Senate Budget and Fiscal Review

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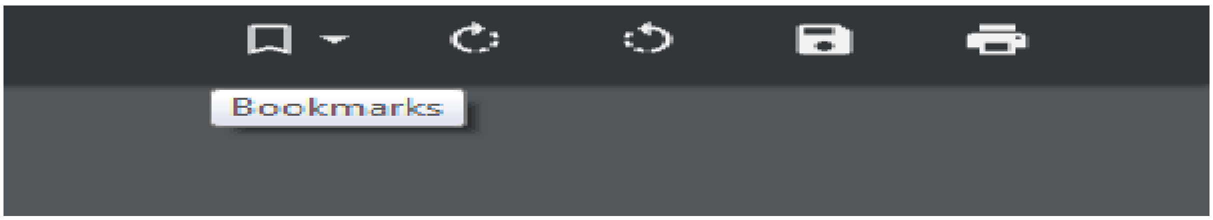

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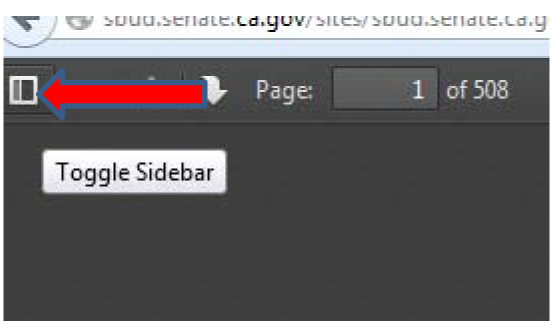

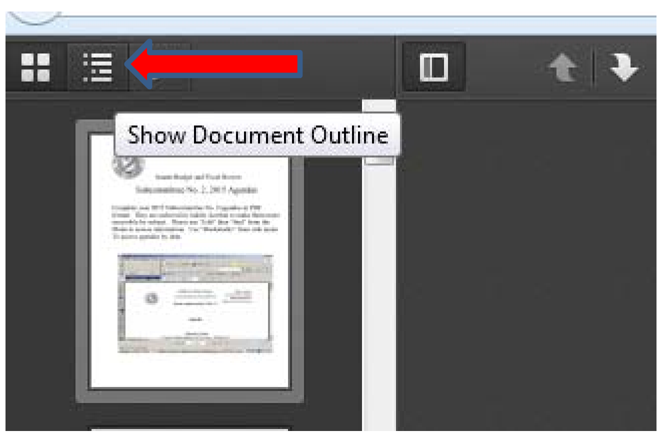

COMMITTEE ON
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BUDGET SUBCOMMITTEE
NO. 2 ON RESOURCES,
ENVIRONMENTAL
PROTECTION, ENERGY AND
TRANSPORTATION

NIELSEN (VICE- CHAIR)
MCGUIRE
MENDOZA

CALIFORNIA STATE SENATE

Bob Wieckowski, Chair

JOINT OVERSIGHT HEARING

SENATE ENVIRONMENTAL QUALITY COMMITTEE

AND

BUDGET AND FISCAL REVIEW SUBCOMMITTEE NO. 2 ON RESOURCES, ENVIRONMENTAL PROTECTION, ENERGY AND TRANSPORTATION

Department of Toxic Substances Control: Presentation of Independent Review Panel Annual Report

Wednesday, February 1, 2017
California State Capitol, Room 3191
9:30 a.m.

AGENDA

I. Opening Remarks
- Senator Bob Wieckowski, *Chair, Environmental Quality Committee*

II. Presentation of Independent Review Panel of the Department of Toxic Substances Control Annual Report
- Gideon Kracov, *Chair, Independent Review Panel*

III. Legislative Analyst Office – Review of DTSC Budget Augmentations
- Shawn Martin, *Principal Fiscal and Policy Analyst, Legislative Analyst's Office*

IV. Public Comment

COMMITTEE ON
ENVIRONMENTAL QUALITY

STONE (VICE-CHAIR)
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BUDGET SUBCOMMITTEE
NO. 2 ON RESOURCES,
ENVIRONMENTAL
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CALIFORNIA STATE SENATE

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JOINT OVERSIGHT HEARING
SENATE ENVIRONMENTAL QUALITY COMMITTEE
AND
BUDGET AND FISCAL REVIEW SUBCOMMITTEE NO. 2 ON RESOURCES, ENVIRONMENTAL PROTECTION, ENERGY AND TRANSPORTATION

FEBRUARY 1, 2017

9:30 A.M.
STATE CAPITOL – ROOM 3191

Department of Toxic Substances Control: Presentation of Independent Review Panel Annual Report

BACKGROUND

Department of Toxic Substances Control

The Department of Toxic Substances Control (DTSC) is responsible for protecting public health and the environment by overseeing the state's response to releases of hazardous substances and disposal of hazardous waste. DTSC investigates, removes and remediates contamination as part of that mission.

DTSC operations fall under four major program areas:

1. **Brownfields and Environmental Restoration Program**. This program is responsible for the cleanup and restoration of contaminated sites throughout

the state; including legacy landfills (e.g., Stringfellow Acid Pits and the BKK Landfill), the Santa Susana Field Lab, military bases, former industrial properties, and school sites.

2. **Hazardous Waste Management Program**. This program is responsible for several important DTSC functions. It issues permit decisions for proposed new hazardous waste facilities and the approximately 120 existing hazardous waste facilities in California that treat, store, and dispose of hazardous waste. The program's staff conduct inspections and take enforcement actions to ensure compliance with hazardous waste laws and regulations. This program oversees the hazardous waste generator program. In addition, it provides hazardous waste management-related policy support, regulatory and statutory interpretation, financial assurance, and data management support for internal and external stakeholders. The program also provides emergency response support for hazardous materials-related emergencies throughout California.

3. **Safer Products and Workplaces Program**. This program is responsible for implementing the provisions of Assembly Bill 1879 (Feuer and Huffman, Chapter 559, Statutes of 2008), and Senate Bill 509 (Simitian, Chapter 560, Statutes of 2008). Together, these statutes require DTSC to establish a program that identifies and prioritizes chemicals of concern in consumer products, evaluates alternatives, and specifies regulatory responses to reduce chemicals of concern in products. This program is also responsible for providing health and safety support and consultation to DTSC staff relative to their office and field activities.

4. **Environmental Chemistry Laboratory**. The lab provides DTSC and other agencies within Cal/EPA with scientific leadership and laboratory capacity in the areas of environmental analytical chemistry and biochemistry. Scientists identify and measure concentrations of toxic chemicals in many different media including air, water, soil, hazardous waste streams, consumer products, and biological or human tissues.

Legislative Oversight

Specific incidents across California have exposed and continue to expose glaring failings in DTSC's implementation of its core programs as well as its support programs.

The mishandling of the hazardous waste facility permitting and enforcement of first the Exide and now the Quemetco battery recycling facilities; neglected cost-recovery efforts for cleanups across the state leading to an accumulation of 1,661 projects totaling almost $194 million in uncollected cleanup costs dating back 26 years; a growing backlog of applications to renew hazardous waste permits; delayed site remediation; failed public participation and transparency activities; and personnel issues have all led to decreased stakeholder confidence and public trust in DTSC's ability to meet its mandate to protect public health and the environment.

Over the last five years, the Legislature has conducted numerous hearings on DTSC's internal controls, its business practices, and its basic statutory obligations. In those hearings, the budget and policy committees have evaluated the following four main areas: (1) reviewing and monitoring the department's strategic plan and reorganization; (2) auditing cost recovery at the department; (3) providing staffing to improve permit backlogs and business operations; and, (4) improving enforcement at the department.

Numerous statutory changes have been made to clarify and strengthen the statute to help DTSC better achieve its mandates, and budget augmentations have been made to give DTSC the resources to reduce backlogs and address outstanding programmatic failings. However, many of the underlying concerns about transparency, accountability, and long-term stability of DTSC programs remain.

The Independent Review Panel

With the aim of identifying and addressing the continued failings of DTSC to meet its public health and environmental protection mandates, Senate Bill 83 (Committee on Budget and Fiscal Review, Chapter 24, Statutes of 2015) established an Independent Review Panel (IRP) to review and make recommendations regarding improvements to DTSC's permitting, enforcement, public outreach, and fiscal management with the goal of resolving the outstanding operational problems within DTSC and creating strong statutory mandates and accountability in the long term.

The IRP is comprised of three individuals: an appointee of the Speaker of the Assembly with scientific experience related to toxic materials, an appointee of the Senate Rules Committee who is a community representative, and an appointee of the Governor who is a local government management expert.

The IRP additionally advises DTSC on issues related to its reporting obligations, making recommendations for improving DTSC's programs, and advises DTSC on compliance with Health and Safety Code Section 57007, which requires DTSC, along with the other California Environmental Protection Agency boards and departments, to "institute quality government programs to achieve increased levels of environmental protection and the public's satisfaction through improving the quality, efficiency, and cost-effectiveness of the state programs" and "submit a biennial report to the Governor and Legislature, no later than December 1 with respect to the previous two fiscal years, reporting on the extent to which these state agencies have attained their performance objectives, and on their continuous quality improvement efforts."

The IRP is required to report to the Governor and the Legislature every 90 days on DTSC's progress in reducing permitting and enforcement backlogs, improving public outreach, and improving fiscal management. In addition, the IRP must submit recommendations at the time of the submission of the Governor's annual budget to the Legislature.

Pursuant to SB 83, the IRP is authorized until January 1, 2018.

To date the IRP has released seven reports and conducted 16 public meetings. In December, 2016, the IRP released a thorough list of recommendations compiled from the meetings and reports conducted in the IRP's first 11 months.

Status of Independent Review Panel Recommendations to DTSC As of January 11, 2017

Recommendation	Date of Request	Due Date	Date Fulfilled
Permitting			
Publish draft SB 673 regulations.	1/28/2016	1/1/2017	Overdue
Adopt SB 673 regulations.	1/28/2016	1/1/2018	Pending
Adopt guidance or publish draft regulations on Violation Scoring Procedure (VSP).	1/28/2016	1/1/2017	Overdue
Using CalEnviroScreen, post clear and concise data on socioeconomic indicators of communities in proximity to permitted hazardous waste facilities on the DTSC website.	4/21/2016	1/1/2017	Overdue
Post clear and concise information on DTSC website that lists all DTSC-permitted sites with contamination, status of cleanup, and amount of financial assurances for cleanup.	4/21/2016	1/1/2017	Overdue
Post all formal responses and permit processing documentation in EnviroStor to improve transparency and community understanding of permit application status.	4/21/2016	1/1/2017	Overdue
Create a guidance document on the relationship between the VSP, AB 1075, the California hazardous waste violation classification system, and the federal hazardous waste violation classification system.	4/21/2016	1/1/2017	Overdue
Enforcement			
Adopt an AB 1071-compliant Supplemental Environmental Projects Policy.	1/28/2016	5/1/2016	5/5/2016
Adopt "Improving Enforcement Performance Initiative" Workplan.	1/28/2016	1/1/2017	Overdue
Evaluate the number of positions and vacancy levels in OCI and EERD to determine if they are sufficient to meet all inspection and enforcement goals	7/26/2016	N/A	Pending
Evaluate participation in state and local task forces that investigate environmental crimes to determine if DTSC is collaborating with the groups, when necessary, as well as the perceptions and opinions of other environmental enforcement partners about collaboration with the department.	7/26/2016	N/A	Pending
Evaluate whether to include environmental, occupational, and other violations in the VSP.	7/26/2016	N/A	Pending
Upload all public inspection reports, settlements, and summaries of violation into EnviroStor on a timely basis and evaluate additional technologies to enhance public accessibility.	7/26/2016	N/A	Pending

Prior to inspection of a permitted hazardous waste facility, the inspection team should communicate with site mitigation staff members to verify that the facility operator has provided any required financial assurances for corrective action.	7/26/2016	N/A	Pending
Public Outreach			
Start to implement the UC Davis public participation work plan.	1/28/2016	1/1/2017	Overdue
Continue practice of bi-monthly environmental justice accountability calls or an equivalent mechanism designed to increase the communication between the DTSC and the community.	1/28/2016	N/A	Pending
Publish all CEQA notices on one tab on the DTSC website.	1/28/2016	N/A	Pending
Publish all Hazardous Waste Facility Permits on one tab on the DTSC website.	1/28/2016	N/A	Pending
Publish all public enforcement actions (orders, settlements) in one tab on the DTSC website.	1/28/2016	N/A	Pending
Assign staff, immediately, charged with independent review, to revisit all cases in past five years of "No Further Action" that involve William Bosan or Theo Johnson, and report to the public on the findings.	1/28/2016	6/1/2016	DTSC Review in Progress (Overdue)
Improve EnviroStor's user-friendliness, accuracy, completeness, and regular updating of material. Provide technical support/assistance to public stakeholders on how to navigate the website.	10/24/2016	N/A	Pending
Finalize the Public Engagement Workplan and the Public Participation Manual update by December 31, 2017.	10/24/2016	12/31/2017	Pending
Building on what is learned from the Exide cleanup, establish long-term relationships between public outreach staff members and communities surrounding hazardous waste facilities as well as brownfields and environmental restoration sites. Encourage the hiring of bilingual public outreach staff members who are from those communities or live in or near them.	10/24/2016	N/A	Pending
Offer DTSC's risk communication workshops to employees of other CalEPA entities to improve collaboration, training, communication, and consistency.	10/24/2016	N/A	Pending
Establish a permanent, crisis management team within the Public Participation Program for emergencies involving toxic materials.	10/24/2016	N/A	Pending
Fiscal Management			
DTSC should provide timely Health & Safety Code Section 57007 Biennial Report and tie report to DTSC "Fixing the Foundation," including documenting compliance with <u>all</u> goals and objectives therein.	1/28/2016	1/1/2017	Overdue
Site Mitigation			

Publish a strategy on how, in appropriate cases, DTSC will work with CalEPA and its boards, departments, and offices, as well as with local air districts, to require fence line/aerial deposition monitoring during site mitigation in situations where there are adjacent sensitive receptors.	4/21/2016	7/1/2017	Pending
Publish on DTSC's website an easy-to-read matrix of cleanup standards, cleanup schedules, and sampling levels to enhance transparency of mitigation at particular sites that are subject to public concern and inquiry.	4/21/2016	N/A	Pending
Provide Level 4 data packages for site mitigation analyses and decisions to the public upon request.	4/21/2016	N/A	Pending
Source Reduction Program			
Consumer Products Program			

Independent Review Panel

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

Gideon Kracov, J.D., *Chair*
Mike Vizzier, *Vice Chair*
Dr. Arezoo Campbell, *Member*

Governor Edmund G. Brown Jr.

December 27, 2016

The Honorable Edmund G. Brown, Jr.
Governor of California
State Capitol, Suite 1173
Sacramento, CA 95814

RE: DTSC Independent Review Panel Recommendations to the Governor and Legislature Pursuant to Health & Safety Code Section 57014(h)

Dear Governor Brown:

The DTSC Independent Review Panel is submitting the attached annual report to the Legislature and your Office on its recommendations for improving Department of Toxic Substances Control programs. Health & Safety Code Section 57014(h) requires the Panel to submit this report at the time of the submission of your annual budget to the Legislature.

An electronic copy of the report can be viewed at:
https://www.dtsc.ca.gov/GetInvolved/ReviewPanel/IRPReports.cfm

If you have any questions, please contact Larry Rohlfes at (916) 327-4493 or e-mail him at larry.rohlfes@dtsc.ca.gov.

Sincerely,

Larry Rohlfes (on behalf of Gideon Kracov, Chair)
DTSC Independent Review Panel
CalEPA Headquarters
1001 I Street
Sacramento, CA 95814-2828
Legislation/MS 22C

Enclosures

Independent Review Panel

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

Gideon Kracov, J.D., *Chair*
Mike Vizzier, *Vice Chair*
Dr. Arezoo Campbell, *Member*

Governor Edmund G. Brown Jr.

DTSC Independent Review Panel Recommendations to the Governor and the Legislature Pursuant to Health and Safety Code Section 57014(h)
December 27, 2016

Executive Summary

The Department of Toxic Substances Control (DTSC) Independent Review Panel (IRP) submits this annual report in compliance with section 57014(h) of the Health and Safety Code (HSC), which requires the Panel to submit recommendations to the Legislature and the Governor at the time of each submission of the Governor's budget.

The IRP held its first public meeting on November 18, 2015. Since then it submitted several reports on the following DTSC topics: budget, permitting, enforcement, public outreach, fiscal management, and site mitigation. These reports typically include recommendations to the Governor and Legislature, recommendations to DTSC, suggested performance metrics for DTSC, and information requests of DTSC. Additional 2017 reports are planned to further review two of these topics, fiscal management and site mitigation, and examine one not yet reviewed: source reduction/consumer products.

The recommendations in this annual report are a compendium of those recommendations to the Governor and the Legislature that the IRP made in its previous reports. They do not include the recommendations and performance metrics for DTSC. The recommendations are divided into two tables. Table I lists those that were fully or significantly adopted by the Governor and the Legislature. Table II lists those that have not yet been adopted. The tables indicate the report submission date in which each recommendation was made and provide brief status information for each recommendation. Both tables divide the recommendations into the various topics being reviewed by the IRP.

Overall the IRP finds that the task of managing hazardous waste and protecting California's people and environment from the harmful effects of toxic substances depends on a strong and efficient DTSC. The IRP further believes there are four key themes to achieving a strong foundation for the Department's long-term organizational strength and efficiency: continuity in executive leadership, a focus on human resources, stable fiscal resources, and increased transparency/accountability. Most of the IRP's recommendations relate to these four themes.

See the IRP's webpage for the full report as well as other Panel reports and activity information at: https://www.dtsc.ca.gov/GetInvolved/ReviewPanel/Independent-Review-Panel.cfm .

Gideon Kracov, J.D., *Chair*
Mike Vizzier, *Vice Chair*
Dr. Arezoo Campbell, *Member*

Governor Edmund G. Brown Jr.

DTSC Independent Review Panel Recommendations to the Governor and the Legislature Pursuant to Health and Safety Code Section 57014(h)

December 27, 2016

The Department of Toxic Substances Control (DTSC) Independent Review Panel (IRP) submits this annual report in compliance with section 57014(h) of the Health and Safety Code (HSC), which requires the Panel to submit recommendations to the Legislature and the Governor at the time of each submission of the Governor's budget.

The IRP and Its Responsibilities

Chapter 24, Statutes of 2015 (SB 83) added section 57014 to the HSC, which establishes within DTSC a three-member IRP to review and make recommendations regarding improvements to the Department's permitting, enforcement, public outreach, and fiscal management. The code section stipulates that IRP membership shall be comprised of a community representative, a person with scientific experience related to toxic materials, and a local government management expert. The following individuals subsequently received appointments to serve on the Panel: Gideon Kracov, J.D. (community representative and appointee of the Senate Committee on Rules), Dr. Arezoo Campbell (panelist with scientific experience related to toxic materials and appointee of the Speaker of the Assembly), and Mike Vizzier (local government management expert and appointee of the Governor).

In addition to requiring the Panel to submit recommendations at the time of each submission of the Governor's budget, HSC section 57014 states that it shall make recommendations for improving the Department's programs, advise the Department on compliance with HSC section 57007, and report to the Governor and the Legislature 90 days after it was initially appointed and every 90 days thereafter on the Department's progress in reducing permitting and enforcement backlogs, improving public outreach, and improving fiscal management. The code section also states that the Panel may advise the Department on issues related to the Department's reporting obligations.

HSC section 57014 remains in effect until January 1, 2018.

IRP Information Gathering and Stakeholder Participation

Beginning with the IRP's first meeting on November 18, 2015, and including its most recent meeting on December 9, 2016, the Panel has convened 20 public meetings to discuss its work and hear testimony from stakeholders, subject matter experts, elected officials, and representatives of DTSC as well as CalEPA.

The IRP has made an effort to maximize public access to, and participation in, those meetings. The Panel held seven of its meetings outside of Sacramento, often in communities near sites with hazardous substance releases or permitted hazardous waste facilities. Meeting materials are posted on the IRP's website in advance of meetings in compliance with the Bagley Keene Act, and notices of the postings are sent via email to individuals who have requested to be added to the IRP EList. When technically feasible, the Panel offers live webcasts of its meetings on the CalEPA webcast portal and posts webcasts of previously held meetings on the IRP website. Stakeholders have the ability to submit public testimony via email whenever there is a live webcast, and IRP staff read their comments out loud during the meetings. The IRP has heard special presentations from numerous stakeholders, including representatives of The People's Senate and the California Chamber of Commerce at its public meetings. The IRP also has heard special presentations on the Exide Technologies site and residential cleanup activities. Meeting agendas are translated into Spanish. The IRP normally hires Spanish translators during meetings if a member of the public requests this service by an advance deadline date.

In addition to gathering information at public meetings, the IRP has made numerous information requests of the DTSC. The IRP also welcomes written comments from the public. In addition, the IRP surveyed a cohort of stakeholders about DTSC programs in August of 2016. All of this information is posted on the IRP website.

The IRP wishes to thank everyone who has participated in this public review process, including DTSC Director Barbara Lee and her staff. The Panel recognizes that the Department has devoted considerable time and effort to informing the IRP about its programs.

IRP Work Plan

The IRP approved a work plan on April 7, 2016. This plan devotes two or three months to intensive study and discussion of each of the following six topics: permitting, enforcement, public outreach, fiscal management, site mitigation, and source reduction/consumer products. As mentioned above, the IRP is required to review and make recommendations on the first four of these topics. The Panel deems the last two topics to be likewise important and worthy of consideration under its statutory mandate to make recommendations for improving the Department's programs.

The plan calls for the IRP to make recommendations and suggest metrics to evaluate DTSC's performance on each of the six topics. It also calls for the IRP to include those recommendations and metrics in its reports that are due every 90 days by statute on DTSC's progress. Each review of a particular topic, therefore, is expected to culminate in submitted recommendations and metrics on that topic. The plan envisions the IRP completing this review of the six topics by July of 2017.

The plan then calls for the IRP to devote much of its time between June and October of 2017 to evaluating data gathered on the metrics for each topic. The final months of 2017 are to be spent working on final IRP recommendations based on the metrics and DTSC's progress to date. The IRP commits to submitting those final recommendations on or before December 31, 2017.

IRP Reports

The IRP submitted its first annual report at the time of the submission of the Governor's budget for FY 2016-17. This document did not include recommendations because the IRP did not have sufficient time to systematically review DTSC's programs between its first meeting and the January 10, 2016 deadline for the Governor's budget. Instead, the IRP included initial recommendations in its first 90-day report. That report, submitted on January 28, 2016, addressed five topics: budget, permitting, enforcement, public outreach, and fiscal management. After providing background information, the report made recommendations to the Governor and Legislature, recommendations to DTSC, and information requests to the DTSC for each topic.

The IRP submitted subsequent 90-day reports on April 21, July 26, and October 24 of 2016. The April 21 report addressed DTSC's permitting efforts. This report also included initial recommendations and information requests on DTSC's site mitigation program. The July 26 report addressed DTSC's enforcement efforts. The October 24 report addressed DTSC's public outreach. All three reports included recommendations for the Governor and Legislature, recommendations for DTSC, suggested metrics for DTSC, and information requests of DTSC. All of these reports are posted on the IRP's website.

As per its work plan and statutory mandate, the IRP intends to submit similarly organized reports on fiscal management by January 22, 2017, site mitigation by April 21, 2017, and source reduction/consumer products by July 20, 2017.

Key Themes Identified for a Strong and Efficient DTSC

The IRP finds that the task of managing hazardous waste and protecting California's people and environment from the harmful effects of toxic substances depends on a strong and efficient DTSC. The IRP further believes there are four key themes to achieving a strong foundation for the Department's long-term organizational strength and efficiency: (1) continuity in executive leadership, (2) a focus on human resources, (3) stable fiscal resources, and (4) increased transparency/accountability. Most of the IRP's recommendations relate to these four themes, which the Panel wishes to highlight in this report.

Continuity in Executive Leadership—DTSC has experienced significant turnover in its leadership in recent years. The Department has had five directors since 2010. Of its 15 executive leadership team positions, eight are staffed by individuals hired in 2016. The IRP believes this turnover in personnel has been damaging to institutional memory and continuity. The IRP also believes it is essential for the current Director and the leadership team to have longevity in office. The IRP notes that 14 of the 15 executive positions at DTSC were filled at the time of this report's submission and that three of the individuals staffing those positions will work in southern California offices. The IRP applauds the Governor's Office for appointing these positions and is hopeful that DTSC now has a strong and stable team in place.

