions including living situations, public encounters, stressful situations, should warrant a thorough professional standards program. Much like the California Highway Patrol, when it reconsidered how it manages professional standards, this proposal seems like a step forward for CalFIRE.

Staff recommends approving the proposal on a three-year basis with annual reporting to the budget committees in the budget process on how the program is working.

Staff Recommendation. Hold open. (no action taken)

Issue 3: Legislative Proposals

Background. The subcommittee may wish to consider these priority items for the budget.

1. **State Responsibility Area (SRA) Local Assistance ~~($10 million General Fund~~ SRA Fund~~).~~** In the 2014-15 budget, the Legislature added $10 million (SRA Fire Prevention Fund) for local grants pursuant to Public Resources Code 4214 (d), which specifies that the allowable fire prevention activities from the SRA Fund includes grants to fire safe councils, local conservation corps, grants to nonprofit organizations that can complete a fire prevention project applicable to the SRA, public education to reduce the fire risk in the SRA, and other fire prevention activities. In the 2015-16 budget, the Legislature again included $5 million for similar purposes. The Governor's budget did not continue this funding and no explanation has been given as to why this is not an ongoing, baseline, expenditure for the SRA Fire Prevention Fund.

2. **Contract County Capital Outlay ($250,000 General Fund).** In previous years, contract counties (those counties providing wildland fire services in their respective jurisdictions while not duplicating services), have received minor capital outlay funding as a part of their contracts. According to the Attorney General, the contracts are based on "like" funding, which includes minor capital outlay. This amount totals about $250,000 per year, which was eliminated in 2013. The Department of Finance considers this part of the reductions made during the fiscal downturn. However, the policy decision to eliminate these funds from the contracts that was not related to the fiscal outlook of the state. This cut was not enumerated for the Legislature in budget reduction proposals in previous years, and therefore should be considered as part of the baseline for contract counties. The Senate included this item in its 2015-16 budget. The item was removed from the final budget after negotiation with the Department of Finance.

3. **Forest Health Trailer Bill Language (Heard on March 17).** Staff proposes to add trailer bill language to provide guidance to CalFIRE in its spending of greenhouse gas emission reduction funds. Draft trailer bill and budget bill language would specify: (1) Wildlife Conservation Board be charged with allocating $25 million (in collaboration with CalFIRE) for working forest conservation easements, and including two positions for this collaboration; (2) of the amount provided $5 million would be invested in prescribed fire and/or managed ignition landscape projects; (3) landscape level projects would be subject to certain limitations in order to achieve maximum benefit to forest health; (4) exceptions would be made for direct high hazard zones as part of the Tree Mortality Task Force; (5) for a period of three years, Tuolumne County would be required to fund the project with the existing $80 million Housing and Urban Development disaster resilience grant; and, (6) the Air Resources Board will provide to the Legislature a greenhouse gas emission inventory for the forest and working lands sector.

Staff Recommendation. Staff recommends approving the items as outlined above.

Vote. Items 1, 3: 2-1 (Nielsen, no) (with correction noted above on agenda); Item 2: 3-0.

3790 Department of Parks and Recreation

Issue 1: Base Funding to Maintain Operations

Governor's Proposal. The Governor's budget requests another one-time increase of $16,968,000 in spending authority from the State Parks and Recreation Fund to sustain its operations and maintain its base support budget. Additionally, the proposal requests a one-time redirection of $31,000,000 in fuel tax revenues to the State Parks and Recreation Fund (SPRF) to maintain fund solvency.

Legislative Analyst's Office (LAO) Analysis and Recommendation. The LAO provides the following analysis:

> **Continues One–Time SPRF Augmentation.** The Governor proposes a one– time $17 million increase in SPRF spending authority. This would provide a similar funding level from SPRF as in the past two fiscal years. (Similar one–time increases were included in the past two budgets as well.) The department anticipates providing an ongoing budgetary solution as part of the 2017-18 budget.
>
> **Redirect Fuel Taxes From OHV Trust Fund to SPRF. Due** to the structural shortfall in SPRF and the depletion of the SPRF fund balance, the administration requests a one–time redirection of $31 million in fuel tax revenues to SPRF. This money would otherwise be deposited in the OHV Trust Fund to support the state's eight State Vehicular Recreation Areas (SVRAs) and other programs for Off Highway Vehicle (OHV) users. The OHV Trust Fund balance is significant. Even with the proposed transfer, the Governor's budget estimates a year–end fund balance of $149 million in 2016–17.
>
> **OHV Revenue Transfer Is Legal . . .** We note that fuel tax revenues have been redirected from the OHV Trust Fund in the past. Specifically, the 2011 Budget Act provided for a redirection to the General Fund of about $10 million per year in fuel tax revenue that had previously been designated for deposit in the OHV Trust Fund. At that time, the California Attorney General issued an opinion that such a redirection was legal because (1) the OHV Trust Fund was established by the Legislature, and (2) the redirected revenue is not subject to constitutional restrictions on spending gas tax revenues since it is from OHVs rather than from motor vehicles used on public streets and highways. Thus, the Governor's proposed redirection to SPRF would be legal for the same reasons.
>
> **. . . But Raises Policy Questions.** Current statute requires that this fuel tax revenue go to the OHV Division. Consequently, the proposed redirection would not only reduce revenues to support OHV activities, it would also represent a policy shift in the use of the funds. The revenue deposited in the OHV Trust Fund is intended to reflect tax revenues from purchases made by OHV users. Therefore, using the money for SVRAs and other activities that support OHV recreation provides a direct benefit to these tax payers. However, if the Legislature does not wish to redirect this money to SPRF, it would need to either (1) provide a one–time transfer from another funding source—such as the General Fund—to maintain parks funding at its current level or (2) reduce the level of state funding for parks operations and capital projects. We note that in 2015, the Legislature adopted budget trailer legislation requiring the California Department of Transportation to reevaluate how the amount of fuel sales attributable to recreational use

of OHVs is calculated. That report was due January 1, 2016 but has not yet been provided to the Legislature. The report could potentially impact the amount of revenue for the OHV Trust Fund.

LAO Recommendations. One–Time Augmentation Makes Sense but Requires Decision on Fund Source. We find that the one–time $17 million augmentation to SPRF makes sense, as the amount of the augmentation is consistent with the past two years and will allow DPR to maintain current service levels. We have no specific recommendations with regard to the administration's proposed redirection of fuel tax revenue to SPRF to address the fund's structural shortfall in 2016–17. The transfer is legal and the fund that the revenue would otherwise go to—the OHV Trust Fund—can support it. However, we do note that it reduces funding available for OHV activities. The only alternative that we have identified is a transfer from the General Fund. We recommend the Legislature choose the funding source that aligns with its priorities regarding OHV–related activities and other competing General Fund priorities.

Information on Progress–to–Date Should Be Provided. While we understand that DPR is still in the process of developing and implementing changes to address its budgetary and programmatic challenges, it should be able to report on the status of its current efforts and how successful its changes have been thus far. Therefore, we recommend that the Legislature require the department to report at legislative budget hearings this spring on the following items:

- The implementation of the Parks Forward Commission recommendations and Transformation Team progress, including expected completion dates.
- The Revenue Generation program—including a description of the revenue–generating projects that have been completed or are currently underway, the amount of additional revenue these projects have generated, and where and how this revenue has been spent.
- The range of options the department is considering to achieve a long–term budget solution, including the role that the department anticipates revenue generation playing.

Staff Comments. Staff concurs with the LAO's assessment of the OHV transfer and the overall budget assessment. As pointed out, the transfer is legal and the OHV Trust Fund is able to support this on a one-time basis. The Assembly approved the item and adopted budget bill language stating: *"it is the intent of the Legislature that his OHV fund transfer be one-time in nature for the purpose of maintaining existing service levels at state parks with the expectation that the department will provide a sustainable solution to balance the State Parks and Recreation Fund as part of the Governor's January 10, 2017 budget proposal."*

Staff Recommendation. Approve as proposed with Assembly-proposed budget bill language.

Vote: 2-1 (Nielsen, no)

Issue 2: Public Beach Restoration Program

Governor's Spring Finance Letter Proposal. The spring finance letter requests an increase of $2.6 million from the Public Beach Restoration Fund (PBRF) to administer its previously proposed Public Beach Restoration Act projects. Additionally, this proposal requests an increase of $700,000 from the Harbors and Watercraft Revolving Fund (HWRF) to support a Beach Erosion Control project. Previously-requested funding was calculated based on an assumed 50-50 state-local cost-share ratio. However, the Public Beach Restoration Act requires the funding of the nonfederal project cost for restoration, nourishment, or enhancement of non-state public beaches to be 85 percent with a 15 percent match from local sponsors, provided as funds or in-kind services. The proposed increase of $2.6 million seeks to fix this technical funding discrepancy and provide the 85-15 state to local match ratio.