A Focus on Human Resources—A strong and stable leadership team is not enough. DTSC has 1,034 authorized employees working in different locations and on many different levels and programs.

The IRP believes there is room for improvement when it comes to the Department's human resources. Responding to a Public Records Act request, DTSC in 2015 uncovered racist and derogatory emails sent by two staff members. In February of 2016, a group of "racial and ethnic minority scientists" asserted in a letter to the CalEPA Secretary "a workplace culture of discreet and overt racism; bias against those who conduct frontline work in environmental justice communities; and the deliberate underfunding of our minority-dominated [scientist] classification." Several DTSC staff members have come forward to tell the IRP that employees sometimes lack the resources and training to do their jobs properly, that they are working independently and without adequate leadership in many field offices (depending on the culture of a particular office), and that recent retirements of experienced and knowledgeable managers have negatively impacted some offices.

When the offensive emails were uncovered, Director Lee launched an internal investigation and requested outside review by the Office of the Attorney General. Based on the investigations, DTSC took confidential personnel actions. DTSC also took several actions to strengthen its commitment to supporting diversity and fostering cross-cultural understanding, including: developing an all-staff survey, creating an organizational culture task group, reaching out to consultants for assistance, and updating the Department's diversity training.

DTSC Chief Deputy Francesca Negri, who was chief of human resources at the Department of Motor Vehicles prior to serving as chief of its Division of Procurement and Contracts from 2010 to January of 2016, will oversee these organizational excellence efforts. The IRP believes it is essential for the Chief Deputy Director to be given the authority and necessary resources to improve staff morale, training, supervision, evaluation, accountability, and cultural sensitivity—from top to bottom, throughout DTSC and all its field offices. Ms. Negri presented to the IRP on those efforts on December 9, 2016, where she identified the intent to prepare strategic plans for the Hazardous Waste Management Program and Brownfields & Environmental Restoration Program, as well as an overall strategic plan for the DTSC, with measurable performance objectives. The IRP intends to ensure that DTSC follows through on those efforts.

Stable Fiscal Resources—DTSC's funding history between FY 1991-92, when the Department was established, and FY 2013-14 declined in real dollars by 26 percent, even though legislative mandates increased substantially during that period. More recently, however, the Legislature has made significant investments in DTSC's programs. The Legislature approved all of the funding requests submitted by the Governor in support of DTSC for FY 2016-17. The Department's budget increased from $234,847,000 in FY 2015-16 to $280,364,000 in FY 2016-17. This represents a 19 percent increase, although it should be noted that an increase in the budget for the Exide Technologies residential cleanup of $37,291,000 accounts for 82 percent of it. The IRP applauds the Legislature and its leadership for these investments in DTSC. The IRP also recognizes the Department's obligation to wisely administer the massive General Fund investment that the state has made for the Exide Technologies cleanup.

Looking into the future, a projected shortfall in DTSC's Site Remediation Account (SRA) within the Toxic Substances Control Account is of special concern. DTSC has estimated the demand for funding for state-only orphan sites to be between $15 and $20 million annually the next few years. The Department currently receives a $10.503 million appropriation for remediation on both the orphan sites and federal National Priority List (Superfund) sites. Superfund demand is expected to fluctuate and in some years come close to or exceed the current appropriation. Unless the SRA is increased, there is a strong chance that little or no funding would be available for orphan sites in some years. AB 2891 (Chapter 704, Statutes of 2016) partially addressed this issue by expressing its intent that funds deposited in the account be appropriated each year to the SRA in an amount that is sufficient to pay for estimated costs for direct site remediation at both Superfund sites and state orphan sites. However, future funding is not guaranteed, as the state's fiscal health is always an unknown over the long term.

While there are budgetary deficiencies that must be addressed in the future, the IRP believes that DTSC's budget is sufficient for FY 2016-17. It must remain sufficient moving forward.

Increased Transparency/Accountability—DTSC has been making changes that are likely to improve accountability and transparency in the future. Work plans for its various programs have components that emphasize transparency. The Legislature created an Assistant Director of Environmental Justice in statute in 2015 and a new Office of Environmental Justice and Tribal Affairs in 2016, actions for which the IRP is strongly supportive. In September of 2016, Director Lee announced that the Governor had approved the establishment of a separate Office of Public Participation, and since then the Governor has appointed a Deputy Director to lead the new office. DTSC created a new, eight-member Exide team currently located in the Chatsworth Regional Office, but expected to relocate to an office closer to the Exide Technologies facility in Vernon. DTSC signed an agreement in August of 2016 to resolve a civil rights complaint about its 2014 decision to approve a permit to expand the Kettleman Hills hazardous waste landfill; in addition to containing provisions intended to improve public health and environmental quality for the people in Kettleman City, the agreement sought to enhance the transparency and rigor of the Department's compliance with civil rights laws. A massive effort over the past few years to improve procedures for the recovery of cleanup costs from responsible parties should make DTSC more accountable to California's taxpayers.

Nevertheless, a widespread perception exists that DTSC is insular and in need of increased accountability. For example, The People's Senate stated the following in a March 27, 2015 letter to Director Lee: "DTSC makes decisions behind closed doors, with little transparency, oversight, or meaningful opportunity to appeal."

The IRP also believes it is important for the DTSC to set realistic timelines for its work and be accountable for deadlines. For example, the Department missed recent, self-imposed deadlines to finalize its Improving Enforcement Performance Workplan and to release and begin implementation of UC Davis Collaboration Center recommendations for DTSC's public engagement efforts.

The IRP has attempted to open the curtain by encouraging public comment, asking questions, requesting information, and prodding with recommendations. However, the IRP will sunset on January 1, 2018. The Panel therefore recommends that the Governor and Legislature consider the creation of: (1) a permit appeals board to decide on all hazardous waste facility permits that DTSC does not timely process; and (2) an oversight board or other structural changes within the Department to improve accountability and transparency.

Annual Report Recommendations

The recommendations in this report are a compendium of those recommendations to the Governor and the Legislature that the IRP previously made in its 90-day reports during 2016. They are divided into two tables. Table I lists those that were fully or significantly adopted by the Governor and the Legislature. Table II lists those that have not yet been adopted. The tables indicate the report submission date in which each recommendation was made and provide brief status information for each recommendation. Both tables divide the recommendations into various topics being reviewed by the IRP. (Note: several recommendations that appeared under the budget topic in the January 28, 2016 initial report have been merged into other, appropriate topic sections.)

As mentioned above in this report, during the course of 2016 the IRP also made recommendations to DTSC and suggested performance metrics for the Department. That information is not included in this annual report, but is updated regularly and available online on the IRP's website.

TABLE I
IRP Recommendations to Legislature and Governor: Adopted

IRP Recommendation	Date of IRP Recommendation	Action/Resolution
Permitting		
Require that DTSC obtain full cost recovery connected with its Hazardous Waste Facility Permit decisions. The DTSC reports that the DTSC's existing HSC section 25205.7(d) fee collection for permitting statute does not ensure that it achieves full cost recovery connected with its Hazardous Waste Facility Permit actions.	1/28/2016	SB 839 (Committee on Budget & Fiscal Review), Chapter 340, Statutes of 2016, eliminated the flat fee option. It also required the reimbursement agreement to provide for the reimbursement of the costs incurred in reviewing and overseeing corrective action and required the applicant to pay these costs and to pay all costs incurred by DTSC to comply with CEQA.
Augment the Hazardous Waste Control Account to fund necessary permanent positions to achieve the goal of DTSC making 16 permit decisions a year and processing 90 percent of permit decisions in a 2-year period or less.	4/21/2016	Approved in SB 826 (Leno), Chapter 23, Statutes of 2016.

Enforcement

Support AB 1858 (Santiago), which requires the DMV to establish an Unlicensed Automobile Dismantling Task Force to investigate the occurrences of unlicensed vehicle dismantling.	7/26/2016	AB 1858 (Santiago), Chapter 449, Statutes of 2016, required DMV to collaborate with other state agencies and to review and coordinate enforcement and compliance activity related to unlicensed and unregulated automobile dismantling. It did not establish a formal task force.

Public Outreach

Provide position authority and funding to strengthen the role of the Assistant Director for Environmental Justice and Tribal affairs, including more staffing and resources.	1/28/2016	Legislature approved funding for 6 positions to create Office of Environmental Justice and Tribal Affairs in SB 826 (Leno), Chapter 23, Statutes of 2016.

Fiscal Management

Support the Governor's 2016-2017 budget proposal for DTSC.	1/28/2016	Legislature approved all funding requests submitted by the Governor in support of DTSC in SB 826 (Leno), Chapter 23, Statutes of 2016.
Increase the DTSC's SRA funding to address the projected shortfall for orphan site cleanup and transition of federal sites to state operations and maintenance oversight.	1/28/2016	AB 2891 (Committee on Environmental Safety & Toxic Materials), Chapter 704, Statutes of 2016, expressed intent of the Legislature that funds be appropriated each year to the Site Remediation Account in an amount that is sufficient to pay for estimated costs for direct site remediation at both federal Superfund orphan sites and at state orphan sites, and that not less than $10,750,000 be appropriated in the Annual Budget Act each year to the account for direct site remediation costs. The bill also required DTSC to include those estimated costs in a report submitted to the Legislature with the Governor’s budget each year.

Site Mitigation

Support Gov. Brown's proposed $176.6 million appropriation to fund expedited and expanded testing and cleanup of residential properties, schools, daycare centers, and parks impacted by the former Exide Technologies facility in Vernon.	4/21/2016	SB 93 (De León), Chapter 9, Statutes of 2016 and AB 118 (Santiago), Chapter 10, Statutes of 2016, transferred the $176.6 million as a loan from the General Fund to the Toxic Substances Control Account for DTSC to use for this purpose. The funds are available until June 30, 2018. Funds recovered from responsible parties are to be used to repay the loan.

TABLE II
IRP Recommendations to Legislature and Governor: Not Yet Adopted

IRP Recommendation	Date of IRP Recommendation	Action/Resolution

Permitting

As part of the Hazardous Waste Facility Permit process, require that adequate financial assurances be set aside for corrective action for existing hazardous waste releases at the site, not only for post-closure equipment decommissioning. Investigate whether current HSC sections 25200.10(b) and 25245 et seq. should be amended to ensure that adequate financial assurances be set aside during Hazardous Waste Facility Permit issuance to pay for corrective action for existing hazardous waste releases at the sites that DTSC is permitting. This is consistent with the April 2006 LAO Report: "Financial Assurances: Strengthening Public Safety of Waste Facilities and Surface Mines."	1/28/2016	Pending.

Consider whether to create a Permit Appeals Board to hear, and decide on all Hazardous Waste Facility Permits that the DTSC does not timely process within 3 years of expiration. Consider whether establishing such a Permit Appeals Board would increase transparency and reduce backlogs. A possible legislative vehicle for this could be pending SB 654 (De León).	1/28/2016	Pending. SB 654 (De León) of 2015 was never amended to provide for the establishment of a Permit Appeals Board.
Fund Technical Assistance Grants to allow public participation before a draft Hazardous Waste Facility Permit is prepared. This can assist in transparency of permitting decisions and allow community questions and concerns to be raised early in the process.	1/28/2016	Pending. AB 1400 (Santiago) of 2015 would have required DTSC to grant request from a member of the public for a technical assistance grant for getting assistance relating to, and information about, a pending hazardous waste facilities permit if DTSC received the request within 1 year of the submission of the hazardous waste facilities permit application. *Bill received no further action in Senate Environmental Quality Committee.*
Require DTSC to review each permitted hazardous waste facility's financial assurances every 5 years.	4/21/2016	Pending. AB 1205 (Gomez) of 2015 would have required DTSC to review financial assurances once every 5 years. If the review found them to be inadequate, the bill would have required DTSC to notify the facility and would have required the latter to update and adopt adequate assurances within 90 days. *Bill received no further action in Senate Environmental Quality Committee.*
Require DTSC to respond within certain time periods to hazardous waste permit application submittals, require applicants to submit application information on a timely basis, and establish accountability mechanisms, such as deemed approval of the submitted information or the initiation of permit denial proceedings, if these event deadlines are not met by DTSC or the applicant.	4/21/2016	Pending. SB 654 (De León) of 2015 would have required facilities to submit part A & B applications 2 years before permit expiration. Additionally, it would have provided that, when a complete application had been submitted before the end of a permit's fixed term, the permit would be extended for a period not to exceed 36 months until the renewal application was approved or denied and the owner or operator had exhausted all rights of appeal. *Bill was amended to an unrelated topic.*

Amend HSC section 25200 to give DTSC specific authority to require fence line monitoring by permit holders in certain cases.	4/21/2016	Pending. AB 1400 (Santiago) of 2015 would have required DTSC to require facility operator, as a condition for a new hazardous waste facilities permit, to install monitoring devices or other equipment at the fence line to monitor for potential releases from the facility into the surrounding community. *Bill received no further action in Senate Environmental Quality Committee.*
Give hazardous waste facility permit applicants a reasonable assurance of application costs and include some mechanism to hold DTSC accountable for those assurances, even in fee-for-service scenarios.	4/21/2016	Pending.

Enforcement

Include inspection frequencies for permitted hazardous waste treatment, storage, and disposal facilities and hazardous waste generators in statute. The frequencies should be based on facility compliance history, quantity of waste, toxicity risk, and proximity to sensitive habitats and populations at risk, including disadvantaged communities.	7/26/2016	Pending. AB 1102 (Santiago) of 2015 would have required DTSC to inspect a hazardous waste land disposal facility no fewer than once per month, a permitted and operating hazardous waste facility no fewer than 4 times per year, and a permitted hazardous waste facility no fewer than 2 times per year. *Bill received no further action in Senate Environmental Quality Committee.*
Increase the maximum penalties for violations of HSC section 25189 to make them equivalent to the federal maximum penalties for similar violations, with an inflation allowance.	7/26/2016	Pending.

Public Outreach

Create an oversight board or consider other structural changes at DTSC to improve accountability and transparency.	10/24/2016	Pending.
Provide additional funding to the newly established Office of Public Participation for sufficient staffing necessary to adequately address all necessary public outreach needs of DTSC.	10/24/2016	Pending.

Consider amendments to HSC section 25358.7 et seq. to address CAG transparency, conflicts of interest, funding, funding disclosure, membership, and technical expertise.	10/24/2016	Pending.
Create a statewide lead taskforce to make recommendations on the sharing of information, leveraging of resources, and establishing of a comprehensive surveillance program on lead toxicity. The taskforce should include representatives from: DTSC, Department of Public Health (DPH), Office of Environmental Health Hazard Assessment, Cal/OSHA, air quality management districts, regional water quality control boards, county environmental health departments, worker safety advocates, labor organizations, healthy housing organizations, and impacted communities.	10/24/2016	Pending.

Fiscal Management

Provide position authority and funding to DTSC to maintain the 14.0 limited-term cost recovery staff positions through 2018 or make them permanent.	1/28/2016	Pending.

Site Mitigation

Require the DTSC to prioritize the Exide Technologies residential cleanup based on mapping data on metal levels in blood and soil.	4/21/2016	Pending.
Require collaboration between national, state, and local agencies to better make available and use data, including blood data, to address lead contamination in California communities.	4/21/2016	Pending.

#   #   #

LAO Summary of Performance-Related and Other Selected Budget Initiatives by Program—A Five-Year Lookback

(Dollars in Millions)

Program	Year	Positions	Amount
Site Mitigation and Brownfields Reuse Program			
Argonaut Dam Retrofit—One-time funding to retrofit the Argonaut Mine Dam in the City of Jackson because it was deemed structurally unstable by the U.S. Army Corps of Engineers.	2016-17	—	$14.3
Enhance Cost Recovery—Funding to implement Chapter 459 of 2015 (AB 276, Assembly Committee on Environmental Safety and Toxic Materials), which expanded the department's authority to request information from parties who are potentially responsible to pay for the response and cleanup at a hazardous waste site.	2016-17	2	0.2
Enhance Cost Recovery—Funding and limited-term positions to improve the department's ability to identify parties responsible for hazardous waste sites and recover cleanup costs from them.	2014-15	14	1.6
Hazardous Waste Management Program			
Enhanced Permitting Capacity—Funding to convert 8 limited-term positions to permanent status and to provide 15 additional permanent positions to enable the Department of Toxic Substances Control to eliminate the existing backlog of permit applications and complete most future decisions on hazardous waste permits within two years.	2016-17	15	3.6
Enhanced Enforcement—Two-year funding to implement and evaluate approaches to address environmental violations in vulnerable communities. The department will focus inspection and enforcement resources on the metal recycling industry and the hazardous waste transportation industry.	2015-16	11	2.1
Permitting Coordination and Backlog Support—Two-year funding to (1) reduce the department's backlog of continued hazardous waste facility permit applications, and (2) streamline and strengthen the enforcement and permitting process.	2015-16	16	1.6
Improving Enforcement Performance—Two-year funding to conduct a review of the department's hazardous waste management enforcement program.	2015-16	11	1.4
Improving Permitting Processes—Funding for limited-term positions to address the hazardous waste permit renewal backlog.	2014-15	8	1.2
Permitting Enhancement Work Plan—Funding for 5 two-year limited term positions to implement the permitting enhancement work plan.	2014-15	5	0.7
Safer Consumer Products Program			
Implementation of the Green Chemistry Program—The budget redirected 39 positions, eliminated about 5 positions, and redirected total funding of $4.8 million from various programs within DTSC to implement Chapters 559 and 560 of 2008 (AB 1879, Feuer, and SB 509, Simitian, respectively) known as the "green chemistry program." This program identifies the presence of hazardous chemicals in consumer products and requires producers of these products to consider safer alternatives.	2012-13	NA	NA
Exide Facilities Contamination Cleanup Program			
Exide Technologies Cleanup—Chapter 9 of 2016 (SB 93, de León) allows the loan of up to $176.9 million from the General Fund to the Toxic Substances Control Account for activities related to the lead contamination in the communities surrounding the Exide Technologies lead-acid battery recycling facility in the city of Vernon.	2016-17	—	176.9
Exide Technologies Cleanup—In August 2015, the Legislature approved $7 million of emergency funding from the Toxic Substances Control Account to (1) test approximately 1,000 properties in the community surrounding Exide, (2) develop a comprehensive cleanup plan, and (3) begin cleanup of the highest priority sites.	2015-16	—	7.0
Exide Technologies Cleanup—Funding and limited term positions to implement the 2014 enforcement order against Exide Technologies.	2015-16	5	0.7
Distributed Administration			
Office of Strategic Planning and Development—Funding and conversion of 5 limited-term positions to permanent positions to create an office of Strategic Planning, Performance, and Analysis responsible for prioritizing reform efforts and overseeing the development of policy and program improvements.	2016-17	—	0.7

Five-Year Budget Summary

(In Millions)

Program	2012-13	2013-14	2014-15	2015-16	2016-17[a]	2017-18[b]
Site Mitigation and Brownfields Reuse	$95.7	$103.0	$121.5	$130.0	$135.2	$123.8
Hazardous Waste Management	56.3	63.9	70.8	80.6	83.7	78.7
Safer Consumer Products	13.0	12.3	12.4	15.0	15.6	13.4
State Certified Unified Program	1.3	1.8	1.4	2.9	2.8	2.8
Exide Facilities Contamination Cleanup	—	—	—	4.8	24.4	67.2
Totals	**$166.3**	**$181.0**	**$206.1**	**$233.2**	**$261.7**	**$285.8**

[a] Estimated/proposed.
[b] May not total due to rounding.
Prepared by LAO

Five-Year Position Summary

Program	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Site Mitigation and Brownfields Reuse	330.7	297.0	317.9	286.7	280.2	285.2
Hazardous Waste Management	331.6	335.0	323.7	371.2	389.2	389.7
Safer Consumer Products	64.6	58.6	54.2	61.0	61.8	61.8
State Certified Unified Program	11.5	10.8	14.3	9.3	9.7	9.7
Exide Facilities Contamination Cleanup	—	—	—	—	—	—
Administration	131.2	178.5	181.2	174.9	176.9	176.9
Totals	**869.6**	**879.9**	**891.3**	**903.1**	**917.8**	**923.3**

Prepared by LAO.

Selected 2017-18 Budget Proposals

(Dollars in Millions)

Site Mitigation and Brownfields Reuse Program	Positions	Amount
Stringfellow Superfund Removal and Remedial Action—Funding to collect environmental data to support the selection of a final remedy for the Stringfellow Hazardous Waste Site.	—	$2.5
Lead-Acid Battery Act Implementation—Funding and positions to implement Chapter 666 of 2016 (AB 2153, Garcia), known as the Lead-Acid Battery Act of 2016. This act requires the Department of Toxic Substances Control to identify, investigate, and clean up areas reasonably suspected to have been contaminated by the operation of lead-acid battery recycling facilities.	5.0	0.6

Prepared by LAO.

Permitting Program—Past and Projected Performance

Permitting Decisions Through 2017-18	2012-13	2013-14	2014-15	2015-16	2016-17[a]	2017-18[a]
Total permit decisions[b]	3	4	8	12	12	13
Permits continued more than two years past expiration	—	—	27	18	10	7
DTSC's Projected Permitting Decisions	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**
Total permit decisions[b]	16	16	16	16	16	15
Permits continued more than two years past expiration	7	10	12	15	12	6

[a] Estimated.

[b] Includes: (1) new permits, (2) permit renewals, and (3) class 3 permit modifications—the most complex type of permit modification for the Department of Toxic Substances Control to review. Excludes less complex workload such as closure verifications and review of: (1) class 1 permit modifications, (2) class 2 permit modifications, and (3) emergency permits and variances.

Prepared by LAO.

Cost Recovery Program—Past and Projected Performance

Ability To Pay Cases	2012-13	2013-14	2014-15[a]	2015-16[b]	2016-17[c]	2017-18[c]
Number of completed cases	12	10	14	22	25	40

[a] Last full year of ability to pay reviews prior to implementation of Chapter 459 of 2015 (AB 276, Assembly Committee on Environmental Safety and Toxic Materials), which expanded the department's authority to request information from parties who are potentially responsible to pay for the response and cleanup at a hazardous waste site.

[b] Includes six months of AB 276 implementation.

[c] Estimated.

Prepared by LAO.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 2, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Joe Stephenshaw

<u>Vote Only Calendar</u>

<u>Presentations</u>

Overview of the Governor's Budget
• Brian Brown, Legislative Analyst's Office
Agency Secretaries
• John Laird, Secretary for Natural Resources
• Karen Ross, Secretary for Food and Agriculture

<u>Issues for Discussion</u>

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.

VOTE-ONLY CALENDAR

0540 Secretary of the Natural Resource Agency

1. **Bonds Unit Positions and Local Assistance.** The Governor's Budget proposes to make 3.0 limited-term positions permanent within the Bonds Unit at the Natural Resources Agency. The funding for these positions is in the agency's baseline budget and comes from Proposition 84 and the Greenhouse Gas Reduction Fund.

   In addition, $4.4 million in Proposition 13 river parkways funds are proposed to revert and then be reappropriated. These funds were inadvertently appropriated in 2015-16. Awards for this funding were made early in 2016-17 through a competitive process and are contingent on this proposal.

2. **Museum Grant Program Staffing.** The Governor's Budget proposes $100,000 from the California Cultural and Historical Endowment (CCHE) fund to make an existing position permanent to support the Museum Grant Program. In addition, this request will appropriate $65,000 CCHE fund to provide the California Association of Museums with its required portion of proceeds from the Snoopy License Plate Program to assist museums throughout California.

3600 California Department of Fish and Wildlife

1. **Proposition 84 Reversion.** The Governor's Budget proposes to revert $9.98 million associated with 2013-14 and 2014-15 appropriations of Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006) funding.

8570 – California Department of Food and Agriculture

1. **Fertilizing Materials: Auxiliary Soil and Plant Substances: Biochar.** The Governor's Budget proposes $110,000 in Department of Food and Agriculture Fund Authority and 1.0 position in 2017-18, and $105,000 and 1.0 position in 2018-19 and ongoing to implement AB 2511 (Levine), Chapter 331, Statutes of 2016. AB 2511 requires the Department of Food and Agriculture to regulate biochar as a fertilizing material, specifically as an auxiliary soil and plant substance.