Harbors and Navigation Code § 69.9(b) specifies that any funding from PBRF must be split 40-60 between projects north and south of the border between the counties of San Luis Obispo and Monterey, respectively. Since there were not sufficient projects in the northern region approved for 2016-17, the department requests provisional language that will allow for these critical projects to proceed regardless of geographic location.

Recent Reports on Beach Nourishment and Sedimentation. Multiple recent reports from the Scripps Institute and UC Davis indicate that beach nourishment projects may have a negative impact on this fragile environment. Impacts include: (1) burying sand-dwelling invertebrates; (2) reducing prey availability for shorebirds and fish; (3) and, contributing to the long-term negative impacts of ecosystems.

Dam Removal Projects Increase Sediment. At the same time, recent dam removal projects have yielded surprisingly positive results regarding sedimentation. The removal of the Elwha dam in Washington State carried such significant amounts of sediment from behind the dam rebuilding riverbanks and gravel bars and, in and around the river's mouth, that it created some 70 acres of new beach and riverside estuary habitat for Dungeness crabs, sand lance, surf smelt, clams, and other species.

Staff Comments. Staff has concerns with continued increases in the beach replenishment program while little is being done to increase sediment deposits from dam removal in the same areas. The state is investing $250 million (bond funds) in the Klamath Dam removal but no funding was proposed for Southern California dam removal—including the well-documented Matilija Dam in Ventura County.

Staff Recommendation. Approve as proposed on a one-time basis. Include supplemental reporting language requiring the Secretary for Natural Resources to report to the Legislature, on or before January 10, 2017, on what obstacles exist to funding to both beach replenishment projects and natural sedimentation projects such as dam removal with this fund source.

Vote: 2-1 (Nielsen, no)

Issue 3: California History Interpretation Pilot Program

Governor's May Revision Proposal. The department requests an increase of $348,000 (State Parks Protection Fund) to fund a two-year pilot project to develop and improve public interpretation through a new collaborative partnership with the University of California at California Citrus State Historic Park and El Presidio de Santa Barbara State Historic Park. A successful pilot project will establish the foundation for a new model for interpretation of history and culture through state parks. This project, along with the community liaison project included in the Governor's January budget, is intended to create culturally relevant interpretive and environmental programs, making services more relevant to a broader and more diverse group of people. The department will also seek expansion of this project through partnerships and philanthropic support.

The pilot program's purpose is to identify, analyze, develop, and test structures, curriculum, practices, and partnerships for establishing and stewarding an enhanced interpretation and education program system-wide. This improved framework will make park interpretation as culturally-relevant and inclusive to as many visitors as possible and, in doing so; institutionalize inherent opportunities for civic dialogue and engagement within the state park system.

The ultimate goal is to develop a program framework for integrating applied scholarship through partnerships with California's public higher education systems that can be taken to scale throughout the state park system. Such programs could then be expanded to other historical and cultural programs, as well as to other academic programs customized for the needs of each park, region, or community across the state.

Staff Comments. The department's proposal is innovative. The department should be prepared to discuss the following:

1. What other pilot programs are being considered to increase cultural and historical awareness in state parks?

2. Was a request for proposals issued for this pilot program? What other entities would be interested in such a project?

3. How will the department evaluate the effectiveness of this pilot program and with what criteria?

Staff Recommendation. Approve as proposed.

Vote: 2-1 (Nielsen, no)

3860 Department of Water Resources (Heard on April 7)

Issue 1: Delta Habitat Conservation and Conveyance Program (DHCCP)

Background. The DHCCP was established in 2008 to implement a gubernatorial directive to address both water supply issues and environmental concerns related to the Delta. Specific goals of DHCCP include protecting and restoring Delta habitat and studying improved methods to reduce the impact of water conveyance on the Delta.

Governor's January Proposal. The budget requests the conversion of 38 limited-term positions to permanent positions. These positions are intended to carry out the preliminary design phase activities within components of the Delta Habitat Conservation and Conveyance Program (DHCCP). This proposal includes no funding request as the positions are funded by the State Water Project and have no impact on the state's annual budget act.

Previous Subcommittee Action. The subcommittee held this proposal open on April 7.

Alternate Proposal. Staff recommends the department amend its January proposal as follows:

- The conversion of only three positions (the only ones currently filled) to permanent to be consistent with prior Legislative action to not approve as permanent until filled; and
- The extension of 17 of the limited-term positions for two additional years.