Staff Recommendation: Approve vote only items as proposed.

0540 Secretary of the Natural Resource Agency

Overview

The mission of the Natural Resources Agency 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 involved communities. The secretary for Natural Resources, a member of the Governor's cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 26 various departments, boards, commissions and conservancies, and directly administers the Sea Grant Program, Ocean Protection Council, California Environmental Quality Act, Environmental Enhancement Mitigation Program, River Parkways, Urban Greening, and the California Cultural and Historical Endowment grant programs.

The Natural Resources Agency consists of the departments of Forestry and Fire Protection, Conservation, Fish and Wildlife, Parks and Recreation, and Water Resources; the California Conservation Corps; Exposition Park; California Science Center; California African American Museum; the State Lands Commission; the Colorado River Board; the San Francisco Bay Conservation and Development Commission; the Energy Resources Conservation and Development Commission; the Wildlife Conservation Board; the Delta Protection Commission; the California Coastal Commission; the State Coastal Conservancy; the California Tahoe Conservancy; the Santa Monica Mountains Conservancy; the Coachella Valley Mountains Conservancy; the San Joaquin River Conservancy; the San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy; the Baldwin Hills Conservancy; the San Diego River Conservancy; the Sierra Nevada Conservancy; the Sacramento-San Joaquin Delta Conservancy; the Native American Heritage Commission; and the Special Resources Program.

The Governor’s Budget includes the following resources for the Secretary of the Natural Resources Agency. Of the $60.5 million in total funding for 2017-18, $2.6 million is General Fund. The large decrease in funding from 2016-17 to 2017-18 is primarily due to large bond and Greenhouse Gas Reduction Fund appropriations in 2016-17.

Governor’s Budget – Natural Resource Agency (Dollars in Millions)						
	Positions			Expenditures		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Admin. of Natural Resource Agency	39.5	43.4	49.4	$29.1	$506.1	$60.5

The Governor’s Budget includes total funding of $8.8 billion ($2.8 billion General Fund) and 18,224.0 positions for all programs included in this Agency.

8750 Department of Food and Agriculture

Overview

The California Department of Food and Agriculture (CDFA) serves the citizens of California 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 the 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, and 4) improve regulatory efficiency through proactive coordination with stakeholders. Invest in employee development and succession planning efforts. CDFA's budget is comprised of the following programs:

Agricultural Plant and Animal Health; Pest Prevention; Food Safety Services
The objective of this program is to prevent the introduction and establishment of serious plant and animal pests and diseases to California and protect the safety of California's dairy, eggs and meat products exempt from federal inspection. In particular, the program is focused on pests and diseases that can: 1) be transmitted to humans, 2) inflict catastrophic financial loss on California's farmers, ranchers, and associated businesses, 3) have severe negative impact on the environment, or 4) adversely affect the supply of agricultural products to the consumer.

Marketing; Commodities and Agricultural Services
California agriculture produces over 400 different crops, which enter state, national, and international commerce. The objectives of this program are to assure orderly domestic and international marketing of safe and quality agricultural commodities, promote consumer protection, food access, ensure fair pricing practices, oversee industry-supported grading services, and maintain standards of measurement which provide a basis of value comparison, fair competition in the marketplace, and establish quality standards for conventional and alternative fuels and automotive products.

This program also provides support to governmental agencies that work to protect the nation's food supply and the environment by monitoring for chemical contaminants such as pesticides in food, animal feed and fertilizers.

Assistance to Fairs and County Agricultural Activities
This program provides limited fiscal and policy oversight to the network of California fairs. The state has a network of 79 fairs including county fairs, citrus fruit fairs, District Agricultural Associations and the California State Fair (an independent state agency). State oversight of these local fairs includes attendance of board meetings and periodic financial reviews and audits.

General Agricultural Activities
This program provides the fiscal and policy oversight of the federal grants awarded that promote California agriculture, and for all CDFA Greenhouse Gas Reduction Program activities which are designed to reduce greenhouse gas emissions in agriculture. In addition, this program serves as the central point of contact for logistical coordination of all departmental resources, provides industry and agency coordination on environmental issues affecting agriculture, and provides centralized communications to California's agricultural industry, including County Agricultural Commissioners

and the statewide fairgrounds. This program also partially reimburses County Agricultural Commissioners' Offices for carrying out agricultural programs authorized by the Food and Agricultural Code under the supervision of CDFA.

Executive, Management, and Administrative Services

Executive and management services include the executive leadership of the Secretary's office. The Secretary's office sets priorities and policies to protect, support, and promote agriculture in the State of California, and helps to protect the health and welfare of the public and the environment. Administrative Services provides centralized administrative support to the Department through fiscal operations, employee-employer relations, personnel management, employee development, and general business services.

The Governor's Budget includes the following resources for CDFA. Of the $408.4 million proposed for 2017-18, $89.2 is from the General Fund. The department of Food and Agriculture Fund and federal funds are the department's largest funding sources - $147.4 million and $102.7 million, respectively, is proposed from these sources in 2017-18.

Governor's Budget - Department of Food and Agriculture (Dollars in Millions)						
Program	**Positions**			**Expenditures**		
	2015-16	**2016-17**	**2017-18**	**2015-16**	**2016-17**	**2017-18**
Agricultural Plant and Animal Health; Pest Prevention; Food Safety Services	1,059.1	968.6	1,180.6	$209.4	$208.3	$219.5
Marketing; Commodities and Agricultural Services	256.1	304.1	363.9	62.9	85.8	108.2
Assistance to Fairs and County Agricultural Activities	5.8	8.2	8.2	4.0	15.8	4.8
General Agricultural Activities	30.4	23.0	25.0	98.2	165.0	75.8
Administration	192.9	168.4	174.4	21.5	22.7	23.5
Distributed Administration	-	-	-	-21.4	-22.6	-23.4
Total	**1,544.3**	**1,472.3**	**1,752.1**	**$374.6**	**$475.0**	**$408.4**

3600 California Department of Fish and Wildlife

Issue 1 - Restructuring the Fish and Game Preservation Fund

GOVERNOR'S PROPOSAL

The Governor's Budget proposes $12.4 million in additional revenue from an increase in commercial fish landing fees to support the Department of Fish and Wildlife's (DFW) commercial fishing program, and a one-time redirection of $10.6 million from the Lifetime License Trust Account (LLTA) ($8.7 million of which would go to the Fish and Game Preservation Fund (FGPF) non-dedicated account). This proposal is intended to address the approximately $20 million deficit in the FGPF.

Landing Fees. The department proposes trailer bill language to increase commercial landing fees established in Fish and Game Code Section 8051, in order to more closely align revenues from commercial fishing with department activities related to management and oversight of commercial fishing programs. This proposal is estimated to increase commercial landing fee revenue by approximately $12.4 million per year.

The proposed approach uses an "Eleven-Tier System," with fees based on the ad valorem concept. The proposed approach would take advantage of the current structure to set, implement, and enforce landing fees, eliminating the need to establish new mechanisms to set and collect landing fees. According to the department, the proposal would not require new regulations to implement and there are minimal and absorbable anticipated new costs associated with notification to payees of the new fee rates. This proposal would utilize an eleven-tier system such that fisheries that are the highest value per pound pay the highest rate. All fisheries would pay a higher rate than status quo under the proposal.

Lifetime License Trust Account. The department proposes trailer bill language to eliminate the LLTA. The balance of the account, currently approximately $12.5 million, would be transferred to the non-dedicated FGPF, to various dedicated accounts within the FGPF, and to the Hatchery and Inland Fisheries Fund. Beginning in 2017-18, annual revenues of approximately $910,000 would instead be deposited into the FGPF. Of this amount, approximately $750,000 would be deposited into the non-dedicated FGPF and approximately $160,000 would go to the appropriate dedicated accounts. In addition, approximately $198,000 would go to the Hatchery and Inland Fisheries Fund.

According to the department, funds currently in the account are derived from fishing and hunting licenses so it is appropriate to shift these funds to the FGPF and this proposal would make these funds available for expenditure for their intended purposes.

Additional Budget Proposals. In addition to the proposal to address the FGPF's deficit, the Governor's budget includes the following proposals that would increase FGPF expenditures:

- $1.7 million to develop and implement a sampling program, in coordination with the Department of Public Health, to protect public health and prevent unnecessary fishery closures associated with harmful microalgae blooms (aka "red tides").

- $1.8 million to improve efficiency in the conservation of natural resources through compliance with the State Water Resources Control Board's emergency regulation for measuring and reporting on the diversion of water related to management and operations of department lands and facilities.

Finally, the Governor's Budget proposes to shift $381,000 in funding for the fish consumption advisory program to another funding source, which has yet to be identified. Following is a chart from the Legislative Analyst's Office (LAO) summarizing the FGPF proposals:

Summary of Governor's FGPF Nondedicated Account Proposals

(In Thousands)

	2017-18	2018-19
Reduces Shortfall		
Increase commercial landing fees	$12,400	$12,400
Transfer from and eliminate Lifetime License Trust Account	8,725	750
Shift advisory program to other fund source[a]	381	381
Subtotals	**($21,506)**	**($13,531)**
Adds to Shortfall		
Water diversion assessment	-$1,800	-$1,800
Algal bloom monitoring program	-1,717	-996
Subtotals	**(-$3,517)**	**(-$2,796)**
Net Solutions	**$17,989**	**$10,735**

[a]The administration is still in the process of identifying a viable new fund source.

FGPF = Fish and Game Preservation Fund.

BACKGROUND

The FGPF was established in 1909 as a repository for all funds collected under the Fish and Game Code and any other law relating to the protection and preservation of birds, mammals, fish, reptiles and amphibia in California. These revenues are generated from the sale of licenses for hunting, recreational and commercial fishing, and numerous special permits. Over time, the Legislature has created various subaccounts within the FGPF, which have specified permit fees generating revenue for projects benefitting those species. For example, the taking of migratory waterfowl in California requires a state duck stamp validation in addition to a general hunting license. Revenues from the duck stamps are deposited into the Duck Stamp Account within the FGPF to be used for waterfowl protection and habitat restoration. There are currently 29 dedicated subaccounts within the FGPF. The department issues more than 500 different types of hunting and fishing licenses and permits.

Revenue from licenses, fees and permits that are not directed by statute to a dedicated account are accounted for in what is known as the non-dedicated FGPF. This is the largest repository for department revenues, including sales of general fishing and hunting licenses. Approximately 75 percent to 80 percent of total FGPF revenues are deposited into the non-dedicated account, with the remainder going to the various 29 dedicated subaccounts. There is a running deficit in the non-dedicated FGPF.

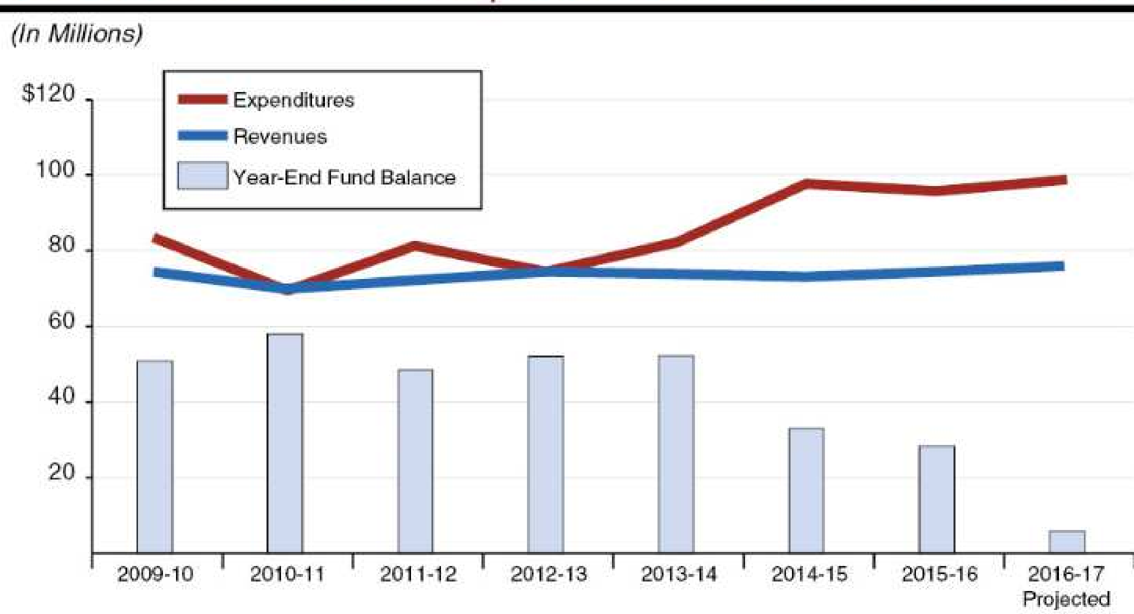
Program Activities Supported by the FGPF. The FGPF is the DFW's largest single fund source and supports a multitude of program activities. Some of the main functions supported by the FGPF are displayed in the following table:

Main Functions Supported by the Fish and Game Preservation Fund	
Law Enforcement	Support for more than 400 wildlife officers positioned throughout the state to promote compliance with laws and regulations protecting fish and wildlife resources. Wildlife officers also investigate habitat destruction, pollution incidents and illegal commercialization of wildlife, and serve the public through general law enforcement, mutual aid and homeland security.
Lands Management	Management of department-owned lands including wildlife areas, ecological reserves, and public access areas to contribute to the conservation, protection, and management of fish and wildlife. Among other things, these activities support hunting opportunities and serve as required match for federal wildlife restoration grant funds.
Wildlife Conservation	Activities conducted by regional and field staff related to resource assessment and monitoring, conservation and management activities for game and nongame species, and public outreach related to those species. Funding for these activities also serves as required match for federal wildlife restoration grant funds.
Fisheries Management	Development and implementation of policies to address management, protection, and restoration of fish species and their habitats. Also promotes commercial and public recreational angling opportunities. These funds serve as required match for federal sport fish restoration grant funds.
Fish and Game Commission	The commission establishes regulations for hunting, sport and commercial fishing, aquaculture, exotic pets, falconry, depredation control, listing of threatened or endangered animals, marine protected areas, public use of department lands, kelp harvest, and acts as a quasi-judicial appeal body.

FGPF Structural Imbalance. In recent years, expenditures have exceeded revenues in the non-dedicated account of the FGPF, with the gap reaching over $20 million annually beginning in 2014-15. In the past, the department has been able to sustain FGPF program activities by utilizing the balance in the reserve and lowering actual expenditures, thereby creating savings. However, the current situation is not sustainable. Expenditures have continued to increase and the fund balance continues to decrease, which, without action, will lead to a projected deficit in 2018-19. The following LAO chart displays the FGPF's non-dedicated revenue as compared to expenditures.

Figure 15

FGPF Nondedicated Account Expenditures Exceed Revenues in Recent Years



FGPF = Fish and Game Preservation Fund.

Some of the causes of the FGPF's structural imbalance that the department has identified include; fund shifts (particularly to the General Fund), lifting of prior spending restrictions (e.g. vehicles, furloughs), increased need for federal funds, and cost of business increases (e.g. employee compensation).

Landing Fees. Commercial landing fees are established in statute as a fixed rate per pound. The rate was last amended in 1992 and currently generates revenue that is approximately 0.5 percent of the three-year historical average value of the fishery. An evaluation by the DFW in 2007 calculated that the total revenue from commercial fisheries (landing fee revenue and permit fees) covered approximately 22 percent of the total costs to manage, license, and enforce the fisheries. Since that evaluation was conducted, a number of proposed mechanisms to generate additional revenue from commercial fisheries have been evaluated over the years. The development of an ad valorem approach (value based), which is used by other west coast states, routinely rises to the top as a preferred approach.

However, DFW reports that implementation of an ad valorem approach can be extremely costly and difficult to track. Amending the statute to use an ad valorem collection approach would require establishing (and regularly amending) state regulations defining average market prices for each commercial fish species. It would also require new audits and collection processes, and law enforcement staff at the field level would need to develop new methods of investigating for compliance using business records in addition to commercial fish tickets. Costs of developing and implementing these new regulatory programs, internal business practices, and enforcement costs would offset a significant portion of the additional revenue generated.

Lifetime License Trust Account. Fish and Game Code Section 13005 established the LLTA as a repository for revenues generated from the sale of lifetime fishing and hunting licenses. These licenses range from $700 to $1,200, depending on the age of the buyer. The LLTA was established to hold these revenues, with a specified amount made available for expenditure by an annual transfer to the FGPF, effectively amortizing the revenues from lifetime licenses over the buyers' lifetimes.

ISSUES TO CONSIDER

Impact on Commercial Fisheries. Although the Governor's proposal is intended to align revenue with the costs of supporting the program's activities and takes product value into account, the increased landing fees would nonetheless impact commercial fisheries' cost of doing business in California. The LAO points out that the industry has struggled in recent years due to poor conditions and closures brought about by drought, El Niño weather patterns, and climate change. While prices for many types of seafood have increased, in many cases the catch amounts are way down. For example, the California coast was closed to Dungeness crab, rock crab, and razor clam fishing for extended periods starting in the fall of 2015 due to widespread algal blooms and resulting domoic acid concentrations in the shellfish. Additionally, the state's salmon catch has declined precipitously in recent years due to the drought's effects on the state's rivers and high mortality rates experienced by the fish.

What are options for a comprehensive solution? The Governor's budget proposal amounts to a partial, ongoing solution to addressing the FGPF's structural imbalance. As such, the Administration acknowledges in their proposal that further permanent solutions will be necessary. Some of the solutions that have been brought up include; statewide fees/taxes, water rights fee (assessed by the State Water Resources Control Board), or a non-consumption user fee (boat rentals, diving, whale watching).

Alternatively, the Legislature may wish to scrutinize program expenditures by requiring the department to produce more detailed program information, including which activities are being supported without associate generation of funds, update definitions of game, nongame and commercial programs, or expand the use of dedicated accounts. Currently, almost all of the FGPF's revenue is derived from fees from recreational hunters and anglers, with some funding coming from California Environmental Quality Act filers and commercial fishers. However, some have raised the argument that the department's work serves a statewide purpose and the public good, which should merit the consideration of some of these alternative proposals.

Legislative Analyst's Office. The LAO is concerned that the Governor's proposal to address the operating shortfall for the FGPF non-dedicated account includes a commercial fishing landing fee increase that may be too large for the industry to sustain, and adds new activities that exacerbate the account's imbalance. Moreover, the LAO notes that the proposals leave an ongoing shortfall for the Legislature to address in 2018-19. They recommend the Legislature 1) adopt a commercial landing fee increase but perhaps at a lower level or more gradually, 2) adopt the Governor's proposal to transfer lifetime license fee revenues to the non-dedicated account, 3) modify the Governor's proposals to begin two new activities by funding them on a limited-term basis using different funding sources, and 4) begin the process of identifying and considering options for addressing the remaining shortfall on an ongoing basis.

Staff Recommendation: Hold open.

8750 Department of Food and Agriculture

Issue 1 - Plant Pest Prevention System

Governor's Budget. The Governor's Budget proposes $1.8 million General Fund (GF), and $2.6 million in Department of Food and Agriculture Fund (Agriculture Fund) authority in 2017-18 and 190.5 positions (25.5 permanent positions and a conversion of 165 temporary positions to permanent positions), and $1.9 million GF, $2.9 million in Agriculture Fund and $570,000 of Reimbursements and 194 positions (29 permanent positions and a conversion of 165 temporary positions to permanent positions) in FY 2018-19 and ongoing for the Department of Food and Agriculture (CDFA) to fortify the infrastructure of the state's pest prevention system. Details of this request include:

- $438,000 GF and $438,000 Agricultural Fund and 5 positions in 2017-18 and $461,000 GF and $461,000 Agricultural Fund and 5 positions in 2018-19 and ongoing to rapidly respond to slow the spread of newly-detected pests and sustain consistent actions throughout the state.

- $830,000 GF and $1.9 million Agricultural Fund and 175 positions (10 new positions and the conversion of 165 temporary positions to permanent) in 2017-18 and $921,000 GF and $2.1 million Agricultural Fund and 175 positions (10 new positions and the conversion of 165 temporary positions to permanent) in 2018-19 and ongoing to address year-round detection and eradication efforts.

- $224,000 Agriculture Fund and 2 positions in 2017-18 and $281,000 Agriculture Fund and 2 positions in 2018-19 and ongoing to provide an additional investment in the identification element of the pest prevention system to handle the increase in samples and the quick turnaround of sample results to support agricultural trade.

- $527,000 GF and 3.5 positions in 2017-18 and $518,000 GF and $570,000 in Reimbursements and 7 positions in 2018-19 and ongoing to create a Biological Control Program.

- $566,000 in distributed administration costs and 5 positions in 2017-18 and $464,000 and 5 positions in 2018-19 and ongoing.

Background. As required by law, CDFA's Plant Health and Pest Prevention Services (PHPPS) Division's mission is to protect ornamental and native plantings as well as agricultural crops from the harm caused by exotic pest invasions. The California Legislature, in enacting this mandate, recognized that the pest prevention system is uniquely positioned to protect California's urban and natural environments as well as its agriculture.

The pest prevention system incorporates the following elements in order to protect California:

Pest Prevention System Elements	
Exclusion	External and internal exclusion activities designed to prevent pest introduction and respond in a timely manner to contain the spread of newly detected pests.
Detection	Early detection of plant pests before they become well established.
Eradication	Timely and effective eradication actions to eliminate new pest infestations.
Control	Control and containment systems for plant pests that have become widely established.
Identification	Accurate and timely pest identification.
Public Outreach	Outreach programs to enlist public support of pest prevention activities through enhanced public awareness and education.
Scientific Support	Research, information technology and pest risk analysis systems to assure that the pest prevention program is relevant, scientifically based and continuously improved.

Existing law provides that the secretary is obligated to investigate the existence of any pest that is not generally distributed within California and determine the probability of its spread and the feasibility of its control or eradication. The secretary may establish, maintain and enforce quarantine, eradication and other such regulations as necessary to protect the agricultural industry from the introduction and spread of pests. These pests include:

- Asian Citrus Psyllid (ACP) is the vector for the Huanglongbing (HLB) disease which is fatal to citrus trees. HLB is established in areas with climates similar to California and is the most devastating of all citrus diseases. ACP was first found in California in 2008 in San Diego County. Subsequent to this initial detection, ACP has been detected in several other counties in California. ACP has the potential to establish itself throughout the State. HLB was first detected in California in 2012 in Hacienda Heights, Los Angeles County. It was subsequently detected in San Gabriel, Los Angeles County in 2015.

- Japanese beetles (JB) attack a wide range of plants in the eastern United States. JB adults feed on leaves and fruit. Hosts include small fruits, tree fruits, truck and garden crops, and ornamental shrubs, vines and trees. The JB larva feed on the roots of turf and other ground cover plants. There are three eradication projects ongoing in California.

- Exotic fruit flies are of concern to the agriculture industry and home gardeners. The larval stage of fruit flies such as Mediterranean fruit fly, Mexican fruit fly and Oriental fruit fly can damage most of the fruits and vegetables grown in the state. CDFA, in concert with most of the county agricultural commissioners, deploys and maintains over 63,000 detection traps statewide just for exotic fruit flies. Each year several exotic fruit fly infestations are detected throughout the state. Integrated pest management and quarantine actions are implemented in order to ensure eradication.

Implementing the pest prevention system in California is a partnership involving many organizations, public and private. In addition to PHPPS, the primary participants are USDA, county agricultural commissioners, the agricultural industry, and other state agencies. The USDA focuses on pests of national significance and international pest pathways, while PHPPS and county agricultural commissioners focus on state and local activities and concerns. Agricultural industry groups primarily focus on pests of concern to a specific commodity group.