Since the development of the January BCP, the timeline for when the Environmental Impact Report (EIR) will be final, and subsequently when the Department will begin filling the positions, has been identified as Fall 2016. Since the staffing need will not be for a complete fiscal year, the department should reduce the overall number of positions that would be needed in 2016-17, and is also proposing that those be limited-term to ensure appropriate oversight before they would be made permanent.

Staff Recommendation. Staff recommends approving the revised proposal from 38 permanent positions to three permanent positions and 17 two-year limited-term positions. This is comparable to the anticipate workload and should be supported.

Staff further recommends supplemental reporting language requiring the Administration to report to the Legislature the financial assurances required in order to complete the WaterFix proposal, on or before November 30, 2016.

Recommendation: Approve: (1) alternate position request; and, (2) proposed supplemental reporting language.

Vote: To approve staff recommended compromise highlighted above: 2-1 (Nielsen, no).

3900 California Air Resources Board

Issue 1: Short-Lived Climate Pollutant (SLCP) and Post 2020 Proposals

Background. This item was heard and held open on April 21.

Governor's Proposals. The Governor's budget includes several proposals funded by the COIA. These are in addition to several major programs funded by the GGRF. The COIA proposals include:

Summary of Governor's Proposals to Develop Regulations for Post-2020 GHG Goals

Proposal	Funding and Positions Requested	Primary Justification
Clean Bus and Truck Standards	$1.2 million and four positions	Governor's GHG goals, AB 32, and federal air standards
Advanced Clean Cars Program	$580,000 and four positions	Governor's GHG goals and federal air standards
SLCP (SB 605)	$1.4 million and five positions	SLCP strategy, AB 32, and Governor's GHG goals

GHG = greenhouse gas and SLCP = short-lived climate pollutant. Source: Legislative Analyst's Office.

LAO Recommendation. "We recommend modifying the Governor's proposal in two ways: (1) rejecting requests related to the Administration's long-term GHG goals and implementing the SLCP strategy and (2) identifying alternative funding sources for air quality activities."

Staff Comments. The LAO provides a good analysis of the issues surrounding SLCP and the regulatory approach provided by ARB. After the LAO analysis was completed, the Administration reported on strategies to achieve GHG emission reductions from SLCP, which have a number of co-benefits including the reduction of public health, air and water quality impacts. Other funding sources, such as the Air Pollution Control Fund and Inspection Repair Fund have been suggested for the various proposals and concerns have been raised about funding proposals before the ARB adopts the SLCP plan.

Staff Recommendations. Approve with the following changes:

1. Shift funding to the Air Pollution Control Fund for the SLCP;
2. Add budget bill language requiring the ARB to adopt the SLCP plan prior to expenditure of funds;
3. Shift funding to the Vehicle Inspection Repair Fund for the remaining two proposals on a one-time basis.

Vote: 2-1 (Nielsen, no)

Issue 2: Motor Vehicle Insurance Account Assessment (MVIA)

Background. Because the state is self-insured, when traffic accidents occur, Department of General Services (DGS) pays any settlements or judgements from the MVIA, Fund 0026. Pursuant to the State Administrative Manual, DGS pays the first $1 million liability per accident. All state agencies pay annual premiums to Office of Risk Management (ORIM). When a settlement or a judgement is made against the state concerning an automobile accident, ORIM pays the settlement of judgement and the affected department reimburses the MVIA the amount in excess of $1 million.

In 2011, an ARB employee was involved in an accident that resulting in a judgement against the state. Initially, DGS budgeted $3 million for the settlement. The judge increased the settlement to $10 million. In anticipation of the victim receiving a judgement in this case, DGS began increasing the ARB MVIA assessment in 2012-13. The state is appealing the case and the outcome will not be known until midyear. Assuming the judgement stands and is neither increased nor decreased, this one-time expenditure authority increase will be the final MVIA assessment increase and the ARB payment will be reduced beginning in 2017-18.

May Revision Proposal. The May Revision requests one-time expenditure authority from the Air Pollution Control Fund (APCF) to reimburse ORIM for a payment made by DGS on behalf of the Air Resources Board (ARB) for a $10 million judgement associated with a car accident in 2011.

Staff Comments. Staff is concerned that: (1) the amount to be paid is under appeal and therefore it is not certain that the full $10 million will be necessary; and (2) this type of payment usually is drawn from multiple funds, not a single funding source; (3) the size of the fund balance or fund source should not determine payout, rather that this should be considered well ahead of time, or be drawn from the General Fund.