Funding

In recent years, PHPPS has become increasingly reliant upon federal and industry funding in order to carry out its mission. All elements of PHPPS receive some level of federal funds to support the pest prevention system. Additionally, these funds support California's $21 billion of agricultural exports by providing for detection surveys to prove the state is free from pests of concern to other states and countries. Although federal and industry funds are key to the success of the pest prevention system, there are no operational positions associated with the ACP and HLB funding, and the PHPPS has redirected existing staff to address the increase in federal and industry funded activities. In 2015-16, the pest prevention system was supported by $46.7 million in GF, including $6.4 million for Local Assistance, to supplement county agriculture commissioner activities. Approximately $12 million is received from a variety of fund sources or from other state agencies for exclusion activities at the Border Protection Stations (BPS) and for aquatic weed surveys. A total of $56 million in Federal Funds was received to supplement state, county, and industry funded activities, including $13.2 million for ACP and HLB and $15.8 million for Pierce’s disease/Glassy-winged sharp shooter. The counties expended $29.6 million in county general funds and $19.3 million in Agriculture Fund for pest prevention in the 2014-15 fiscal year in support of the pest prevention system. Additionally, in the 2015-16 fiscal year, various agriculture industry groups contributed $29.4 million to combat a variety of pests, including over $15 million from citrus growers to support efforts to combat ACP and HLB and $5.3 million from grape growers to combat PD/GWSS. The 2015-16 Pest Prevention total for all funding sources was $193.3 million.

Growing Concern

According to the CDFA, statistics show that over the previous five years there has been a steady increase of international passenger travel and imports of food and agriculture products which increase the risk of pest introductions into California. This is occurring simultaneously with steadily increasing crop production value and export value which indicates there is increasingly more value at risk. Funding, especially public funding for the pest prevention system, has not kept pace with the increase in pest introduction risk and the value of what is at risk.

According to a recent update of ongoing research CDFA conducted in concert with the University of California (UC) about pest establishment in California:

- From 1990 to 2010 the annual rate of detection of established populations of new invertebrate species in California increased to approximately nine per year, which is a 50-percent increase over the previous 20-year period.

- Approximately 44 percent of non-native invertebrates likely arrived from populations established elsewhere in North America. The rest came from a foreign country through an international border. The rate of establishment has remained unchanged after Customs and Border Protection took over the exclusion responsibility from USDA in the mid-2000s.

- The UC Center for Invasive Species Research estimates that invasive species cost California over $6 billion per year.

The following factors contribute to why the negative impact of invasive species in California is greater now than in the past:

- A warmer climate has increased the value of the urban and natural forests that sequester carbon, clean the air, and save energy.

- The transition to permanent, high-value crops like almonds, walnuts, pistachios, wine grapes, and citrus, due to consumer demand, reduced pest management options like host-free periods or crop rotation that are available for annual crops.

- The increase in organically-produced food, due to consumer demand, means there are fewer cost effective pest management options for an increasing percentage of crops, and the loss of organic status crops and properties is greater than a comparable loss to conventionally-produced food.

According to CDFA, the increasing demand on the pest prevention system's resources required to address the increasing threat of ACP and HLB have reduced the ability to respond to other invasive pests. Although the battle against ACP and HLB is supported by the citrus growers and Federal Funds, the funding covers salaries of existing staff, but does not provide permanent position authority. PHPPS' existing permanent staff has been reassigned to cover the increasing workload created by ACP and HLB response activities, leaving holes in PHPPS' core programs.

An internal trend analysis within PHPPS has shown that to keep up with the increased pest introductions, over the past few years, there has been a 100 percent increase in overtime costs, a 157.8 percent increase in overtime hours, and a 41 percent increase in temporary help hiring. To maintain these critical functions without a corresponding increase in funding, PHPPS has delayed the purchase of equipment, reduced core functions (such as quality control inspections and trap inspections), and reduced inspections and quarantine enforcement activities, leaving the state vulnerable to other invasive species.

Legislative Analyst's Office (LAO). The LAO recommends approving the new positions and half of the positions requested to be shifted from temporary status. They further recommend the Legislature require the department to report at budget hearings on the need for new office facilities to house the additional staff requested under the Governor's proposal, as well as the estimated cost of the greenhouse structures that might be needed in order to implement the Governor's proposed biocontrol program.

Staff Recommendation: Hold open.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 2, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Joe Stephenshaw

OUTCOMES

Vote Only Calendar – All Items Approved

0540	**Secretary of the Natural Resource Agency**	
Issue 1	Bonds Unit Positions and Local Assistance **3-0 (Nielsen not voting)**	2
Issue 2	Museum Grant Program Staffing **3-0 (Nielsen not voting)**	2
3600	**California Department of Fish and Wildlife**	
Issue 1	Proposition 84 Reversion **4-0**	2
8570	**California Department of Food and Agriculture**	
Issue 1	Fertilizing Materials: Auxiliary Soil and Plant Substances: Biochar **4-0**	2

Presentations

Overview of the Governor's Budget
• Brian Brown, Legislative Analyst's Office
Agency Secretaries
• John Laird, Secretary for Natural Resources
• Karen Ross, Secretary for Food and Agriculture

Issues for Discussion

3600	**California Department of Fish and Wildlife**	
Issue 1	Restructuring the Fish and Game Preservation Fund **Held Open**	6
8570	**California Department of Food and Agriculture**	
Issue 1	Plant Pest Prevention System **Held Open**	12

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—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 9, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: James Hacker

Vote Only Calendar

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.

VOTE-ONLY CALENDAR

3360 – California Energy Commission (CEC)

1. **Implementation of SB 1414 (Wolk), Chapter 678, Statutes of 2016.** The budget requests one permanent position and $386,000 (ERPA) to implement SB 1414, which requires the commission to develop a plan to promote compliance with building energy standards for central air and heating units.

2. **Implementation of AB 1110 (Ting), Chapter 656, Statutes of 2016.** The budget requests one permanent position and $117,000 (ERPA) to comply with AB 1110, which requires the Commission to make certain changes to its Power Source Disclosure program.

3. **Expansion of Energy End-Use Survey Program.** The budget requests a one-time increase of $5.8 million form the Petroleum Violation Escrow Account (PVEA) to expand the Commissions energy end-use surveys, which are a central input to the Commission's energy demand forecasts.

8660 – California Public Utilities Commission (PUC)

1. **Fiscal Office – Permanent Positions.** The budget requests permanent position authority for two currently-existing positions funded through the PUC's overtime blanket. These positions were originally created in 2012-13 to accommodate growing workload in the Accounts Payable and Cashiering unit. This workload is not forecast to decline in the near future. Because these positions are already created and funded through the PUCs existing authority there will be no net fiscal effect.

2. **California Advanced Services Fund – 2020 Workload.** The budget requests $661,000 from the California Advanced Services Fund (CASF) to fund five existing limited-term positions through December 31, 2020. The CASF promotes the deployment of broadband infrastructure in unserved and underserved areas of the state by providing grants and loans to help fund eligible broadband projects. It is funded by a surcharge rate on the revenues collected by telecommunications carriers from the end-users of intrastate services. PUC was given limited-term positions to administer the CASF as part of the 2009-10, 2011-12, and 2014-15 budgets. These positions are set to expire December 31, 2017. Within the CASF, the Public Housing Account supports projects to deploy local area networks and to increase adoption rates in publicly supported housing communities. This program was originally set to end on December 31, 2016. SB 745 (Hueso), Chapter 710, Statutes of 2016 extended this program through December 31, 2020, but did not extend the related positions.

3. **California Advanced Services Fund – Align Fund Authority.** The budget requests a reduction of $21.9 million in budgetary spending authority in the California Advanced Services Fund to align spending authority with the statutory cap on CASF program revenue. Public Utilities Code Section 281 limits the amount of revenue that the PUC may collect to fund CASF to $315 million. PUC estimates that they will have collected the statutory limit by November of 2016. Not reducing the budgetary authority for the CASF would result in a total appropriation for the fund in excess of the statutory limit of $315 million over the life of the fund.

4. **Implementation of SB 350 (de León), Chapter 547, Statutes of 2015.** The budget requests $300,000 per year for 13 years from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to license software tools, train staff, and develop the complex models required to reach full compliance with SB 350 by the final compliance date of 2030. PUC was given three positions to implement SB 350 in the 2016-17 budget, but was not provided funding for software licensing or consultant contracts. PUC has indicated that these support costs are necessary to meet the compliance deadline of 2030.

5. **Safe Biomethane Production and Distribution.** The budget requests $795,000 (Public Utilities Commission Utilities Reimbursement Account) per year for two years to fund five two-year limited term positions to implement the requirements of SB 840 (Committee on budget and Fiscal Review), Chapter 341, Statutes of 2016; SB 1383 (Lara), Chapter 395, Statutes of 2016; and AB 2313 (Williams), Chapter 571, Statutes of 2016. These three bills require the PUC to start or reopen proceedings to reevaluate biomethane safety standards, increase per-project biomethane incentives, and implement a dairy biomethane pilot program. Implementation of these mandates requires the assignment of administrative law judges, legal staff, engineering staff, and regulatory analysts.

6. **Greenhouse Gas Emissions and Biomass.** The budget requests $588,000 (Public Utilities Commission Utilities Reimbursement Account) for three two-year limited term positions and one permanent position to implement the requirements of SB 859 (Committee on Budget and Fiscal Review), Chapter 368, Statutes of 2016. SB 859 mandates the implementation of a new energy purchasing program and the establishment of a new process to track and distribute contract costs, requiring that 125 megawatts of biomass energy be purchased by California's electric utilities. The PUC currently has no staff dedicated to the work created by SB 859.

7. **Expanded 2-1-1 Information and Referral Network.** The budget requests a $1.5 million in one-time authority from the California Teleconnect Fund Administrative Committee Fund to close gaps in existing 2-1-1 telephone service, and $120,000 for one two year limited term position to implement the requirements of SB 1212 (Hueso), Chapter 841, Statutes of 2016. SB 1212 requires the PUC to facilitate the expansion of the 2-1-1 information and referral service to 20 unserved counties. PUC has indicated that the requested resources will work towards statewide 2-1-1 service, along with a statewide resource database, to connect all callers to information and referral services, specifically to suicide prevention and evacuation assistance resources that provide lifesaving information when needed.

8. **CEQA Program Management.** The budget requests $195,000 (Public Utilities Commission Utilities Reimbursement Account) for one permanent supervisory position to deal with expanded workload in the Infrastructure Planning and CEQA section. The section's workload and staffing increased in prior budgetary cycles to accommodate additional state priorities, including High Speed Rail and the Renewables Portfolio Standard. Over time, the staff-to-supervisor ratio has deteriorated, resulting in challenges to the performance of the team.

8660 – Public Utilities Commission Office of Ratepayer Advocate

1. **Communications and Water Policy Branch Utility Audit Workload.** The Office of Ratepayer Advocates (ORA) requests one position and $132,000 (PUCORA) to perform work associated with state water conservation policies, the consolidation of utility rate districts, and new requirements for re-occurring telephone general rate case applications. The requested position would audit and review new water and telephone utilities' spending proposals, including conservation expenses and revenue subsidies, to help the PUC advance the state's goals for water conservation measures and affordable and reliable communication services, build an evidentiary record in PUC proceedings, and ensure utility ratepayers are receiving safe and reliable service at the lowest cost 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 $486 million for support of the CEC, a decrease of approximately $172 million, due primarily to declines in the Transportation Technology and Fuels and Renewable Energy programs, as well as a proposed permanent realignment of ERPA funding.

EXPENDITURES BY FUND (in millions)

Fund	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
General Fund	$ -	$ 15,000	$ -
State Energy Conservation Assistance Account	23,846	2,541	2,322
Motor Vehicle Account, State Transportation Fund	141	148	142
Air Pollution Control Fund	-	7,778	-
Public Interest Research, Development, and Demonstration Fund	1,323	1,739	733
Renewable Resource Trust Fund	26,122	49,353	100,138
Energy Resources Programs Account	72,035	89,592	75,439
Local Government Geothermal Resources Revolving Subaccount, Geothermal Resources Development Account	313	5,219	1,523
Petroleum Violation Escrow Account	1,870	183	5,825
Federal Trust Fund	4,448	24,478	13,497
Reimbursements	20	800	800
Energy Facility License and Compliance Fund	3,505	3,519	3,520
Natural Gas Subaccount, Public Interest Research, Development, and Demonstration Fund	22,235	47,945	29,041
Alternative and Renewable Fuel and Vehicle Technology Fund	85,892	173,691	106,584
Appliance Efficiency Enforcement Subaccount, Energy Resources Programs Account	-	284	942
Electric Program Investment Charge Fund	194,572	239,230	139,753
Cost of Implementation Account, Air Pollution Control Fund	-	-	9,060
Clean and Renewable Energy Business Financing Revolving Loan Fund	7,287	-3,094	-3,094
Total Expenditures (All Funds)	**$443,609**	**$658,406**	**$486,231**

Issues Proposed for Discussion

Issue 1: Implementation of SB 350 (de León), Chapter 547, Statutes of 2015

Governor's Proposal: The budget requests eight permanent positions and $9,060,000 (Cost of Implementation Account - COIA) to support the implementation of SB 350, which requires the Commission administer the state Renewable Energy Standard, implement and enforce building energy retrofit standards, and establish consumer protection guidelines for energy efficient appliances. The requested funding includes $305,000 annually for two two-year limited term positions and $7.6 million for 29.5 positions and associated contract funding approved as part of the 2016-17 budget.

Background: SB 350 (de León), 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. The commission was required to conduct studies on barriers to renewable energy, energy efficiency, and zero -and near-zero emission transportation options for low-income and disadvantaged communities by January 1, 2017.

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 COIA was established for the purpose of recovering costs incurred by carrying out the provisions of AB 32 (and subsequently SB 32). These costs include implementing existing regulatory measures identified in the applicable AB 32 Scoping Plan, as well as costs that support the development of new or proposed regulatory measures that are specifically identified in AB 32 or the Scoping Plan prepared under AB 32, and that are supported by legislation.

The 2016-17 budget provided 29.5 permanent positions, and ongoing contract funds of $3.5 million, for a total request of $7.6 million from the Air Pollution Control Fund, on a one-time basis. Budget bill language provided the necessary authority for the use of penalty monies for this purpose on a one-time basis.

Staff Comments: Concerns were raised during the development of the 2016-17 budget about the use of Cost of Implementation Account funds for SB 350 implementation. Specifically, at the time the 2016 Budget Act was passed, the Energy Commission's activities had not yet been specifically incorporated into the California Air Resource Board's AB 32 Scoping Plan. This raised questions as to the appropriateness of using COIA funds for activities not in the Scoping Plan. The final budget action, one-time funding from the Air Pollution Control Fund for permanent positions, reflected this. The

Energy Commission's SB 350 activities have now been incorporated into the draft AB 32 Scoping Plan update, thereby providing additional clarity that these activities are consistent with the allowable uses of COIA. Nevertheless, there are reasonable questions as to whether or not the activities outlined in this BCP are an appropriate use of COIA funds, regardless of their inclusion into the relevant Scoping Plan.

This request also provides eight new positions for related renewable energy and energy efficiency work, including positions to implement a data system to establish a market baseline for contractor work standards on energy efficiency retrofits and track compliance with required permits. This closely parallels the requirements of SB 1414 (Wolk) that the CEC work with relevant stakeholders to develop a plan to promote compliance the compliance of building air conditioning and heat pumps with statewide Building Energy Efficiency Standards. SB 1414 is the subject of a second BCP. The Legislature may want to ask the Commission to clarify how these two BCPs differ, and how the relevant workload will be distributed amongst the requested resources.

Issue 2: Expenditure Authority for Unspent PIER Natural Gas Funds

Governor's Proposal: The Energy Commission requests $5.9 million in one-time expenditure authority from the PIER Natural Gas Subaccount, to be spent in a manner consistent with the Supplementary Reliability and Climate Focused Natural Gas Budget Plan recently submitted to the PUC.

Background: The Public Interest Energy Research, Development, and Demonstration (PIER) Natural Gas Subaccount is used to fund research and development of natural gas based energy technologies that would not be adequately supported by competitive or regulated energy markets. It is funded by surcharges on natural gas end users. Unlike most special funds, PIER funds have a two-year encumbrance period, followed by a four-year liquidation period.

Over the last decade, a number of projects funded by the PIER fund have come in under budget, reverting funds to the PIER subaccount. Because the two year encumbrance period on these funds has expired, the Energy Commission is unable to apply these funds to a new research, development, or deployment agreement. As a result, the PUC requested that the Energy Commission identify any such unspent funds and propose a budget plan for the use of those funds. The CEC subsequently identified $5.9 million in unspent funds and submitted a Supplementary Reliability and Climate Focused Natural Gas Budget Plan for the use of the funds. PUC intends to review this plan at its April 27th meeting.

Staff Comments: This request is consistent with CEC and PUC research, development, and deployment priorities, and allows the commission to put unspent funds from project savings to work. Similar requests have been made and granted over the past several years. However, PUC has indicated that they will likely not approve the Supplementary Budget Plan guiding the use of the requested funds until late April. The Legislature may want to consider withholding action on this request until the PUC has ruled on the appropriateness of the proposed Budget Plan to ensure that the requested funds are directed to the highest priority projects.

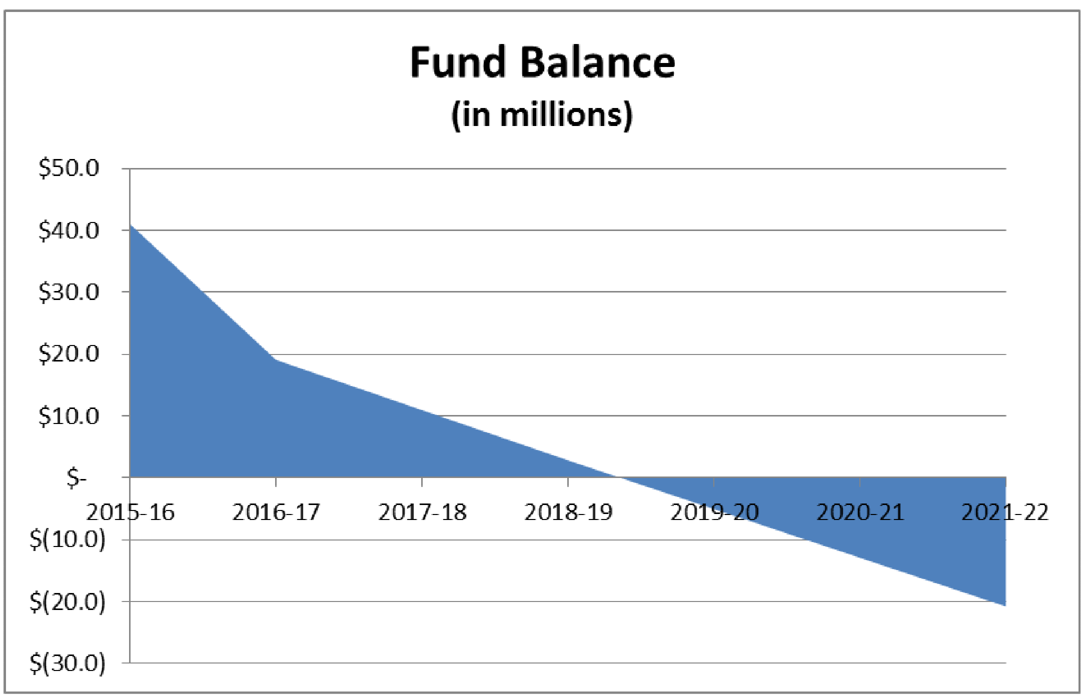
Issue 3: ERPA Expenditure Realignment

Governor's Proposal: The Energy Commission is requesting a reduction of $15.4 million from the Energy Resources Programs Account (ERPA), offset by increases to a number of other funds, to better balance ERPA expenditures and align funding with program activities. The offsetting increases are:

- The shift of three permanent positions and $200,000 in baseline contract funding to the Appliance Efficiency Enforcement Subaccount (AEES).
- A reduction of $4.9 million in baseline contract funding for power plant planning, siting, and compliance activities.
- A $5 million reduction in general baseline funding.
- A shift of 35.0 positions and $4.8 million in funding to the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF) to align expenditures with activities.

Background: 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 by $0.00001 to the cap will generate approximately $2.5 million in additional revenue per year.

As reported in the Governor's budget, ERPA has had a structural deficit of approximately $15-19 million per year in recent years, resulting in a dramatic reduction in the fund balance. The Administration has proposed several potential fixes which result in a smaller structural deficit of roughly $8 million per year. Despite these efforts and proposals, CEC estimates that the ERPA will have a negative fund balance by 2019-20, as demonstrated by the chart below.



*Revenues and expenditures estimated for 2017-18 and out-years.

Staff Comments: ERPA is the primary fund source for the CEC, funding activities as diverse as energy efficiency research, regulatory analysis, and power plant site licensing. Many of these programs have dedicated funding sources that are augmented by ERPA expenditures. Shifting expenditures from ERPA to these program-specific funds where appropriate can help preserve ERPA fund balances while better aligning program funding with program activities.

ERPA is also CEC's largest fund source, providing roughly $75 million in 2017-18. As noted above, ERPA currently has a significant structural deficit, and has been spending down its fund balance over the last several years. Taking action to better align expenditures with fund resources is crucial to ensure the long-term stability of the fund, and its ability to fund CEC activities. This proposal is an important step in bringing the fund back into balance, but it does not fully address the fund's structural imbalance. With the changes included in this proposal the fund is forecast to have a negative fund balance by 2019-20.

This proposal relies heavily on shifting positions and funding in the Alternative and Renewable Fuel and Vehicle Technology program from the ERPA to the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF). This is an appropriate alignment of funding and program activities. However, there is the potential that such a shifting could displace other uses of ARFVTF funds. CEC has indicated that this proposal will not change the appropriation from the ARFVTF. This suggests that increasing the use of ARFVTF funds for positions previously funded by ERPA will reduce the funds available for other projects.

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (PUC) 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 PUC's primary objective is to ensure safe facilities and services for the public at equitable and reasonable rates. The PUC 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 PUC 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**

Issues Proposed for Discussion

Issue 1: California LifeLine Program

Governor's Proposal: The budget requests an augmentation of roughly $151 million ($147 million for local assistance, $4 million for state operations) for the LifeLine program in 2017-18. The Administration has indicated that this is primarily due to increased participation and a projected increase in the LifeLine subsidy level. Specifically, the PUC estimates that LifeLine subscriptions will increase from roughly three million to 3.2 million, with the subsidy projected to increase from $13.75 to $14.30 in the second half of the year. The Administration plans to leave the LifeLine surcharge rate unchanged at 4.75 percent.

Background: The Moore Universal Telephone Service Act of 1984 set the goal of providing high quality telephone service at affordable rates to eligible low-income households. The act requires the California Public Utilities Commission 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 or participation in a variety of existing public assistance programs), and set rates for 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 originally included only traditional wireline (landline) service, has been considered in the broader context of new technologies and trends towards voice, video, and data services.