Staff Recommendations. Due to the timing of the issue, staff recommends approval of this proposal. Staff further recommends the ARB report, at budget hearings in 2017, on its plan to address future insurance claims.

Vote: 2-1 (Nielsen, no)

Issue 3: Specialty Equipment Market Association (SEMA) Proposed Fee

Proposal. Manufacturers of emissions-related motor vehicle parts submit applications to the California Air Resources Board for executive orders evidencing that a part does not reduce the effectiveness of a motor vehicle pollution control device or cause a vehicle to fail to comply with applicable state or federal emissions standards.

SEMA participants state that applying for and obtaining an executive order from the ARB for aftermarket part is currently taking up to two years for processing and they believe that implementing a fee to provide funds directly to ARB for additional staff to reduce processing would be beneficial. SEMA proposes trailer bill language that would impose a fee on applications submitted to the ARB board under California Vehicle Code Section 27156. Fees received by the ARB would be credited to the Executive Order Processing Fund, a special fund established for the purpose of facilitating the timely processing of applications submitted under California Vehicle Code Section 27156.

Staff Comments. The proposal emerged late in the budget process and the department has not had time to fully vet the issue. In concept, the proposals makes sense—establishing a fee would be necessary should the budget support additional positions to move this program more quickly. However without a thorough analysis by the ARB, staff cannot recommend an appropriate fee amount, nor advise whether or not this proposal should be considered in isolation.

Staff Recommendations. No action. Request the ARB work with the SEMA constituents over the summer to determine if a fee is appropriate, at what amount, and with what metrics for success.

Vote: No action

3940 State Water Resources Control Board

Issue 1: Public Water System Consolidation

Background. SB 88 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2016, provided new, limited authority for the state water board to order consolidation of failing water systems. The limited authority provides a mechanism for the state water board to ensure safe, reliable drinking water where an existing water system is unable to do so and the failing system can be economically consolidated with a nearby system. The new authority has enabled the State Water Board to commence consolidation of several failing water systems, and one consolidation will be complete in June 2016.

The state water board has encountered circumstances when the consolidation authority is unavailable, but consolidation makes public health and economic sense. The present authority does not allow the State Water Board to order consolidation when a disadvantaged community lies within a city and is served by a small failing system. A common example is a mobile home or trailer park located within a city, but served by its own well and distribution system. Similarly, the consolidation authority is not available to address unsafe water served by certain schools, labor camps, and institutions located within a city.

Proposed Trailer Bill Language. The proposed trailer bill addresses these concerns in a targeted fashion. The trailer bill:

- Addresses the “donut hole” where certain failing water systems are located within a city. Allows the State Water Board to order consolidation where a disadvantaged community, within a city but served by a separate small water system serving 5-14 residences, consistently fails to provide safe drinking water.
- Provides similar authority to address non-community water systems, such as schools and labor camps, serving disadvantaged communities located in cities.
- Allows what are often the most economical consolidations to proceed, because these are water systems already surrounded by infrastructure for an existing public water system.
- Maintains existing financial and legal protections for the public water systems that would be ordered to consolidate with a failing system.

Staff Recommendation. Staff concurs with the concern that the there is a gap in the ability of the state to facilitate water interconnections. Staff recommends approving the proposal as placeholder in order for the Legislature and public to review the proposed language (posted on the Department of Finance website) through conference committee.

Vote: 2-1 (Nielsen, no)

Issue 2: Drinking Water Program Expenditure Cap

Background. SB 83 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2015, established a statutory cap for 2016-17 on the amount of funds received for the State Water Board's administration of the California Safe Drinking Water Act. The amount of the cap was set at $30.4 million. The amount of the cap was incorrectly calculated and did not take proper account of all the sources of funds used to support the administration of the California Safe Drinking Water Act, nor did it account for additional program costs to satisfy statutory obligations.

May Revision Proposal. The May Revision includes proposed trailer bill that will increase the cap to $38 million which properly accounts for the additional fund sources and program expenditures.

Proposed Trailer Bill Language. The proposed trailer bill would amend Health and Safe Code Section 116590, as follows:

> (a) Funds received by the state board pursuant to this chapter shall be deposited into the Safe Drinking Water Account that Account, which is hereby established, and shall be available for use by the state board, upon appropriation by the Legislature, for the purpose of providing funds necessary to administer this chapter. Funds in the Safe Drinking Water Account shall not be expended for any purpose other than as set forth in this chapter.
>
> (b) A public water system may be permitted to may collect a fee from its customers to recover the fees paid by the public water system pursuant to this chapter.
>
> (c) The total amount of funds received for state operations program costs to administer this chapter for fiscal year 2016–17 shall not exceed ~~thirty million four hundred fifty thousand dollars ($30,450,000)~~ thirty eight million fifty eight thousand dollars ($38,058,000) and the total amount of funds received for administering this chapter for each fiscal year thereafter shall not increase by more than 5 percent of the amount received in the previous fiscal year plus any changes to salary, benefit, and retirement adjustments contained in each annual Budget Act.
>
> (d) This section shall become operative on July 1, 2016.