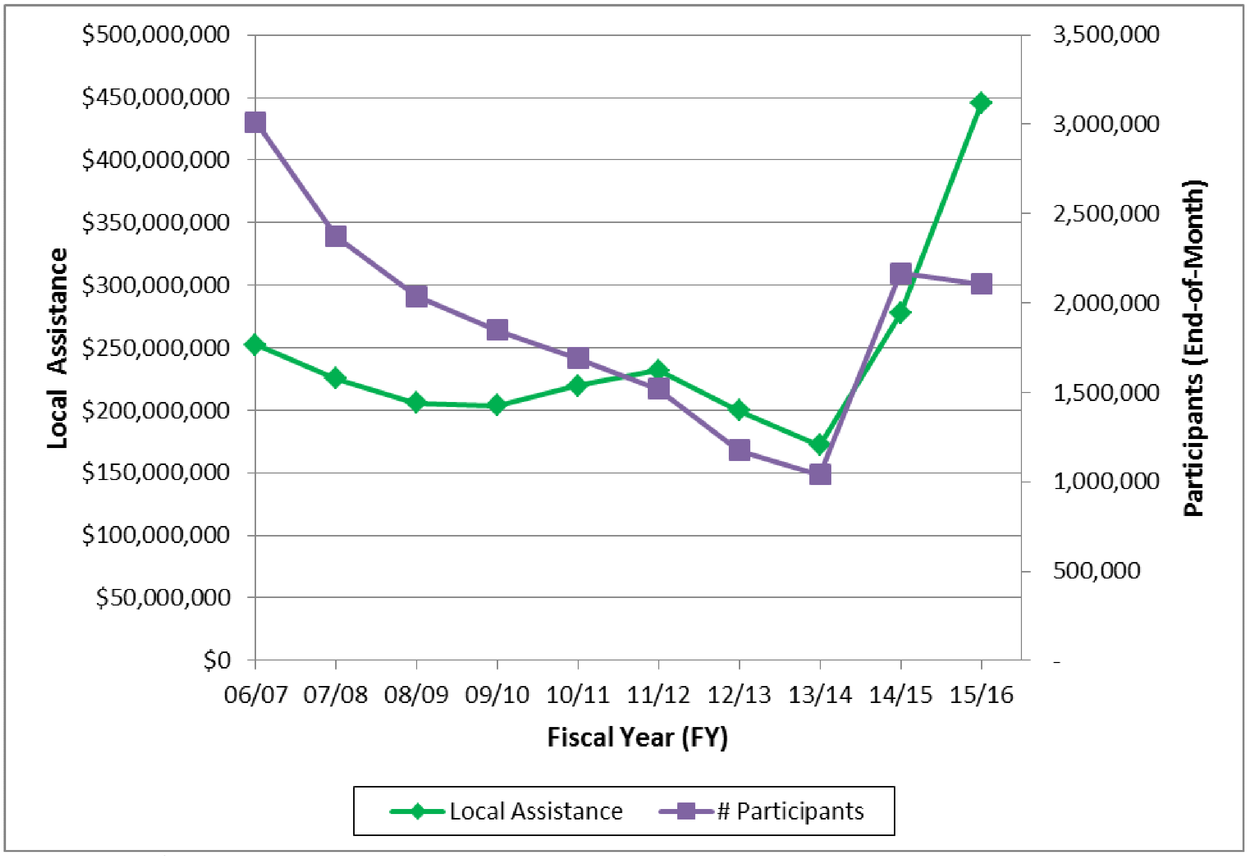
The federal government and the state of California operate separate LifeLine programs. Under federal and state LifeLine program rules, multiple participants are permitted at a single residence if the participants are separate households. A household includes adults and children who are living together 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 LifeLine program discount is provided per household.

For each household enrolled in the program, PUC 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 telecommunications carriers. The subsidy is meant to offset the lower rate charged to the consumer. In 2017, the maximum state subsidy is currently about $14 a month. The federal Lifeline program provides an additional 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 program is funded by a surcharge assessed against intrastate charges on end-users of all telephone corporations and connected Voice over Internet Protocol (VOIP) service providers in California. These charges provide a revenue base for the program of roughly 11 billion in 2017-18. PUC periodically reviews the surcharge rate and may change it to balance program cost and cash flow against the financial burden the program imposes on ratepayers. The surcharge rate has increased steadily since 2012-13, and is currently 4.75 percent. This is a decline from the 2015 rate of 5.5 percent, but is significantly higher than the historic rate of 1.15 percent.

Program Participation Dramatically Increased Since Expansion to Wireless Service. In January, 2014, the PUC issued a decision authorizing voluntary participation in the program by wireless service providers offering discounted wireless service plans to low-income households, if they 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 (offset by a reduction in the number of wireline subscribers). This increase in program participation has combined with several recent increases in the LifeLine subsidy (which is paid out in Local Assistance expenditures) to increase program costs. The chart below highlights this relationship.

Changes in LifeLine Program Participation and Cost since 2006-07



Source: California Public Utilities Commission

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 January 2017, there were 13 LifeLine wireless providers, offering 49 plans. Of these, 32 are offered at no cost to the consumer, including:

- 27 plans with unlimited voice minutes.
- 26 plans with unlimited text messages.
- One plan with unlimited 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 PUC and the 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 (for example, CalFresh, Medicare, Section 8 housing, etc.) or by submitting evidence of income. Applications are required 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.

As a result of the automated anti-fraud mechanisms, applications are identified and rejected if they are determined to be duplicative. These potential participants never receive discounts. Between June 2015 and December 2016, PUC de-enrolled or denied 4,965 pending or active LifeLine accounts (0.23 percent of the 2.16 million total LifeLine participants) for fraudulent behavior. Very few of these participants have appealed.

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 and PUC collaborate on an annual manual fraud analysis. 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.

The Legislative Analyst’s Office has historically noted that enrollment estimates are subject to significant uncertainty. Specifically, the relatively recent addition of wireless service to the LifeLine program creates uncertainty about future enrollment and expenditures. For example, the Administration’s 2017-18 enrollment projections were based on the following key assumptions: (1) about 4.2 million households are eligible for the program and (2) 77 percent of the eligible households will enroll in the program by the end of 2017-18. There is significant uncertainty about both of these assumptions. Specifically, it’s unclear how many eligible households will ultimately enroll in the program by the end of the budget year, or how many will renew their subscriptions on an annual basis. These factors generate considerable uncertainty in LifeLine estimates, and have resulted in frequent updates to program estimates and costs.

Staff Comment: As the LAO noted last year, enrollment estimates are subject to considerable uncertainty. 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.

The PUC indicates that it plans 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.

Issue 2: California LifeLine Program – Portability Freeze Rule Implementation

Governor's Proposal: The budget requests $82,000 (Public Utilities Commission Utilities Reimbursement Account) for one permanent position to process the anticipated increase in contacts from consumers due to changes made in the California LifeLine program by AB 2570 (Quirk), Chapter 577, Statutes of 2016, which requires the PUC to adopt a rule that LifeLine enrollees cannot switch telephone providers within 60 days after beginning the service, subject to certain exceptions.

Background: As discussed earlier in this agenda, the LifeLine program provides telephone service at a discounted cost to low-income households that meet certain criteria. The PUC delivers this service by providing a subsidy to telephone service providers, as well as several one-time connection and surcharge subsidies. The PUC currently pays these subsidies on a 120-day cycle: 60 days for carriers to submit claims and 60 days for PUC to review, correct errors and process claims. Of the 60 days allocated to the PUC, 30 days are allocated for State Controller Office to process claims reimbursements, prepare checks, and time for delivery by USPS.

AB 2570 requires the PUC to adopt a "portability freeze rule," which prevents enrollees from switching telephone providers within 60 days of beginning service, by January 15, 2017. PUC estimates that this rule change will generate a significant volume of calls to the Consumer Affairs Branch for the first three years of the rule change, before call volume declines to slightly above the historical average.

Legislative Analyst's Office (LAO) Comments:

> **Recommend Converting Funding From Permanent to Limited Term.** In our view, it is reasonable to expect an increase in consumer assistance workload associated with the new rule. However, the amount of additional workload, especially over the long run, is unclear at this time. Therefore, we recommend the Legislature approve the requested funding on a two-year limited-term basis. The Administration can submit a request for ongoing resources in future years when more information about ongoing workload is available.

Issue 3: California High Cost Fund A Workload

Governor's Proposal: The budget requests an increase of $6.1 million in local assistance funding for the California High Cost Fund A to provide ten small Local Exchange Carriers (LECs) with the financial support necessary to keep rural telephone service rates affordable and comparable to rates paid by customers who live in urban areas. This increase is due to greater projected support for telephone corporations related to Generate Rate Case increase due to inflation and labor costs, increased broadband investment, and increased funding requirements due to reductions in federal subsidies.

Background: The California High Cost Fund – A (CHCF-A) was established to subsidize small telephone companies that operate in high-cost, rural areas of the state. It is distinct from the California High Cost Fund – B, which provides support for large and mid-sized telephone companies providing services to high-cost service areas. It is funded by a surcharge that is applied to intrastate charges on telephone and Voice over Internet Protocol (VoIP) customers' bills. There are 13 LECs that currently operate in high-cost areas of the state. Of these, ten currently receive support from the CHCF-A.

CHCF-A funding levels are determined annually by the PUC. LECs that receive funding from the CHCF-A submit a report that includes the seven most recent months' earnings, as well as a forecast of what CHCF-A support the LEC will need for the coming year. The PUC verifies the forecast and determines the overall level of CHCF-A support the LECs will receive, which is paid out in monthly installments.

The requested increase in CHCF-A funding is based on several factors. First, PUC estimates that General Rate Cases for four LECs are likely to result in an increased need of roughly $6 million in CHCF-A funding. Second, reductions in federal support are estimated to result in a $100,000 increase in needed CHCF-A funding. Lastly, SB 379 (Fuller), Chapter 729, Statues of 2012 permits Small LECs—those receiving CHCF-A funding—to have broadband investments subsidized by ratepayers, the revenue of which can benefit unregulated services and entities. These investments were not reflected in 2016-17 CGCF-A requests, and are likely to create an uncertain need for additional CHCF-A funding in future years.

Staff Comment: While the request for additional funds is generally reasonable based on the factors detailed above, this proposal raises several issues.

- This proposal represents a 15 percent increase in the budget for CHCF-A, mostly driven by increases related to General Rate Cases for four of the ten LECs that receive CHCF-A support. The other six LECs will go through General Rate Cases in the coming years, raising the potential for further increases in the CHCF-A budget.
- A portion of this proposal is related to reductions in federal support programs. These programs face an uncertain future, raising the possibility that future increases would be necessary to offset further declines in federal support.
- PUC has indicated that the recovery of broadband investment costs will have an uncertain impact on future CHCF-A budget requests. This creates considerable uncertainty in planning future budgets.

Issue 4: Office of Governmental Affairs

Governor's Proposal: The budget requests $227,000 (Public Utilities Commission Utilities Reimbursement Account) and two permanent positions to respond to an increased volume of legislative proposals that impact the PUC, increase cross-agency secondments pursuant to PUC reform, work with the California Research Bureau to study the governance of telecommunications service in the state, and participate in federal administrative agency processes that can impact PUC and the state of California.

Background: The Office of Governmental Affairs (OGA) represents the PUC before the Legislature and Executive Branch. It also oversees representation of the PUC before Congress and federal administrative agencies. In 2015-16, OGA tracked 210 state legislative proposals and coordinated PUC participation in, and engagement at 13 state informational, budgetary, and policy oversight hearings.

OGA originally had a staff of seven, but was reduced to as few as four positions during previous rounds of budget cuts. A variety of factors have increased OGA's workload in recent years, including: an increase in legislation that impacts PUC related to utility safety, reliability and PUC reform; and an increase in federal involvement in the electricity, natural gas, safety, and telecommunications policy areas.

Issue 5: Contract Services Oversight and Implementation of Audit Findings

Governor's Proposal: The budget requests $214,000 from several special funds to fund two permanent positions within the Contracts Services Section to support increased contracting activities and institutionalize oversight of various audit reform recommendations. The majority of the funding will come from the Public Utilities Commission Utilities Reimbursement Account.

Background: The Contracts Office is responsible for processing and managing all PUC contracts. This includes preparing contracts and amendments for execution, reviewing and maintaining all contract documentation files, tracking invoices and payments, maintaining a database of contract information, and preparing and generating contract activity reports. The Contracts Office currently has five permanent staff.

Audits conducted by the Department of General Services (DGS) and the California State Auditor concluded that contracting program policies and procedures are not adequate to ensure full compliance with state contracting requirements in a variety of areas. For example, the audits noted that:

- Contracts are not processed in a timely manner.
- Funds are not retained and paid only upon the satisfactory completion of an agreement.
- Documentation is not maintained to that a contract was entered into the state's centralized database for contract and purchase transaction.
- The PUC's delegated purchasing practices are not sufficient to provide reasonable assurances of compliance with the state's procurement statutes, policies, and procedures.

Additionally, the PUC's use of contracts has increased from 105 per year to 319 over the last five years. Contracting activity is expected to continue to increase by three to five percent over the next several years, with an expected increase in contract complexity due to regulatory and technological advances.

Issue 6: Enterprise Risk and Compliance Office

Governor's Proposal: The budget requests $696,000 (Public Utilities Commission Utilities Reimbursement Account) for five permanent positions, including one Career Executive Assignment B (CEA-B), to establish an Enterprise Risk and Compliance Office (ERCO). The office will assist management in the evaluation of enterprise risk, development of risk mitigation plans, compliance tracking of regulations and laws in regards to reporting and compliance with control agencies and the Legislature, as well as status of safety monitoring of external entities and timely reporting of results, audit follow-up, coordination on all externally performed audits, and addressing areas with control deficiencies.

Background: The PUC does not currently have an established risk and compliance program. In recent years the PUC has committed violations of ex parte communication rules, been the focus of six audits requested by the Joint Legislative Audit Committee and four audits by control agencies, and been the subject of a variety of reform-focused legislative proposals. Because an established risk and compliance program addresses risks before they become problems, some of these situations might have been prevented had such a program been in place. This suggests that the PUC needs to move from the response modality to one of prevention and detection. Currently, there is an on-going effort to list all reporting requirements and all audit recommendations and responses into one database. This resolves some of the compliance issues. In addition, the PUC needs to gather information regarding its responsibilities and requirements as an oversight regulator of the utilities it regulates. Currently, the oversight obligations of the PUC are retained in each division and not in one central repository.

Additionally, in Decision 14-12-025 (2015-16), the PUC established a requirement that each of the four largest utilities it regulates use a risk-based decision methodology. Each utility is required to file an application describing its risk assessment model and how it is using it to prioritize and mitigate risks. This is called the Risk Assessment Mitigation Phase (RAMP). Before it can continue with a rate case, the utility must describe to the PUC how it plans to assess, mitigate, and minimize risks. In addition, a safety model assessment proceeding requires a risk assessment process as a first step toward reviewing Investor Owned Utility risk approaches, driving them toward consistency and more transparency. Annual verification reports will follow approvals with two components: 1) risk spending accountability report and 2) risk mitigation accountability report. This inclusion of the risk process will provide better rationale for spending while targeting safety and reliability operations.

Issue 7: Public Records Act Response

Governor's Proposal: The budget requests $227,000 (Public Utilities Commission Utilities Reimbursement Account) per year for two two-year limited term positions to respond to an increased quantity of public records requests submitted to the PUC.

Background: The PUC public records team is responsible for responding to public records requests made pursuant to the broad disclosure policies established by the California Constitution and the California Public Records Act (PRA). These policies require public access to PUC records, in whatever format, concerning the conduct of the people's business, subject only to express provisions of law limiting disclosure and exemptions contained in the PRA. The team has a current staffing level of 3.3 PYs.

Since 2012, as a result of highly visible events of considerable public concern, including the 2010 San Bruno pipeline explosion and the 2012 failure of the San Onofre Nuclear Generating Station generators, the team has experienced a steep increase in the number of records requests, an increasing number of which are also highly complex and/or broad in scope. Specifically, over the last four years, an annual average increase of 31 percent in public records requests has constrained PUC resources to the extent that public records request processing delays have resulted in legal actions in state court alleging that the PUC failed to comply with the Public Records Act.

In 2016, the Legislature passed, and Governor Brown signed, a package of bills enacting reforms to "bolster governance, accountability, transparency and oversight" at the PUC, including bills to open and expand participation in PUC proceedings, improve safety, and reform ex parte rules. PUC has indicated that implementing these reforms may help reduce the heightened level of scrutiny under which the PUC currently operates, with a resulting decrease in the pace and complexity of records requests received.

Issue 8: Internal Audit Positions

Governor's Proposal: The budget requests $266,000 (Public Utilities Commission Utilities Reimbursement Account) for two permanent audit positions to augment existing staff in the PUC's Internal Audit unit.

Background: In December 2013, the State Controller recommended that the PUC establish an internal audit function. In response, the PUC created of the Internal Audit (IA) unit to help the PUC modernize and improve its management processes and performance. From December 2013 to June 2015, IA conducted its work with one permanent position and two staff in rotational positions. During this interval, IA developed an Audit Charter and initiated three audits, one of which was completed in January 2015. The 2015-16 budget increased IA's staff to six permanent positions. The office was fully staffed by January of 2016. An additional six audits were initiated (one a follow-up) in 2015-16, with an additional three audits completed during 2016-17.

The PUC has faced criticism regarding its conduct in providing regulatory oversight of utilities, particularly concerning its approach to public safety. External audits of the PUC have identified weaknesses, inefficiencies, and a lack of compliance in how the PUC conducts its core mission of assuring that California utility consumers have safe, reliable utility service at reasonable rates.

Additionally, an increasing number of audits involve the PUC's information technology (IT) function due to the increasingly substantial reliance of PUC programs and operations on IT, or are operated through various IT systems. The 2016-17 budget approved 24 positions for the PUC's IT Services Branch, but did not include positions to develop an IT audit capability.

Issue 9: Publish Contract and DGS Audit Information on PUC Public Website

Governor's Proposal: The budget requests $107,000 per year from a variety of special funds for one permanent position to publish contract information and audit results on the public PUC website as required by AB 1651 (Obernolte), Chapter 815, Statutes of 2016.

Background: AB 1651 requires the PUC to make available on its Internet Website, free of charge, information about each contract that it enters into, including specified information about the contract and contracting parties as follows: the names, addresses, and points of contact of the parties to the contract; the goods and services requested, as applicable; and the contract value. The bill requires this information to be published no less frequently than once a year and also requires the PUC to make available on its Internet Website audits conducted by the Department of General Services (DGS) of the PUC's contracting practices.

Audits are required of each state agency to which purchasing authority has been delegated at least once in each three-year period and are conducted by DGS to ensure compliance with statutory requirements related to specific contracting procedures (Public Contract Code §10333). AB 1651 requires the PUC to make available on its Internet Website audits conducted by DGS of the PUC's contracting practices. Currently, PUC contracts are available to the public. However, the process for obtaining access to the contracts can be cumbersome. This bill was premised on the belief that posting on the PUC website information about contracts to which PUC is a party will allow greater public scrutiny and encourage appropriate contracting practices at the PUC.

LAO Comments:

Recommend Rejecting Request for One Position. We recommend the Legislature reject the request because the workload justification provided by PUC does not support an additional position. The work appears minor and can be done by existing PUC staff.

Issue 10: Deaf and Disabled Telecommunications Program

Governor's Proposal: The budget requests the conversion of four existing limited-term positions to permanent positions using $369,000 (Deaf and Disabled Telecommunications Program Administrative Committee Fund) per year. These positions are currently set to expire in June 2017.

Background: The Deaf and Disabled Telecommunications Program (DDTP) is a PUC program providing Californians who hearing impairment or other disability with equipment and relay services through the California Telephone Access Program and the California Relay Service, respectively. Any subscriber who is certified as hearing impaired or disabled by an authorized certifying agent (such as a licensed doctor, optometrist, or audiologist, among others) may receive equipment through California Telephone Access Program. Public Utilities Code §2881d requires the addition of speech generating devices (SGDs) to the DDTP and adds speech language pathologists as certifying agents.

The DDTP was created by AB 136 (Beall), Chapter 404, Statutes of 2011. The PUC completed rulemaking on the program in December of 2013, and began distributing SGDs in February 2014. Program applications have increased from 28 in 2013-14 to an estimated 220 in 2016-17. The program was initially authorized for 4.5 limited-term positions set to expire in 2017. There is no sunset date on the program.

Issue 11: Hearing Reporters

Governor's Proposal: The budget requests $228,000 (Public Utilities Commission Utilities Reimbursement Account) per year for two permanent Hearing Reporter positions.

Background: State law requires that a complete record of all proceedings and testimony before the PUC or any commissioner on any formal hearing must be recorded by a Hearing Reporter appointed by the PUC (P.U. Code §1706). In addition, the PUC is statutorily required to undertake and resolve proceedings ((P.U. Code §311, §1701.2(e), §1701.5(a)) in a timely manner. The PUC annually handles about 600 formal proceedings, and issues about 600 decisions. As a result, the number of hearings that may be undertaken at any given time is currently limited by the availability of Hearing Reporters. If a Hearing Reporter is not available, hearings must be scheduled at a later date when a reporter is available (notice requirements normally prevent scheduling hearings earlier than the requested date).

Staff Comment: The PUC currently has six Hearing Reporters. The Hearing Reporters have extensive specialized training, require ongoing certification, and have expertise in PUC terminologies and practices. The PUC has indicated that the timely advancement and completion of proceedings is impeded by resource shortages in this mission critical support area, and delays can negatively affect the state's economy, utilities and consumers, and impact public safety. Specifically, the PUC has indicated that 37 percent of all hearing days are postponed due to lack of an available hearing reporter. This has resulted in a significant delay in the completion of various PUC proceedings.

Issue 12: Safety Assurance of Electric and Communication Infrastructure

Governor's Proposal: The budget requests $716,000 (Public Utilities Commission Utilities Reimbursement Account) per year for six permanent engineering positions in the PUC's Electric Safety and Reliability Branch.

Background: The Electric Safety and Reliability Branch (ESRB) program has a total of 27 staff with two sections: the Electric and Communication Facility Safety Section (Facilities Section) and the Electric Generation Safety and Reliability Section. The Facilities Section performs facility inspections and records audits, investigates safety incidents, investigates customer complaints and concerns, participates in several formal PUC proceedings, and performs other duties as required. In addition to electric facilities, the section assesses the safety of the facilities of communication infrastructure providers (including wireline telecommunications companies, wireless carriers, cable television companies, and other broadband providers) that use the electric poles or underground electrical facilities. When violations are found, the Facilities Section enforces PUC safety rules through issuance of audit reports, notices of violation, or citations; or submittal of a request that the PUC open a formal investigation proceeding to ensure violations are corrected.

Existing law charges the PUC regulatory oversight of both above and below ground electricity lines and communications infrastructure that attaches to or otherwise utilize electricity infrastructure (such as cable conduits or telephone poles). Existing law also grants the PUC the authority to inspect said infrastructure for safety and reliability. This give the PUC regulatory oversight of roughly 200,000 miles of overhead electric transmission and distribution lines, 77,000 miles of underground transmission and distribution line, 2,200 electric substations, and 4.5 million utility poles.

Investor-owned electric utilities are required to report to the PUC each incident that involves their facilities and results in a fatality, an injury that requires overnight hospitalization, or $50,000 or more in damages; or attracts significant media or public attention (such as fires and outages). Staff investigates each incident to determine whether the utility complied with applicable PUC rules and decisions. Current reporting trend lines project that 160 incidents are likely to be reported in 2016-17. The number of safety-related incident reports varies from year to year, from 102 incidents fiscal year 2010 to a high of 195 incidents in fiscal year 2013, and with 125 incidents reported in fiscal year 2015. The increase is largely due to the growing number of fires caused by drought conditions, as well as the increased media coverage of utility incidents.

Issue 13: Cybersecurity Defense

Governor's Proposal: The budget requests $665,000 (Public Utilities Commission Utilities Reimbursement Account) for four new permanent positions to establish a Cyber Security Utility Regulatory Group at the PUC.

Background: SB 17 (Padilla), Chapter 327, Statutes of 2009 required the PUC to work with stakeholders to determine requirements for utility Smart Grid deployment plans. The deployment plan requirements included cyber security and cyber security strategy. Subsequently, SB 1476 (Padilla), Chapter 497, Statutes of 2010 provided rules to protect the privacy and security of customer data generated by advanced meters.

On August 22, 2016, the PUC entered into a Memorandum of Understanding (MOU) with Cal OES to coordinate agency efforts in assuring the safety and reliability of energy utility systems from ever-increasing cyber security threats, requiring the PUC to focus not just on physical security and system resiliency/safety of the utility system, but also on cybersecurity threats, because, as reliance on digital technology in the energy companies continues to increase, the cyber security of network assets is more critical than ever.

Since the passage of SB 17, the four large utilities have requested over $100 million from the PUC for cyber security programs and have been authorized to spend about $70 million. These funds are to be used to protect the ever-digitized utility infrastructure such as the automated substations and automated smart inverters that allow for the energy from distributed energy resources to enter the grid.

Staff Comment: SB 17 (Padilla) explicitly made it a policy of the state "to modernize the state's electrical transmission and distribution system" and declared that part of this effort includes the "increased use of cost-effective digital information and control technology to improve reliability, security, and efficiency of the electric grid" (P.U. Code Sec. 8360(a)) and further defined this modern grid to include "dynamic optimization of grid operations and resources, including appropriate consideration for asset management and utilization of related grid operations and resources, with full cost-effective cyber-security**"** (P.U. Code Sec. 8360(b)).

To date, over 60,000 cyber vulnerabilities have been identified by the U.S. National Institute of Standards and Technology (NIST). The PUC is reviewing an increasing number of rate case requests for ratepayer-funded cybersecurity investments as utilities continue to upgrade the security of their infrastructure. The PUC has indicated that their existing regulatory and IT units lack to technical knowledge necessary to establish standards for utility cybersecurity and to review these requests for reasonableness and feasibility.

Issue 14: Electric Utility Wildfire Mitigation Plans

Governor's Proposal: The budget requests $966,000 (Public Utilities Commission Utilities Reimbursement Account) for three permanent positions for the Electric Safety and Reliability Branch to review and evaluate utilities annual wildfire mitigation plans. The total includes $500,000 per year for three years for related consulting contracts.

Background: SB 1028 (Hill), Chapter 598, Statutes of 2016 requires each electrical corporation, local publicly-owned electric utility, and electrical cooperative to construct, maintain, and operate its electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment. It further requires each electrical corporation to annually prepare a wildfire mitigation plan and to submit its plan to the commission for review. It requires the commission to review and comment on the submitted plans, as well as to conduct audits and inspections to determine compliance with the submitted plans.

Wildfires caused by electric utility facilities and the potentially catastrophic impacts on public safely and the economy are well recognized, as is the need to mitigate such occurrences. While the PUC investigation of the 2015 Butte Fire has not been completed, CAL FIRE has attributed its ignition to vegetation coming into contact with utility facilities. In addition, electric facilities cause a number of small fires each year.

Issue 15: Energy Storage (AB 33, AB 2868)

Governor's Proposal: The budget requests $644,000 (Public Utilities Commission Utilities Reimbursement Account) for 2.5 two-year limited-term positions (including one Administrative Law Judge) to implement the requirements of AB 33 (Quirk), Chapter 680, Statutes of 2016 and AB 2868 (Gatto), Chapter 681, Statutes of 2016.

Background: AB 33 required the PUC to evaluate and analyze the potential for all types of long duration bulk energy storage resources to help integrate renewable generation into the electrical grid. Specifically, it required the PUC, as part of a new or existing proceeding, to evaluate and analyze the potential for all types of long duration bulk energy storage resources to help integrate renewable generation into the electrical grid. As part of the evaluation, it required the PUC to assess the potential costs and benefits of all types of long duration bulk energy storage resources, including impacts to the transmission and distribution systems of location-specific long duration bulk energy storage resources.

AB 2868 required the PUC, in consultation with the State Air Resources Board and the State Energy Commission, to direct the state's three largest electrical corporations to file applications for programs and investments to accelerate widespread deployment of distributed energy storage systems, as defined. It authorized the PUC to approve, or modify and approve, programs and investments in distributed energy storage systems and required the PUC to prioritize those programs and investments that provide distributed energy storage systems to public sector and low-income customers.

Issue 16: Expedited Distribution Grid Interconnection Dispute Resolution

Governor's Proposal: The budget requests $796,000 (Public Utilities Commission Utilities Reimbursement Account) for three permanent positions and four three-year limited-term consultant positions to establish and administer an expedited interconnection dispute resolution process as required by AB 2861 (Ting), Chapter 672, Statutes of 2016.

Background: To interconnect to the electric distribution system, a generating facility must seek approval from the distribution system owner (usually a utility) for the facility's interconnection configuration and planned operations according to defined tariffs. If the facility is found to violate technical requirements set out in PUC-approved utility tariffs, the utility may reject the application, propose modifications to the facility, or request that the generating facility in question pay for infrastructure upgrades that bring the facility or surrounding system infrastructure into compliance with relevant requirements prior to interconnecting.

Interconnection application disputes can frequently arise between a project developer and a monopoly utility. These disputes often focus on complex technical interpretations of the interconnection rules, the applicability of existing precedent to emerging technologies, perceptions of inconsistent assignment of upgrade costs by utilities, and divergent interpretations of utility engineering judgment.

AB 2861 requires the PUC to establish a streamlined dispute resolution process that operates within timelines that are more closely aligned with existing interconnection timelines; provides more technical expertise to the PUC and gives the PUC leverage in reviewing and resolving interconnection disputes; and issues binding resolutions on a dispute after bilateral negotiations between developers and utilities have resulted in an impasse. It specifies that the PUC is to "appoint a qualified electrical systems engineer with substantial interconnection expertise to advise the director of the energy division and provide adequate staff to assist in resolving interconnection disputes." (AB 2861, Section 1). It also requires the PUC to "provide the members of the technical panel who are not from electrical corporations with an appropriate per diem compensation consistent with Section 19822.5 of the Government Code."

Issue 17: PUC Intervenor Compensation

Governor's Proposal: The budget requests $322,000 from the Public Utilities Commission utilities Reimbursement Account for three permanent positions to implement SB 512 (Hill), Chapter 808, Statutes of 2016, which expands the obligation of a public utility to pay intervenor fees to an eligible local government entity and makes a variety of transparency-focused changes to PUC procedures.

Background: The PUC regulates investor-owned utilities and is responsible for ensuring California utility customers have safe, reliable utility service at reasonable rates. It does so mostly by conducting public proceedings to consider utility rate requests, adjudicating customer complaints, and rendering decisions that impact rates for utility services, safety, and reliability. Regulated utilities are able to fully participate in PUC proceedings, and typically recover the costs of such participation through the rates they charge their customers for utility service. This means that investor-owned utilities typically possess the resources and personnel necessary to fully participate in and contest these proceedings.

Public participation in PUC proceedings is more limited, largely due to the time and cost of participating. To encourage public participation, state law established the Intervenor Compensation Program in 1984 to provide compensation for reasonable participation costs to public utility customers (intervenors) who make substantial contributions to PUC proceedings. To be eligible for compensation, state law requires an intervenor to show significant financial hardship as a result of participating in the process. Because of this, large commercial customers and local governments (who can pass the costs of participating in PUC proceedings onto customers or taxpayers) have historically been ineligible for intervenor compensation.

SB 512 permits intervenor compensation to be paid to certain local government entities that intervene or participate in commission proceedings to the extent that their involvement was for the purpose of protecting health and safety. The PUC has indicated that this requirement will substantially increase the number of intervenors who are eligible to request compensation, potentially doubling the current number of intervenors seeking compensation. The PUC estimates that they will receive 102 requests for intervenor compensation in 2016-17. The PUC has historically had trouble issuing rulings on intervenor compensation claims within the statutorily-required timeframe. For example, the PUC met the statutory timeframe for ruling on intervenor compensation claims in less than 10 percent of cases from 2003-2013. However, the PUC notes that they have met the required timelines in 54 percent of cases so far submitted in the current fiscal year.

SB 512 also required the PUC to make a number of other changes to internal procedures and policies to improve transparency and to address deficiencies identified in external audits. It also requires the PUC to perform studies and conduct additional public outreach to make the PUC more accessible to the public.

Issue 18: Ex Parte Communications (SB 215)

Governor's Proposal: The budget requests $391,000 annually from a variety of special funds for three permanent positions to implement new rules around ex parte communications as required by SB 215 (Leno), Chapter 807, Statutes of 2016.

Background: The PUC regulates investor-owned utilities through quasi-judicial proceedings to consider utility service and rate requests, adjudicate customer complaints, respond to legislative directives, and render decisions that impact rates for utility services. Specifically, the PUC has three types of hearings: ratesetting, adjudicatory, and quasi-legislative. State law requires the PUC to determine which category a particular proceeding falls into, and to assign one or more commissioners and Administrative Law Judges to oversee the case. It also requires the PUC to adopt procedures on the disqualification of Administrative Law Judges due to bias or prejudice, similar to those of other state agencies and superior courts.

State law defines "ex parte communications" as any written or oral or written communication between a decision-maker and a party with an interest in the matter before the PUC concerning substantive, but not procedural, issues that does not occur in a public setting. Under current law ex parte communications are not allowed in ratesetting or adjudicatory proceedings, with limited exceptions and with required reporting by the involved party, but are permitted without exception or reporting in quasi-legislative proceedings.

SB 215 significantly modifies the laws governing ex parte communications in PUC proceedings to, among other things, expand the definition of ex parte communications and the applicability of restrictions and disclosure requirements; impose disclosure, monitoring, and enforcement requirements on decision-makers; and provide for the ability to petition to modify or rescind a PUC decision where disclosure occurs after a PUC vote. SB 215 also changes the manner of measuring the time limits in which proceedings are to be resolved, and requires the PUC to allow public written comments into the record of proceedings and provide an opportunity for parties to respond to them. The PUC plans to conduct a new proceeding to update and implement the new ex parte rules and reporting requirements established by SB 215.

Issue 19: California Teleconnect Fund (CTF)

Governor's Proposal: The budget requests an increase of $3.6 million from the California Teleconnect Fund Administrative Committee Fund to implement recently-adopted program reforms and to better enforce program eligibility requirements. This includes $240,000 per year for two new permanent positions and $3.4 million per year for two years for consulting costs.

Background: The PUC is responsible for implementing universal service policies consistent with Public Utilities Code Section 709. This requires a focus on providing educational entities access to advanced telecommunications services and assisting in bridging the digital divide by expanding access to state of the art technologies for rural, inner city, low-income, and disabled Californians. The California Teleconnect Fund was created in 1996 to promote advanced communications services via discounted rates to qualified anchor institutions: schools, libraries, government-owned health care providers, and community-based organizations. The program is codified in Public Utilities Code sections 270 and 280.

The PUC opened Rulemaking (R) 13-01-010 in January of 2013 to undertake a comprehensive examination of the California Teleconnect Fund program. The purpose of the Rulemaking was to reconsider the program's goals, design, implementation, and administration. The PUC recently issued Decisions (D).15-07-007 and (D).16-04-01, which determined that CBOs receiving CTF discounts need to establish eligibility every three years and must adopt more restrictive eligibility criteria. As a result, approximately 8,000 CBOs will need to reapply in the next two fiscal years. The PUC also recently adopted program changes also require carrier price disclosure and enhanced scrutiny of claims.

Issue 20: Transportation Network Companies: Personal Vehicles

Governor's Proposal: The budget requests $130,000 from the Public Utilities Commission Transportation Rate Account for one permanent position to implement the requirements of AB 2763 (Gatto), Chapter 766, Statutes of 2016.

Background: A transportation network company (TNC) is defined by the PUC as "an organization whether a corporation, partnership, sole proprietor, or other form, operating in California that provides prearranged transportation services for compensation using an online-enabled application (app) or platform to connect passengers with drivers using their personal vehicles." Currently the two largest TNCs in California are Lyft, Inc. and Rasier-CA, LLC (doing business as Uber). While not specifically defined, "personal vehicle" was largely assumed to mean a vehicle owned by, or registered in the name of, an authorized TNC driver. AB 2763 codified the definition of "personal vehicle" as "a vehicle that is used by a participating driver to provide prearranged transportation services for compensation" that meets a variety of specified criteria. Specifically, the personal vehicle:

(1) Has a passenger capacity of eight persons or less, including the driver.
(2) Is owned, leased, rented for a term that does not exceed 30 days, or otherwise authorized for use by the participating driver.
(3) Meets all inspection and other safety requirements imposed by the commission.
(4) Is not a taxicab or limousine."

The PUC adopted its first set of regulations for TNCs in 2013, which it has since updated several times. AB 2763 codifies a new, more expansive definition of "personal vehicles," for which the PUC will be responsible for verifying TNC compliance with existing regulations. As such, AB 2763 will significantly increase and compound the complexity of regulatory oversight, as a single TNC driver's "personal vehicle" may now change as frequently as on an hourly basis. While TNCs maintain primary responsibility for ensuring compliance of TNC drivers and their vehicles with all applicable rules and regulations, the PUC will need to verify such compliance in light of specific consumer protection and safety-related concerns.

8660 PUC – OFFICE OF RATEPAYER ADVOCATE

The PUC Office of Ratepayer Advocate (ORA) is a statutorily-defined and independent entity within the PUC charged with representing and advocating on behalf of public utility customers and subscribers in all significant proceedings within the PUC's jurisdiction, as well as in relevant proceedings before the California Energy Commission, Air Resources Board, California Independent System Operator, and the state legislature. The ORA develops and implements an independent program budget, which is administered by the Department of Finance separately from the larger PUC. ORA is funded entirely by the Public Utilities Commission Office of Ratepayer Advocates Account (PUCORA).

Budget Overview: The Governor's budget proposes $34 million and 183 positions to support the ORA in the budget year. This is an increase of 16 positions and an increase of $2.2 million, mainly due to an increase in positions related to recently enacted legislation.

Issues Proposed for Discussion

Issue 1: Climate Change Initiatives (SB 350, SB 626, AB 327)

Governor's Proposal: The Office of Ratepayer Advocates is requesting eight permanent positions and $890,000 (PUCORA) to perform work associated the ORA climate change efforts driven by a variety of recent legislation.

Background: AB 327 (Perea), Chapter 611, Statutes of 2013 calls for the building and interconnection of 12,000 megawatts of localized electricity generation (also known as distributed energy resources, or DERs). It requires investor-owned utilities to file plans with the PUC to indicate how they plan to meet these requirements. The three largest investor-owned utilities in the state have filed plans to date.

SB 626 (Kehoe), Chapter 355, Statutes of 2009 requires implementation of infrastructure upgrades necessary for the widespread use of hybrid and plug-in electric vehicles. The required infrastructure improvements are often funded in part by utility ratepayers.

SB 350 (de León), Chapter 547, Statutes of 2015 expands the scope of the PUC's involvement in the state's Renewable Portfolio Standard (RPS) by requiring renewable electricity procurement be increased from 33 percent by 2020 to 50 percent by 2030. It also requires the PUC to identify a diverse and balanced portfolio of energy resources to ensure safety and reliability of the electricity supply while integrating an increased quantity of renewable resources, among other responsibilities.

Staff Comments: ORA has indicated that the requested positions are necessary to ensure that ratepayers are effectively represented and protected in PUC proceedings resulting from the three bills above. ORA has indicated that extra resources are necessary for two reasons: 1) the proceedings related to climate change legislation are functionally different than other proceedings, and require skills and experience that ORA does not currently possess, and 2) the above legislation has resulted in an increase in proceedings in which ORA must participate.

Issue 2: Safe Drinking Water Initiatives

Governor's Proposal: The ORA requests two positions and $230,000 (PUCORA) to evaluate the treatment of emerging water contaminants, the cost effectiveness of new water treatment technologies, and the ratepayer impact of water utility acquisitions.

Background: State policy provides that every Californian has a right to safe, clean, affordable, and accessible drinking water. Public Utilities Code Section 455.2 requires each water utility subject to the PUC's oversight to file a General Rate Case application every three years. ORA responds to General Rate Case applications from Class A water utilities (those serving more than 10,000 service connections) to ensure water utility ratepayers receive reliable service at a fair price. These rate cases may include requests for ratepayer dollars to fund infrastructure improvements to detect and filter out water contaminants. ORA has indicated that new guidance on Maximum Contaminant Levels (MCL) is expected to be adopted in the summer of 2017. This may lead to the identification of new contaminants and requests for ratepayer dollars to address the contaminants.

SB 88 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2015 required water systems that consistently fail to provide safe drinking water to be consolidated with, or receive extensive services from, another public water system. This has led to an increase in the number of ratepayer-funded water system acquisitions by large water utilities. These acquisitions are typically carried out by Class A water utilities, and may have a significant impact on those utilities' ratepayers.

Issue 3: Safety Analyses Workload

Governor's Proposal: The ORA requests three positions and $390,000 (PUCORA) to analyze safety-related programs and expenditures at public utilities. These analyses will be used in safety-related proceedings at PUC, CEC, CAISO, and other utility-related entities.

Background: ORA formed the Energy Safety and Infrastructure section in 2015 as a response to the 2010 San Bruno gas pipeline explosion. PUC has increased its safety focus in recent years, resulting in a push for more ratepayer-funded safety investments at regulated utilities. Specifically, the PUC has created new proceedings to improve safety at regulated utilities, including the Safety model Assessment Proceeding (S-MAP) and the Risk Assessment in Energy Ratemaking Proceedings (RAMP), which are meant to guide and prioritize investments in utility safety infrastructure that are paid for wholly or partially by ratepayers.

Additionally, a variety of new proceedings have been opened by PUC regarding natural gas pipeline and infrastructure safety in response to the 2015 Aliso Canyon gas leak and vandalism of utility infrastructure in 2014. These include a proceeding aimed to minimize the impact of a long-term shutdown of the Aliso Canyon storage facility pursuant to SB 380 (Pavley), Chapter 14, Statutes of 2016, Pacific Gas & Electric's 2019 Gas Transmission and Storage proceedings, and proceedings to ensure the physical security of utility infrastructure pursuant to SB 699 (Hill), Chapter 550, Statutes of 2014.

Issue 4: Establish Communications Office

Governor's Proposal: The ORA requests two positions (including one CEA-B) and $299,000 (PUCORA) to establish a communications office to provide media outreach and ratepayer information services.

Background: ORA currently has no dedicated resources to provide information and assistance to the public, media and other interested stakeholders. Existing staff cover this function upon request, redirecting time away from their core responsibilities as engineers, economists, and other technical positions. ORA has indicated that they are receiving a greater volume of media, public, and stakeholder inquiries regarding their work, and that responding to these inquiries is negatively impacting their ability to perform their core technical work.

Staff Comments: ORA currently has no communications or outreach personal on staff, meaning that technical staff are often used to respond to media inquiries. While this has resulted in employees redirecting time from core duties, it is not clear what negative result this redirection has had on ORA's ability to perform its primary role in ensuring utility ratepayers receive safe and reliable service at a reasonable price. As such, it is unclear how the addition of two outreach-focused positions will help ORA perform this role.

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 $335.5 million and 38.9 positions to support OPR in the budget year, as shown in the figure below. This is a decrease of 1.5 positions and $52 million, mainly due to a decline in Greenhouse Gas Reduction Fund resources and an expiration of certain limited-term funding sources.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
0360	State Planning & Policy Development	19.1	12.5	11.0	$8,837	$13,935	$3,856
0365	California Volunteers	16.8	21.9	21.9	28,507	31,749	31,754
0370	Strategic Growth Council	9.0	6.0	6.0	1,833	341,879	299,878
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**44.9**	**40.4**	**38.9**	**$39,177**	**$387,563**	**$335,488**

FUNDING		**2015-16***	**2016-17***	**2017-18***
0001	General Fund	$8,716	$13,499	$3,343
0890	Federal Trust Fund	27,328	27,988	27,916
0995	Reimbursements	1,003	4,037	4,037
3228	Greenhouse Gas Reduction Fund	1,833	341,737	299,736
9740	Central Service Cost Recovery Fund	297	302	456
TOTALS, EXPENDITURES, ALL FUNDS		**$39,177**	**$387,563**	**$335,488**

Issues Proposed for Oversight Discussion

Issue 1: Integrated Climate Adaptation and Resilience Program (Oversight)

The Office of Planning and Research's Integrated Climate Adaptation and Resiliency Program (ICARP) was created by SB 246 (Wieckowski), Chapter 606, Statutes of 2016. The ICARP was designed to coordinate climate adaptation efforts across the state, with a particular emphasis on enabling local entities to take the lead on adaptation efforts. This includes providing assistance to state agencies in coordinating, planning, and preparing regular updates to the state's Climate Adaptation Strategy document, as well as providing assistance to state, local, and private entities in creating regular updates to the adaptation planning guide.

OPR was given responsibility for establishing two related programs to better perform these roles:

- The ICARP Technical Advisory Committee: SB 246 established an advisory council, consisting of representatives of state agencies, local governments, and relevant non-profit and private entities. The TAC will support the office's goals of facilitating coordination on adaptation efforts between state and local governments, and will focus on identifying opportunities to support local adaptation actions
- The ICARP Adaptation Clearinghouse: SB 246 directed OPR to create an Adaptation Clearinghouse for climate adaptation information for use by state, regional, and local actors. The OPR envisions the Clearinghouse as an online resource designed to serve as a centralized source of information that provides the resources necessary to guide decision makers at the state, regional, and local levels when planning for and implementing climate adaptation projects to promote resiliency to climate change in California. Resources currently hosted on the Adaptation Clearinghouse include:
  - Case Studies showing examples of how communities are addressing climate change throughout California and the United States.
  - Local actions being taken in California through policy and program initiatives.
  - Science and projection related guidance to support state-wide consistency and use of authoritative sources of information on science and projections.
  - Policy and guidance to support climate change adaptation.
  - Tools and resources to support climate change adaptation activities.

Current status

The 2016-17 budget included $300,000 General Fund for two positions to administer the Integrated Climate Adaptation and Resiliency Program (ICARP) and develop a clearinghouse website for climate adaptation information. This included $100,000 in one-time contract funding for technical design and support for the Adaptation Clearinghouse. OPR has yet to encumber these funds, but has indicated that they plan to use a sole-source contract for the requisite technical support work.

OPR indicates that they have identified and solicited 17 members of the proposed TAC, with members of several state agencies, local governments, and collaborative non-governmental organizations accepting invitations to join the committee. OPR plans to hold the first TAC meeting on March 27th.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 16, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Joe Stephenshaw

<u>Vote Only Calendar</u>

<u>Issues for Discussion</u>

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.

VOTE-ONLY CALENDAR

3860 Department of Water Resources

Issue 1 – San Joaquin River Water Quality Improvement Program

The Governor's budget requests a reversion of prior year funds ($1.26 million) from the remaining balance of the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) and a new appropriation of the same amount in Proposition 84 funds to support improving water quality in the Lower San Joaquin River by eliminating discharge of agricultural subsurface drainage water. This proposal will support the administration and distribution of previously approved Proposition 84 funding for local assistance projects to improve drinking water quality to the Delta.

Issue 2 – Safety of Dams Baseline Budget Increase

The Governor's budget requests a one-time appropriation of $364,000 from the Dam Safety Fund for office relocation expenses, and an ongoing baseline increase of $242,000 from the Dam Safety Fund for increased rental costs. The office space for the Division of Safety of Dams, located in downtown Sacramento, no longer provides a suitable work environment. Due to the age of the building, there is an increased need for building maintenance. A major issue includes an insufficient and outdated HVAC system that continually breaks down, creating an unacceptable work environment of extreme cold and hot temperatures. The time and resources spent to resolve such issues negatively affects productivity and the timeliness of regular work duties.

3940 State Water Resources Control Board

Issue 1 – Underground Storage Tank Cleanup Fund Site Cleanup Request Processing Workload

The Governor's budget requests $1 million from the Underground Storage Tank Cleanup Fund and seven permanent positions to increase efficiency in processing claim payments. This would increase the speed of payment processing and reduce excessive payment times to persons who have incurred and paid out-of-pocket costs for regulatory compliance with cleaning up groundwater at petroleum-contaminated sites.

Stakeholders have expressed concern that they are not being paid on a timely basis. The current limitation on payments is due to lack of sufficient staff resources needed to review eligibility of costs. Funds are available to make eligible payments and for the increase in staff to review payment requests and issue payment of eligible costs.

Issue 2 – Lower Klamath Project Water Quality Certification

The Governor's budget requests $410,000 from the Water Rights Fund and 2.5 permanent positions to develop and implement water quality certification for the Lower Klamath Project. Certification conditions include restoration activities, environmental resource monitoring, adaptive management, and remediation plans that will occur for 10 to 50 years following dam removal activities.

Issue 3 – SB 828 Prop 98 for Schools – Drinking Water Grants: Reappropriation of Contract Funds

The Governor's budget requests an extension of the encumbrance and liquidation period of the state contract funds to conform to the period of availability of the local assistance grant funds included in SB 828 (Committee on Budget and Fiscal Review) Chapter 29, Statutes of 2016.

Existing state and federal law requires schools to serve safe, clean and cold drinking water during meal times. SB 828 appropriated $9.5 million General Fund for the program that includes the local assistance availability period of three years to encumber and two additional years to liquidate the funds. The Budget Act of 2016 appropriated $500,000 for state operations to provide technical assistance to schools with applications. The budget act did not include the same extended encumbrance and liquidation period as the local assistance. Technical assistance is necessary during the entire length of the projects to ensure appropriate implementation.

Issue 4 – Underground Storage Tank Petroleum Contamination Orphan Site Cleanup Fund Technical Adjustment

The Governor's budget requests reversion of the unencumbered local assistance authority in the Underground Storage Tank Petroleum Contamination Orphan Site Cleanup Fund (OSCF) from 2014-15 and a new appropriation of $6.8 million from OSCF to be available for encumbrance through 2020.