Staff Recommendation. Staff concurs that the trailer bill language is necessary to continue program delivery as required by the budget.

Vote: 2-1 (Nielsen, no)

3970 DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY (CALRECYCLE)

Issue 1: Beverage Container Recycling Program

Convenience Zone Pilot Programs. An overview of this program was heard on April 21. The Administration, the Legislative Analyst's Office (LAO), and members of the public testified that a reform package would stabilize funding within the Beverage Container Recycling Fund (BCRF) for the program. The LAO overview of the program provided at the hearing is available at lao.ca.gov. Immediate concerns have been raised regarding the closure of multiple recycling centers due to the scrap value of recycled materials, thus challenging the ability of retailers to provide recycling opportunities to consumers.

The Administration is in year two of a multi-year study about convenience zones. Convenience zones increase the geographic dispersal of locations where beverage containers can be redeemed. A convenience zone is required by law to have within the zone's boundaries, a recycling center that redeems all California Redemption Value (CRV) containers. A convenience zone with a recycler inside its boundaries is considered a served zone. Convenience zone recyclers provide opportunities to redeem containers near where beverages were purchased.

Staff Comments. Staff has met with stakeholders and agrees that the Administration should come up with an interim program reform that addresses the following items: (1) processing fee offsets; (2) enforcement relief; (3) handling fees; and, (4) processing payments. In the interim, staff recommends providing the Administration with more information regarding convenience zones. In addition to the data being gathered by the department, a real-world convenience zone study would inform the department of other methods of recycling, particularly in areas that are very challenged by convenience.

1. **Convenience Pilot Programs.** Allow up to three jurisdictions (one, each, urban in northern and southern California, and one rural) to create a convenience pilot program that would waive convenience requirements. This would sunset June 30, 2020. A total of $100,000 per jurisdiction would be included in the pilot program.

Staff Recommendation. Staff recommends approval of the convenience zone pilot program.

Vote: 3-0

8570 California Department of Food and Agriculture (CDFA)

Issue 1: Pest Prevention Funding

Background. The following is a summary of funding for three programs (all funds including federal, special funds and state funds):

Program	2014-15*	2015-16 (estimated)	2016-17 (proposed)
Plant Health and Pest Prevention Services Division	$126.3	$122.2	$131.0
Asian Citrus Psyllid/ Huanglongbing (HLB)	*$ 23.7*	*$26.6*	*$27.7*
Pierce's Disease Management	$21.1	$23.9	$21.4

*2014-15 represents past year actual expenditures

* In 15-16 we have budget authority for $162.2 million, but we will likely only realize about $122.2 million

Increase General Funding Requested. The subcommittee received a request to increase funding for the above programs by $5 million each. This would be a partial a restoration of the $22 million General Fund reduction in 2013 that was mostly backfilled by industry funds and federal funds.

Staff Comments. Staff concurs that pest prevention is a serious and important mission of the state, and that the beneficiaries should continue to contribute to pest prevention that benefits specific industries such as wine grape growers or citrus. However, there is a role for the General Fund to play, upon availability. This should be directed to areas were industry is not able to fully address issue facing a broader stakeholder group.

As discussed in the April 21 hearing, the use of neonicotinoids in residential areas is causing concern for wild bee populations. Meetings with industry have confirmed that residential application of neonicotinoids are of particular concern.

Staff Recommendation. Approve $15 million with the following budget bill language:
Of the amount provided, $5 million may be used for Pierces disease management; $5 million may be used for overall pest health and pest prevention; and $5 million shall be used for Asian Citrus Psyllid control as follows: (1) $4.25 million for residential application by California Department of Food and Agriculture in quarantine areas; and $750,000 for an interagency agreement with the California Department of Pesticide Regulation to provide a consumer product database for a residential level study the impacts of ornamental uses of neonicotinoids, including the impacts of neonicotinoid treated seed and plants sold at the retail level.

Vote: 2-0 (Nielsen not voting)