The Orphan Site Cleanup Program provides financial assistance for remediation of the harm caused by petroleum contamination from underground storage tanks where the financially responsible party has not been identified. The program was created to make funding available to persons that did not cause the petroleum contamination but are willing to undertake the cleanup. Without this proposal, funds would revert back to the Underground Storage Tank Cleanup Fund and not be available for these projects.

Issue 5 – Technical Bond Adjustment

The Governor's budget requests to revert and re-appropriate a total of $8.3 million in order to align budget authority to the actual expenditure plan. This includes:

State operations:
- Reduction of authority in Propositions 13, 84, and 204.
- Increase of authority in Proposition 13 and 50.
- Reversion of unencumbered funds in 2014-15 and 2015-16.

Local assistance:
- Reversion of unencumbered authority in 2008-09, 2012-13, 2013-14.
- Re-appropriation authority for 2015-16 to be available for encumbrance and liquidation of encumbrance until June 30, 2020.
- New appropriations of funds from Propositions 13, 50, and 84 to be available for encumbrance and liquidation of encumbrance until June 30, 2020.

3840 Delta Protection Commission

Issue 1 – Delta Plan Implementation

The Governor's budget requests $91,000 in 2017-18, $119,000 ongoing, from the Environmental License Plate Fund to coordinate and perform duties related to the implementation of the Delta Plan. The regularly recurring Delta Plan updates require consistency coordination, project review, and development of policies and procedures.

Staff Recommendation: Approve vote only items as budgeted.

3860 Department of Water Resources

Overview

The Department of Water Resources (DWR) protects, conserves, develops, and manages California's water. The Department evaluates existing water resources, forecasts future water needs and explores future potential solutions to meet ever-growing needs for personal use, irrigation, industry, recreation, power generation, and fish and wildlife. The Department also works to prevent and minimize flood damage, ensure the safety of dams, and educate the public about the importance of water and its efficient use.

The following table from the Governor’s budget displays the positions and expenditures for DWR for the budget year, current year, and prior year. Of the $3.1 billion in total funding for 2017-18, $129.6 million is General Fund. The large decrease in funding from 2016-17 to 2017-18 is primarily due to large bond appropriations and a one-time $100 million General Fund appropriation in 2016-17.

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
3230	Continuing Formulation of the California Water Plan	329.1	334.2	334.2	$446,614	$535,681	$389,093
3240	Implementation of the State Water Resources Development System	1,883.4	1,883.4	1,883.4	668,721	1,684,744	1,679,738
3245	Public Safety and Prevention of Damage	492.7	429.0	429.0	242,681	757,525	87,714
3250	Central Valley Flood Protection Board	31.6	34.9	43.9	6,620	16,560	15,764
3255	Services	8.7	3.1	3.1	2,088	7,841	7,841
3260	California Energy Resources Scheduling	14.5	19.9	19.9	728,421	921,178	903,437
3265	Loan Repayment Program	-	-	-	-1,034	-1,405	-1,405
9900100	Administration	529.2	553.0	553.0	94,924	96,404	96,404
9900200	Administration - Distributed	-	-	-	-94,924	-96,404	-96,404
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		3,289.2	3,257.5	3,266.5	$2,094,111	$3,922,124	$3,082,182

***Dollars in thousands**

Following are descriptions of DWR’s budget programs:

Continuing Formulation of the California Water Plan. The California Water Plan is the state's strategic plan for the efficient use, management and development of the state's water resources. The plan is updated every five years and provides a framework for water managers, legislators, and the public to consider options and make decisions regarding California's water future. The plan evaluates current and future water conditions, challenges and opportunities. This program also identifies ways for the state to: 1) help local agencies and governments prepare integrated regional water management plans on a watershed basis and diversify their regional water portfolios to ensure sustainable water uses, reliable water supplies, better water quality, environmental stewardship, efficient urban development, protection of agriculture, and a strong economy, 2) help cities, counties and local agencies prepare a water element for their general plans, urban water management plans and agricultural water management plans, and 3) help local agencies and tribal governments improve coordination between water and land use planning.

Implementation of the State Water Resources Development System. The State Water Project is a water storage and delivery system that consists of 34 storage facilities (reservoirs and lakes), 20 pumping plants, 4 pumping-generating plants, 5 hydroelectric power plants, and over 700 miles of conveyance (canals, pipelines, and tunnels). The Project provides water to over 25 million Californians and 750,000 acres of irrigated farmland. DWR plans, designs, constructs, operates, maintains, and manages State Water Project facilities which provide water to facilities located from Plumas County to Riverside County. The Delta Habitat Conservation and Conveyance Program is charged with improving the Delta ecosystem and ensuring water supply reliability in a safe, timely, and cost effective manner. This includes development of the Bay Delta Conservation Plan, project specific conservation measures, and the environmental impact report and environmental impact statement.

Public Safety and Prevention of Damage. This program supports the California Water Action Plan by protecting life and property from damage by floods, ensures proper construction and maintenance of jurisdictional dams and levees, and provides loans for the construction. Activities include assessing the state and regional investment needs to reduce risk, preventive floodplain management to discourage unwise use of areas subject to flooding, protection of floodplains, issuance of flood warnings, operation of flood control facilities, coordination and supervision of flood fight activities, and annual levee and flood channel maintenance and inspection in cooperation with other local, state, and federal partner agencies. This program also buys land, easements, and rights-of-way for federal flood control projects and supervises the design and construction of new dams and periodic inspection and reevaluation of all existing jurisdictional dams for proper operation and maintenance. Fiscal oversight and coordination activities associated with the Disaster Preparedness and Flood Prevention Bond Act of 2006 are administered under this program. The program also reviews federal dam projects in coordination with federal and other state agencies with regard to dam safety.

Central Valley Flood Prevention Board. The Central Valley Flood Protection Board has regulatory authority over the state plan of flood control facilities (SPFC), designated floodways and regulated streams in the Central Valley. The board regulates encroachments on the system by issuing permits and initiating enforcement action when necessary to maintain the integrity of the levees and floodways that protect the valley's people and property. The board manages the state's portfolio of real property held by the Sacramento San Joaquin Drainage District. The board serves as the non-federal sponsor to the United States Army Corps of Engineers on large joint state-federal levee improvement projects and assists the more than one hundred local maintaining agencies that operate and maintain the SPFC. The board conducts regular public meetings, workshops and tours, providing a public forum for stakeholders.

Services. This program provides technical support within the department and expertise in the fields of water resources planning, development and management; watermaster services; scientific analyses performed by DWR's chemical laboratory; information technology; and mapping, surveying and engineering services for other agencies.

California Energy Resources Scheduling. For a limited period of time, this program purchased electric power on behalf of the state's investor-owned utilities. Beginning January 1, 2003, the utility companies resumed responsibility for purchasing power from the spot market. The utilities, however, continued to receive power from the department's long-term energy contracts with energy suppliers, under which the Department retains legal and financial responsibility. All energy contracts signed by DWR have now expired or were terminated. However, litigation continues against some of the counterparties to these contracts. Additionally, DWR retains the legal and financial responsibility for administering $4.6 billion in revenue bonds issued to repay the General Fund for money borrowed for power purchases during the energy crisis and funding of reserve accounts necessary to maintain an investment grade credit rating associated with the revenue bonds.

3940 State Water Resources Control Board

Overview

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

The following table from the Governor's budget displays the positions and expenditures for SWRCB for the budget year, current year, and prior year. Of the $991.7 million proposed for 2017-18, $48.9 million is from the General Fund. Federal funds, the Underground Storage Tank Cleanup Fund, and the Waste Discharge Permit Fund are the department's largest funding sources - $307.6 million, $290.1 million and $127.1 million, respectively, is proposed from these sources in 2017-18. Lastly, the significant reduction in total expenditures from 2016-17 to 2017-18 is primarily due to a large bond appropriation in 2016-17.

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
3560	Water Quality	1,301.4	1,299.6	1,297.6	$857,006	$2,920,037	$893,289
3565	Drinking Water Quality	235.7	232.0	230.0	44,114	51,009	50,626
3570	Water Rights	218.1	187.0	194.5	33,005	42,765	46,591
3575	Department of Justice Legal Services	-	-	-	1,217	1,217	1,217
9900100	Administration	257.9	215.0	215.0	33,915	33,894	33,893
9900200	Administration - Distributed	-	-	-	-33,915	-33,894	-33,893
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		2,013.1	1,933.6	1,937.1	$935,342	$3,015,028	$991,723

***Dollars in thousands**

Following are descriptions of SWRCB's budget programs:

Water Quality. This program ensures the highest possible quality of water for the state. Specific activities include: 1) formulating, adopting, and updating water quality control plans and policies that set standards and provide guidance in water management decisions, 2) monitoring water quality to determine compliance with control plans, permit terms, conditions, and water standards and implementing the total maximum daily load program to address pollution in the state's most seriously impaired water bodies by developing plans that allocate responsibility for reducing pollution, 3) ensuring the waters of the state are not degraded by hazardous waste spills or tank leaks, or by spills or tank leaks from solid and hazardous waste treatment, storage, and disposal facilities, 4) requiring waste dischargers, including storm water dischargers, to prevent and abate water pollution and inspect dischargers to determine compliance with requirements, 5) assisting owners and operators of underground tanks in financing the cleanup of unauthorized releases from their tanks, and 6) administering financial assistance programs, that include loan and grant funding for construction of municipal sewage facilities, drinking water systems, water recycling facilities, watershed protection projects, and nonpoint source pollution control projects.

Drinking Water Quality. This program works to protect and improve the health of all California residents by ensuring the safety of drinking water. This program is responsible for enforcing the state and federal Safe Drinking Water Acts, adopting drinking water standards, and enforcing compliance with drinking water standards. The program also establishes criteria for water recycling projects;

supports and promotes water system security; provides support for improving technical, managerial, and financial capacity of public water systems; certifies laboratories that analyze environmental samples for regulatory purposes; and maintains a registry of certified water treatment devices.

Water Rights. This program ensures that California's water resources are put to beneficial use, while protecting prior rights, water quality, and the environment. Specific activities include: 1) allocating the unappropriated waters of the state to ensure water is used in accordance with state laws, 2) maintaining a record of title of appropriative water rights initiated and maintained since 1914, including those for stock-ponds, livestock, and small irrigation and domestic use ponds, 3) maintaining records of water diversion and use under riparian and pre-1914 rights and groundwater extractions in four southern counties, 4) enforcing permit and license terms and conditions, abating illegal diversions, protecting public trust resources, and preventing waste or unreasonable use under all rights, and 5) assisting the courts in determining existing rights to surface water throughout the state through court reference and statutory adjudication proceedings, and in determining rights to groundwater through the groundwater adjudication process.

Department of Justice Legal Services. This Program includes Department of Justice legal services to support the Water Boards in judicial proceedings related to the Water Boards' authorities.

3860 Department of Water Resources
3940 State Water Resources Control Board

Issue 1 – Proposition 1 Water Bond

Governor's Proposal. The Governor's budget assumes total spending of $837 million from Proposition 1 in 2017-18. Of this total, the Administration projects that the California Water Commission will award $416 million in grants for water storage projects (funding for water storage projects are continuously appropriated outside of the legislative budget process.) Additionally, $421 million is proposed to be appropriated in the budget. All of budgeted spending proposals represent additional funding for activities that have received initial appropriations in prior years. The largest proposal is for DWR to award $214 million in additional grants for integrated regional water management projects. This continues a program the state has also funded through previous bonds, in which local groups can apply for funding to implement water management projects on a regional scale.

Background. In November 2014, voters approved Proposition 1, a $7.5 billion water bond measure aimed primarily at restoring habitat and increasing the supply of clean, safe, and reliable water. The bond money is 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. Most of the projects funded by Proposition 1 will be selected on a competitive basis, based on guidelines developed by state departments. Generally, the measure prohibits the Legislature from allocating funding to specific projects. The bond provides funding for eight categories of activities. These funds will be distributed across 16 state departments (including ten state conservancies). The Legislature already has appropriated a combined $3 billion of available bond funding. Given that the $2.7 billion for water storage projects is not subject to legislative appropriation, $1.8 billion in authorized Proposition 1 funding remains for the Legislature to appropriate.

Of the amount available for appropriation, $1.3 billion represents funding to continue activities initiated in prior years. (Departments do not plan to submit formal funding requests in budget change proposals for these funds unless they wish to deviate significantly from the multiyear plan presented to the Legislature in prior years). The remaining $500 million represents funding for two new activities that are not yet underway and for which the Legislature has not yet approved any appropriations: Los Angeles River restoration ($100 million) and flood management ($395 million). The Governor's dam safety and emergency flood proposal would appropriate $387.1 million from the flood management funds.

According to the annual report for Proposition 1 that was recently completed by the California Natural Resource Agency, to date, 453 projects have been awarded funding from Proposition 1. Project awards range in size from $250 million for removal of four dams along the Klamath River to $20,000 for cleanup and restoration work in the San Diego Bay National Wildlife Refuge. The total amount awarded from Proposition 1 for these projects is $960 million. The total project costs are $1.9 billion, which means that Proposition 1 funds were approximately matched one to one by other sources. New projects are being awarded on a regular basis by departments and this information is updated online on the agency's bond accountability website.

The following table from the Legislative Analyst's Office (LAO) displays a summary of Proposition 1 funds and appropriations by each of the eight activity categories.

Figure 7

Summary of Proposition 1 Bond Funds

(In Millions)

Purpose	Implementing Departments	Bond Allocation	Prior Appropriations	2017-18 Proposed
Water Storage		**$2,700**	**$10**	**$416**
Water storage projects	CWC	2,700	10	416
Watershed Protection and Restoration		**$1,496**	**$792**	**$162**
State obligations and agreements	CNRA	475	448[a]	17
Watershed restoration benefiting state and Delta	DFW	373	93	37
Conservancy restoration projects	Conservancies	328	163	60
Enhanced stream flows	WCB	200	78	39
Los Angeles River restoration	Conservancies	100	—	—
Urban watersheds	CNRA	20	10	9
Groundwater Sustainability		**$900**	**$825**	**$35**
Groundwater cleanup projects	SWRCB	800	764[a]	—
Groundwater sustainability plans and projects	DWR	100	61	35
Regional Water Management		**$810**	**$290**	**$217**
Integrated Regional Water Management	DWR	510	87	214
Stormwater management	SWRCB	200	105	3
Water use efficiency	DWR	100	98	—
Water Recycling and Desalination		**$725**	**$648**	**$1**
Water recycling	SWRCB	725	598[a]	—
Desalination	DWR		51	1
Drinking Water Quality		**$520**	**$475**	**$5**
Drinking water for disadvantaged communities	SWRCB	260	248	3
Wastewater treatment in small communities	SWRCB	260	227	2
Flood Management		**$395**	**—**	**—**
Delta flood management	DWR and CVFPB	295	—	—
Statewide flood management	DWR and CVFPB	100	—	—
Administration and Oversight		**—**	**$2**	**$1**
Administration[b]	DWR and CNRA	—	2	1
Totals		**$7,546**	**$3,042**	**$837**

[a] Reflects reversion of some previously appropriated funds, as proposed in the *2017-18 Governor's Budget.*

[b] Bond does not provide a specific allocation for bond administration and oversight, but allows a portion of other allocations to be used for this purpose.

CWC = California Water Commission; CNRA = California Natural Resources Agency; DFW = Department of Fish and Wildlife; WCB = Wildlife Conservation Board; SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; and CVFPB = Central Valley Flood Protection Board.

LAO Recommendations. The LAO recommends that the Legislature adopt the Governor's Proposition 1 proposals (not accounting for the dam safety and emergency flood proposal) because they continue implementing Proposition 1 projects consistent with the bond language and with an appropriation schedule previously approved by the Legislature. The LAO also recommends that the Legislature continue to monitor Proposition 1 through its oversight capacity.

Staff Comment. Some issues the Legislature may wish to consider as it continues to monitor progress of Proposition 1 expenditures include: how the demand for funding compares to the amount available throughout the programs, if there are prevalent issues that create obstacles in terms of project approval or proceeding as planned, and how the funds are meeting program goals.

In addition, Proposition 1 contained specific provisions to address needs in disadvantaged communities, including for public water system infrastructure improvements. The Legislature may wish to assess how resources intended for disadvantaged communities are being utilized.

Staff Recommendation. Informational item, no action necessary.

Issue 2 – Dam Safety and Emergency Flood Response

Governor's Proposal. On February 24th, the Administration notified the Legislature of its dam safety and emergency response proposal. Specifically, the Administration is proposing a current year appropriation's bill, trailer bill language, and the redirection of existing authority as follows:

- Appropriations totaling $8.3 million General Fund, including:

    1) $6.5 million as a General Fund loan to the Dam Safety Fund, to be repaid from revenue generated from dam safety fees, to support the following program enhancements: $3 million for DWR's Division of Safety of Dams to conduct more extensive evaluations of appurtenance structures, such as spillways, gates, and outlets; and, $3.5 million for DWR to review and approve required inundation maps and coordinate the review of emergency plans.

    2) $1.8 million General Fund for the Office of Emergency Services (OES) to review and approve dam-related emergency response plans, and coordinate with local emergency management agencies on incorporation into all-hazard emergency plans.

- Appropriation of $387.1 million in Proposition 1 funding for DWR to accelerate a portfolio of flood control projects over the next two fiscal years. The funds would be provided from the flood management allocation of Proposition 1 and are intended to enhance flood protection in the Central Valley, the Sacramento-San Joaquin Delta, and in other areas of the state with significant flood risk. The following table from the department provides further detail on the intended use of these funds:

	Program Area	Prop 1 Available	Total Appropriation
Delta	Urban Flood Risk Reduction	$295	$65
	Delta Levee Subventions		$27
	Delta Special Projects		$57.1
	"Systemwide" Flood Risk Reduction		$130
	Emergency Response		$10
Central Valley and Coastal Watersheds	Coastal Watershed Flood Risk Reduction	$100	$27
	Central Valley Tributary Projects		$50
	"Systemwide" Flood Risk Reduction		$21
		Total	$387.1

Dollars in millions

- Under his emergency powers, the Governor is redirecting at least $50 million of DWR's $100 million current year deferred maintenance appropriation for emergency preparedness, response, and coordination, and flood risk reduction project implementation activities.

- Trailer bill language to require dams to have an emergency action plan that is updated every ten years, updated inundation maps every ten years, or sooner if specific circumstances change, and provide DWR with enforcement tools, including fines and operational restrictions for failure to comply.

Background. California has the "leading dam safety program in the nation" according to a peer review conducted by the Association of State Dam Safety Officials in 2016. Currently, 1,250 dams are subject to the state's jurisdiction with respect to safety and regulated by DWR's Division of Safety of Dams and are inspected annually. These dams are currently classified in three categories consistent with federal definitions; 678 high hazard, 271 significant hazard and 289 low hazard. Two dams are under review for classification.

The current inspection process focuses heavily on the dam itself and includes a visual inspection of the appurtenant structures. In light of the February 2017 spillway failure at Oroville, a more extensive evaluation of the adequacy, stability and structural integrity of appurtenant structures is necessary. In addition, Emergency Action Plans are not currently required for all jurisdictional dams; however, 70 percent of the high-hazard dams have them, including Oroville. Inundation maps, which provide the basis for Emergency Action Plans, are only created at the time a dam is built or enlarged and are only required for a complete sunny day dam failure scenario. They do not take into account a failure of an appurtenant structure as occurred at Oroville. Furthermore, the DWR Division of Safety of Dams has no enforcement power to mandate completion of Emergency Action Plans or inundation maps.

The Administration proposes to strengthen the evaluation of dam safety and establish new requirements for preparing and updating Emergency Action Plans and inundation maps, including improved coordination between DWR and OES.

The DWR is requesting $3 million Dam Safety Fund in the current fiscal year, and on an ongoing basis, to support eight new positions to develop a focused Safety Re-Evaluation Program for a detailed review of appurtenant structures, beginning with the evaluation of 108 large spillways considered to pose the greatest downstream risk if they were to fail.

The DWR Dam Safety Program is comprised of four basic safety activities including: annual maintenance inspections, construction oversight, application reviews, and re-evaluation of existing dams. The re-evaluation component of the program over the last 10 years has focused on the highest risk to California dams including a seismic re-evaluation of dams in areas that have a high probability of a major earthquake occurring. The recent seismic re-evaluation program has led to over $1 billion in repairs to dams. As a result of the February 7, 2017 incident at the Oroville Dam spillways, it is necessary to immediately expand the re-evaluation program to include spillways of large dams. The re-evaluation program will need to continue at the expanded level in order to remediate dams associated with other high risk factors.

By October 1, 2017, DWR is proposing to complete a reconnaissance of the geologic, hydraulic, hydrological, and structural adequacy of the identified 108 largest spillways in the state. By January 1, 2018, DWR will complete a thorough site investigation and evaluation of those spillways that are found to be potentially at risk. Immediate action, such as emergency repairs or reservoir operation restrictions, will be required of dam owners as necessary to reduce the risk of any spillway identified to be in poor condition as a result of the study. DWR will complete evaluations of the remaining spillways by January 1, 2019, and direct dam owners to make required repairs or restrict reservoir operations as needed.

Continued review of spillways at significant-hazard dams will also be required. In addition, for all high and significant-hazard dams, other high risk factors that need to be considered include the adequacy of emergency outlet systems, and drainage systems within the dam and its foundation, implementation of robust vegetation/rodent management programs, as well as continued seismic re-evaluations of dams reflecting advancements in earthquake engineering.

DWR and OES are requesting a total $5.3 million, 14 positions and new legislation to implement a comprehensive approach to dam safety by requiring the development and review of inundation maps and emergency action plans.

Currently, inundation maps, the cornerstone of emergency plans, are only created or updated at the time the dam is built or enlarged. A dam inundation map delineates the area that would be flooded by a particular dam breach or failure. It includes downstream effects and shows the probable path by water released due to the failure of a dam or from abnormal flood flows released through a dam's spillway and/or other appurtenant works. Furthermore, these maps are currently only required for a sunny day full dam failure scenario, and do not take into account a failure of an appurtenant structure or failure of downstream flood facilities such as a levee breach. Additional inundation maps for other critical flow control structures and saddle dams will be identified by DWR.

Emergency Action Plans are a critical component of a strong dam safety program, however; California currently has inadequate inundation maps, as well as insufficient requirements for the development of those plans. The plans outline the action steps that are taken to protect life and property and include the components of detection measures through inspections and maintenance, determinations of emergency levels based upon the threat of flooding, notification protocols for local government and the public, and other preventive measures dam owners/operators can take. The emergency plans utilize dam inundation mapping to guide actions and notification protocols since they show the potential area of flooding and its impacts

Under the Administration's proposal, DWR's Division of Safety of Dams will re-classify jurisdictional dams as extremely high, high, significant or low risk. DWR will require inundation maps and Emergency Action Plans for all jurisdictional dams allowing a waiver for low hazard dams. During regular inspections, DWR will track any dams where the hazard classification has changed and reassess the waiver as necessary.

DWR will identify which scenarios beyond a complete dam failure require a separate inundation map. The dam owner will create the inundation map and submit to DWR, which will be reviewed and approved by DWR's Division of Flood Management. The approved maps will then be posted publicly on DWR's website and linked to OES' website.

Dam owners will be responsible for creating Emergency Action Plans in accordance with federal guidelines and based on their updated inundation maps. OES will provide guidelines regarding the coordination between dam owners and local emergency management agencies to create local emergency response plans. Dam owners will submit the plans through DWR, who will work with OES to review and confirm that plan components are acceptable for incorporation into and to guide local emergency response plans. The dam owner will send the final Emergency Action Plans and inundation map to DWR, OES and local emergency management agencies.

OES will coordinate emergency response drills with dam owners and local emergency management agencies. The dam owner will be required to update the Emergency Action Plans regularly in accordance with federal guidelines and update the inundation maps every ten years or sooner if there is a change in dam status or change in downstream risk.

The proposal will provide DWR additional enforcement power over dam owners who are not complying with the new emergency plan/inundation maps requirements. The proposal includes revisions to the Water Code to incorporate penalties such as fines and reservoir operation restrictions when dam owners violate DWR's directives and orders.

Staff Comment. Given that recent incidents have highlighted the urgent need to ensure California's dam infrastructure is sufficient and that the state is doing all that it can to prevent or mitigate potential flooding scenarios, it is encouraging to see that the Administration is proposing initiatives intended to immediately enhance dam safety. However, in reviewing the Governor's proposals, the Legislature should ensure that these initiatives can be implemented as intended. For example, the Governor's proposal includes significant changes to dam owner responsibility, such as financial responsibility and planning requirements, and it is important to ensure that they can be effectively implemented. Additionally, accelerating Proposition 1 funding raises concerns that projects can be initiated in such a short timeline or that the projects remain consist with the funding's intended purposes.

Staff Recommendation. Hold open.

Issue 3 –Sustainable Groundwater Management Act

Governor's Proposal. The Governor's budget includes two proposals related to Sustainable Groundwater Management Act (SGMA) implementation that total $17.3 million:

- **State Water Resources Control Board (SWRCB).** $2.3 million ($750,000 ongoing and $1.5 million on a one-time basis) from the Water Rights Fund and five additional positions to develop the SGMA reporting unit in order to implement enforcement and intervention requirements. SGMA requires SWRCB to intervene in groundwater basins that do not form local governance structures or develop sustainable plans.

- **Department of Water Resources (DWR).** $15 million General Fund and 28.9 existing positions in 2017-18 (growing 54.1 positions in 2020-21) to continue and significantly expand services currently paid for with General Fund which will soon expire, for DWR to assist in implementing the SGMA and support local agencies to achieve regional sustainability. Consistent with SGMA, the work is phased and resource needs ramp up and taper off as the regions build capacity over the next 20 years, with the exception of services (such as collection/analysis/sharing of statewide data and Bulletin 118 updates) that DWR will provide in perpetuity. The proposal requests $15 million in new baseline funding beginning Fiscal Year 2017-18 to support.

Background. In 2014, the Legislature passed and the Governor signed three new laws – SB 1168 (Pavley), Chapter 346, Statues of 2014, AB 1739 (Dickerson), Chapter 347, Statues of 2014, and SB 1319 (Pavley), Chapter 348, Statues of 2014 - collectively known as the SGMA. With the goal of achieving long term groundwater resource sustainability, the legislation represents the first comprehensive statewide requirement to monitor and operate groundwater basins to avoid overdraft. The act's requirements apply to the 127 of the state's 515 groundwater basins that DWR has found to be high and medium priority based on various factors, including overlying population and irrigated acreage, number of wells, and reliance on groundwater. While only comprising about one fourth of the groundwater basins in California, the 127 high and medium priority basins account for 96 percent of California's annual groundwater pumping and supply water for nearly 90 percent of Californians who live over a groundwater basin. The remaining basins ranked as being lower in priority - generally smaller and more remote - are encouraged but not required to adhere to SGMA.

The act assigns primary responsibility for ongoing groundwater management to local entities. Local groundwater sustainability agencies (GSAs) are responsible for developing and implementing long term groundwater sustainability plans (GSPs) defining the specific guidelines and practices that will govern the use of individual groundwater basins. These GSAs will be formed by a single or combination of local public agencies with existing water or land management duties, such as cities, counties, or special districts. The GSAs are vested with broad management authority, including the ability to (1) define the sustainable yield of a groundwater basin, (2) limit extractions from that basin, (3) impose fees to pay for management costs, and (4) enforce the terms established in the GSP. Basins that are already legally adjudicated are not required to form GSAs or develop GSPs; provided they can prove they are already being managed sustainably. Additionally, certain basins that can display existing plans and sustainable practices can submit alternative plans in lieu of formal GSPs.

The legislation tasks DWR and SWRCB with discrete roles in carrying out SGMA. DWR has primary responsibility for the initial phases of implementation, including defining and prioritizing groundwater basins, collecting and disseminating data and best practices, providing technical and financial assistance to GSAs, and reviewing GSPs. Previous budgets have provided DWR with roughly $15 million annually to begin these activities; however, this initial funding was only provided through 2019 20.

SWRCB is tasked with enforcing the law and intervening when local entities fail to follow SGMA's requirements. Specifically, SWRCB is responsible for intervening when it designates a basin as being in "probationary status" due to (1) failing to form a GSA (referred to as an "unmanaged basin"), (2) failing to complete a GSP, or (3) developing or implementing an inadequate or ineffective GSP (one that will cause significant depletion of groundwater or interconnected surface water). SWRCB's intervention activities may include imposing reporting requirements around groundwater extractions and use, issuing fees, assuming management responsibilities, developing interim management plans governing how groundwater may be used in the basin, and conducting enforcement actions for noncompliance. SWRCB currently receives $1.9 million from the General Fund annually for ten staff to conduct SGMA related activities. Over time, funding support for these positions will transfer to fee revenue as the board's SGMA-related responsibilities and fee authorities increase.

Given the magnitude of the changes it entails, SGMA is designed to be implemented over a period of several decades. Local entities currently are in the process of forming GSAs to oversee the management of individual groundwater basins, with a requirement to do so by June 30, 2017. Basins that fail to meet this deadline are subject to intervention from SWRCB. The deadline for implementing a GSP is expedited for the 21 groundwater basins that DWR has defined as being in critical overdraft status—January 2020, as compared to 2022 for the remaining basins.

Legislative Analyst's Office (LAO). The LAO points out that the next five to seven years represent a critically important period for establishing how SGMA will guide local operations and practices in future years. Local agencies must negotiate and collaborate to form functional GSAs, then undertake the difficult work of gathering and analyzing data about their areas' groundwater use, defining sustainability targets for their basins, and developing enforceable plans and practices for how the basins can be managed to achieve those sustainability goals. The comprehensiveness and effectiveness of these processes and plans will determine the overall success of the act and of the state's nascent efforts at comprehensively managing its groundwater resources.

The LAO also points out that the state plays an important role in the ultimate success of SGMA implementation. The significant and complex workload facing local agencies in the coming years heightens the importance of assistance from state agencies during this period. In particular, the state can help by providing GSAs with baseline data to inform their GSPs. When possible, collecting data on a statewide basis—such as through remote sensing technology—can save funding by taking advantage of economies of scale, and ensure that data are valid and consistent across different areas of the state. Additionally, the state can play an important role in providing technical assistance, offering neutral facilitation services, monitoring local agency progress, and providing additional support when needed to ensure GSAs stay on track to meet deadlines. Finally, the state serving as a "backstop" if local agencies fail to meet SGMA's requirements both raises the pressure for local compliance as well as increases the likelihood that the act's sustainability goals ultimately will be met.

LAO Recommendation. Given the essential function that successful implementation of SGMA plays in the state's overall approach to water management, the LAO recommends the Legislature adopt governor's proposals and continue to monitor the successes and challenges of SGMA implementation.

Staff Recommendation. Approve as budgeted.

3860 Department of Water Resources

Issue 1 – Delta Mine Drainage Impacts Abatement – Combie Reservoir

Governor's Proposal. The Governor's budget requests reversions of approximately $3.08 million and a new appropriation of $6.13 million over three years ($5.7 million in 2017-18, $211,000 in 2018-19, and $204,000 in 2019-20) from the Bay-Delta Multipurpose Water Management Program (Proposition 13) to develop facilities to remove and treat mercury-laden sediment derived from abandoned gold mines at Combie Reservoir. The sediment, derived from historic mining, contains mercury and adversely affects Delta water quality if it escapes the reservoir.

Background. Mercury is naturally occurring in some geologic formations in the Coast Range, but is a pollutant throughout the Sierra Nevada Mountains, where it was used to process mining ore for gold recovery. Mercury contamination is now wide-spread in the Central Valley and Sierra watersheds in sediments derived from historic mining.

Once in the environment, mercury undergoes various chemical transitions and can occur in a number of chemical states. Generally problems arise as elemental mercury is transformed into methyl-mercury, a form that is readily taken up by zooplankton and animals, where it exerts toxic effects. The transformation to methyl-mercury occurs as sediments laden with mercury descend from river reaches where gold mining occurred to warm water valley floor and delta reaches. Evidence shows that methylation is accelerated as mercury is exposed to the wetting and drying sequences of agricultural lands on the valley floor and in the Delta. Rapid biomagnification has been demonstrated that results in delta fish containing mercury at concentrations that are adverse for human consumption. Warnings to limit eating delta fish have been in place for years. Warnings also exist for Combie Reservoir.

Combie Reservoir, the site of the proposed project, sits upstream of the Delta on the Bear River, below many historic mining operations and above the warm water valley floor reaches. Combie Reservoir is listed on the state's 303(d) list of impaired waters due to the mercury in the sediment and water. Prior to 2003, some dredging occurred as a means to maintain reservoir capacity. But with the detection of mercury in the sediments and being released by the dredging operations, the Regional Water Quality Control Board restricted the dredging. Since that time options for managing the mercury and sediment have been evaluated. Combie represents a common condition in the Bear River, American River, Calaveras River, and Yuba River watersheds. Perfecting the methods proposed in this project provides a path to clean up other contaminated sediments in these watersheds and elsewhere, and to reduce the threats of mercury poisoning in the mountains and the valley and Delta.

A dredging spoil treatment system was developed and bench tested to ensure efficacy of the process. Bench testing indicates the potential for 93 percent removal of mercury from dredged sediments. The pilot project process includes a suction dredge with special cutting head designed to limit turbidity, a mixing tank to maintain the slurry by agitation, a coarse material filter, sand removal, and several steps of turbidity removal, leaving clear water and pressed silt and clay. Salvageable aggregate will be sold. Mercury and gold will be extracted. Gold will be sold to offset operational costs. Mercury will be disposed of if it cannot be recycled.

Proposition 13 provided $17 million to address the adverse impacts of mine drainage on the Delta. Primary among those impacts are the problems caused by mercury pollution and the potential for mercury poisoning. DWR is charged with managing the mine waste funds. A number of projects have been supported to this point. Most have focused on mercury issues, but progress has been limited chiefly due to the complexity of mercury chemistry and the limited ways it can be separated from sediments. Water Code Section 79196(b) allows funds not expended on dissolved oxygen control in the San Joaquin River (another focus of the Bay-Delta Multipurpose Water Management Program) to be reallocated by DWR to controlling drainage from abandoned mines that adversely affects the Delta. A balance of approximately $11 million exists in the dissolved oxygen control allocation. This request includes reallocating $6.13 million from the dissolved oxygen balance to the mine drainage work.

Staff Recommendation. Approve as budgeted.

Issue 2 – Delta Smelt Resiliency Strategy

Governor's Proposal. The Governor's budget proposes $2.6 million from General Fund and $900,000 from the Harbors and Watercraft Revolving Fund, on a one-time basis, to support four critical actions to combat the decline of Delta smelt, a species listed under both state and federal law as endangered.

Background. Recent field surveys conducted by the Department of Fish and Wildlife (DFW) have found the lowest-ever abundance of Delta smelt in decades of similar measurements. Delta smelt have experienced extremely poor habitat conditions during the last five years of unprecedented drought. Populations of smelt are at historic lows, and the scientific community has begun assessing the viability of the species. However, the relatively positive response of the smelt populations in 2011 suggests that it retains the ability to respond to improved conditions. Thus, in July 2016 state and federal agencies launched a new plan to help recover the smelt population, the Resiliency Strategy.

The Resiliency Strategy is a science-based plan prepared by the state to voluntarily address both immediate and near-term needs of Delta smelt, as well as to promote smelt resilience to ongoing drought conditions and future variations in habitat conditions. The Resiliency Strategy addresses each life history stage of the fish, acknowledging that there is no single driver to population decline (and thus population recovery). The Resiliency Strategy relies on peer-reviewed science and inter-agency consensus to articulate a suite of actions that can be implemented over the next few years. The actions are aggressive and can be implemented with minimal involvement outside of state and key federal agencies.

Initial implementation of the Resiliency Strategy has proven promising. General Funds made available in 2016 supported an agricultural water management pilot project in the North Delta that produced significant amounts of phytoplankton, the food-web precursor to zooplankton, which in turn is a critical food source for Delta smelt.

This proposal includes funding support for the following Resiliency Strategy actions:

- **Aquatic Weed Control ($900,000 Harbors and Watercraft Revolving Fund).** DWR will coordinate with the Department of Boating and Waterways to increase the treatment of aquatic weeds that negatively affect Delta water quality for smelt in locations permitted by the U.S. Fish and Wildlife Service. In addition to Franks Tract, likely treatment areas would include Sherman Lake, Decker Island, and Cache Slough.

- **North Delta Food Web Adaptive Management ($800,000 General Fund).** In July 2016, flows in the Yolo Bypass were augmented by closing the Knights Landing Outfall Gates and routing water pumped from the Sacramento River into the Yolo Bypass. Local reclamation districts assisting with the effort were reimbursed for their pumping costs by the state. This resulted in increased food availability for Delta smelt downstream of the Bypass in Cache Slough and the lower Sacramento River. DWR will use the requested funds to again augment flows in July and/or September 2017, and 2018, to promote food production and export into areas where Delta smelt are known to occur. Food web enhancement flows will also be considered for additional months in ways that will not conflict with agricultural and waterfowl management actions.

- **Roaring River Distribution System Food Production ($1.0 million General Fund).** DWR will install new drain gates on the western end of the Roaring River Distribution System in Suisun Marsh. These gates will operate during most months of the year to move food-rich water from the distribution system into key areas of Suisun Marsh where smelt are known to occur. DWR will also repair the existing outfall gate structure at the eastern end of the distribution system, facilitating additional operational flexibility to benefit smelt food production and delivery. DWR will use the requested funds to plan, design, permit, and construct the new and repaired gate structures.

- **Coordinate Managed Wetland Flood and Drain Operations ($800,000 General Fund).** Based on the findings of a current study on Joice Island in Suisun Marsh, DWR will coordinate with the Suisun Resource Conservation District and DFW to develop a management plan for managed wetland flood and drain operations that can promote food export from the wetlands to adjacent tidal sloughs and bays. Proposed funds would be used to develop a management plan applicable to Suisun Marsh managed wetlands.

Staff Recommendation. Approve as budgeted.

Issue 3 – Central Valley Flood Protection Board Permitting and Enforcement

Governor's Proposal. The Governor's budget proposes $2.2 million General Fund and nine new positions and one existing position for three years to allow the Central Valley Flood Protection Board (CVFPB) to perform its statutory mandate for permitting and enforcing encroachments and operating and maintaining facilities of the State Plan of Flood Control to limit the state's liability from a flood event.

Background. The CVFPB was created by SB 17 (Florez), Chapter 365, Statutes of 2007, and AB 5 (Wolk), Chapter 366, Statutes of 2007, and replaced the Reclamation Board as of January 1, 2008. The Legislature designated the CVFPB as the lead authority for flood protection in the Central Valley and designated it to act independently of DWR.

The CVFPB serves as the non-federal sponsor to the United States Army Corps of Engineers (USACE) on large joint state-federal levee improvement projects and assists the more than one hundred local maintaining agencies (LMAs) that operate and maintain facilities of the SPFC. The CVFPB conducts regular public meetings, hearings, workshops, and tours, providing a public forum for stakeholders - State of California, its residents and property owners, Central Valley agencies and non-government organizations, and the United States government, with the goal of providing the highest level of flood protection possible to California's Central Valley, while also considering environmental and habitat restoration. The CVFPB also manages real estate matters on behalf of the Sacramento-San Joaquin Drainage District (SSJDD). In 1911, the Legislature created the California State Reclamation Board, which was given regulatory authority over Sacramento Valley LMAs, with the objectives of assuring a logical, integrated system for controlling flooding in cooperation with USACE; cooperating with various agencies in planning, constructing, operating, and maintaining flood control works; and maintaining the integrity of the flood control system. In 1913, the Reclamation Board was given regulatory authority over San Joaquin Valley's LMAs. The Legislature also created the SSJDD to acquire and hold the properties and easements necessary for flood control, the management of which is vested in the CVFPB.

Staff Recommendation. Approve as budgeted.

3940 State Water Resources Control Board

Issue 1 – Irrigated Lands Management Program

Governor's Proposal. The Governor's budget proposes $1 million from the Waste Discharge Permit Fund and 5 permanent positions to support ongoing regulatory efforts to protect sources of drinking water and reduce nitrate loading to groundwater from irrigated agriculture in California.

Background. In 2013, the SWRCB's report to the Legislature, "Recommendations Addressing Nitrate in Groundwater" identified nitrate contamination in groundwater as a widespread water quality problem that can pose serious health risks to pregnant women and infants. Agricultural fertilizers and animal wastes applied to cropland are by far the largest sources of nitrate in groundwater. The report revealed that almost 97 percent of nitrate loading to groundwater in the Central Valley and Central Coast can be directly linked to irrigated agriculture. The State Water Board made 15 specific recommendations to address issues associated with nitrate contaminated groundwater. The State Water Board and the Regional Water Quality Control Boards (collectively, the Water Boards) are engaged in numerous efforts to address nitrate contamination in groundwater. This proposal focuses on the Water Boards' efforts to regulate discharges with the Irrigated Lands Regulatory Program (ILRP).

Division 7 of the California Water Code (known as the Porter-Cologne Water Quality Control Act, or "Porter-Cologne") requires persons who discharge waste, or propose to discharge waste that affect, or may affect, the waters of the state to file a report of waste discharge with the appropriate Regional Water Quality Control Board. The Regional Water Board, after any necessary hearing, shall prescribe waste discharge requirements as to the nature of the discharge. The Water Boards may waive these waste discharge requirements under certain conditions. Any person subject to these requirements shall submit an annual fee into the Waste Discharge Permit Fund according to a fee schedule established by the State Water Board. In 1999, amid concerns that waivers in place for agricultural dischargers were inadequately protective of water quality, the Legislature passed Senate Bill 390 (Alpert), Chapter 686, Statutes of 1999, requiring the Water Boards to review their existing waivers and either renew them with conditional waivers, or replace them with individual or general waste discharge requirements. In 2004, the State Water Board requested resources to develop and implement the ILRP. The request was approved, providing resources to initiate the protection of water quality through the regulation of agricultural discharges.

Many recent developments justify an increase in resources for the ILRP. The Governor's Water Action Plan discusses specific measures to mitigate the effects of long-term drought, stating that water recycling, expanded storage, and serious groundwater management must be part of the mitigation efforts. Also in 2014, Governor Brown signed historic legislation to strengthen local management and monitoring of groundwater basins most critical to the state's water needs. The Sustainable Groundwater Management Act allows local agencies to adopt groundwater management plans that are tailored to the needs of those communities. The Brown Administration has used the Water Action Plan as a roadmap to put California on a path to sustainable water management. The 2016 update of the Water Action Plan recognizes that inconsistent and inadequate tools, resources, and authorities have made managing groundwater difficult in California and have impeded our ability to address problems including water quality degradation.

The ILRP currently is supported by $4.5 million and 23.1 positions. Identification of water quality concerns related to agricultural practices and operations has resulted in a systematic increase in workload over the last decade. The positions in this BCP will be funded from waste discharge permit fees from agricultural dischargers. To the extent that the existing fee payer base for these dischargers cannot support the increased program oversight costs, the current fee structure for these dischargers may be increased to cover the costs of regulating these facilities to protect sources of drinking water, public health, and the state's groundwater.

Staff Recommendation. Hold open.

Issue 2 – Oil and Gas Monitoring Program Supplement for Existing Underground Injection Control Project Review

Governor's Proposal. The State Water Resources Control Board (State Water Board) requests $1 million in spending authority from the Oil, Gas, and Geothermal Administrative Fund for three years to collaborate with the Division of Oil, Gas and Geothermal Resources (DOGGR) in its annual review of active Class II underground injection control (UIC) projects in order to ensure these projects comply with the federal Safe Drinking Water Act and applicable state statutes and regulations, safeguarding groundwater resources.

Background. In 1982, the United States Environmental Protection Agency (USEPA) gave DOGGR primary responsibility and authority over all oil and gas related Class II UIC wells in the state. This "primacy" agreement requires DOGGR to review all active UIC projects on an annual basis. A typical UIC project consists of dozens to hundreds of wells used to enhance oil recovery and/or to dispose of oilfield related waste water (produced water). UIC wells used to enhance oil recovery predominantly inject water or steam into a hydrocarbon-bearing formation to extract oil and gas. An audit conducted by the USEPA in 2011 identified that DOGGR had not been performing its required annual review of active UIC projects. DOGGR submitted their Renewal Plan for Oil and Gas Regulation to the Legislature in December 2015, and identified a path forward to bring its UIC program into compliance with the federal Safe Drinking Water Act, as well as applicable state statutes and regulations. This path forward includes participation by the Water Boards in the annual review of active UIC projects in cases where an update or modification to a project is required. Currently, there are more than 900 active UIC projects consisting of more than 50,000 UIC wells that are slated for annual review by DOGGR.

Since 1988, the Water Boards and DOGGR memorandum of agreement addresses each agency's roles and responsibilities pertaining to oilfield related discharges, which includes UIC project reviews by Water Boards. In 2015, the Water Boards requested and received resources related to reviewing aquifer exemption proposals from DOGGR, reviewing UIC wells identified by DOGGR as injecting into aquifers that may not have been properly exempted, reviewing UIC project proposals, reviewing discharges of produced water to surface ponds, and taking appropriate enforcement action where necessary. The 2015 staff resources comprised $2.9 million and 19 permanent positions, including $250,000 for contracts funding for analytical laboratory testing of water samples collected during the review of UIC wells and oilfield produced water ponds. However, the resources received in 2015 did not account for the Water Boards participation in DOGGR's required annual review of active UIC projects, at that time the Water Boards were not informed about the need for the retroactive review of all active UIC projects permitted by DOGGR since 1983 and the sheer number and complexity of these projects.

This BCP would provide resources to increase the Water Boards' role in assessing the potential impacts of oil and gas related UIC projects on water quality and bring the UIC program back into compliance with the federal Safe Drinking Water Act, as well as applicable state statutes and regulations. An effective program of reviewing oil and gas related UIC projects will help safeguard groundwater resources, will address the public's concerns, and help decision makers assess potential impacts on the state's groundwater supply to assist in the development of good public policy.

Staff Recommendation. Approve as budgeted.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 16, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112
Consultant: Joe Stephenshaw

OUTCOMES

Vote Only Calendar

Issues for Discussion

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—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 23, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: James Hacker

Vote Only Calendar

Items Proposed for Discussion

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.

VOTE-ONLY CALENDAR

2660 – California Department of Transportation

1. **Planning Program Project Initiation Documents ZBB.** The budget includes a biannual Zero-Based Budget (ZBB) for the Planning Program's Project Initiation Documents workload. This ZBB requests 332 permanent positions and $58 million from a variety of special funds to complete Project Initiation Document workload over the next two years. This is a reduction of 30 positions and $4.2 million from the 2015-16 ZBB.
2. **High-Speed Rail Project Reimbursement Authority.** The budget requests $2.3 million (State Highway Account) per year for 14 two-year limited-term positions to provide ongoing legal services to the High Speed Rail Authority in real property acquisition and maintenance.

2665 – California High-Speed Rail Authority

1. **High Speed Rail Property Management.** The budget requests a baseline appropriation of $750,000 from the High-Speed Rail Property Fund to fund expenses related to Authority ownership of property. As of August 2016, the Authority has acquired 738 of the 1,482 parcels required to complete the project's first four construction packages. These parcels were acquired to create the necessary right-of-way for construction of the high speed rail line. However, not all parcels can be immediately transferred to construction contractors for demolition and construction, requiring the Authority to act as a short-term landlord until such activities can take place. All short-term lease revenues collected by the Authority are deposited in the Property Fund; however, the Authority currently lacks the ability to use these revenues for property management.

2670 – Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun

1. **Rent Increase.** The budget requests a budget augmentation of $129,000, increasing by $8,000 per year for eight years, for increases in the cost of office rentals in the Board's San Francisco office. The Department of General Services negotiated the increased rent at the Board's current location after determining that no other available office space existed that was appropriate for the Board's purposes, cost-effective, and located in San Francisco or Alameda Counties (as required by statute). The negotiated lease includes a firm four year commitment from BOPC, after which BOPC may terminate the lease with 60 days' notice. BOPC has indicated that they will submit a negative BCP should they choose to terminate the lease.

2720 – Department of the California Highway Patrol (CHP)

1. **Integrated Database Management System Funding.** The budget requests one-time funding of $894,000 (MVA) to cover costs associated with the department's use of the California Department of Technology's (OTech) Integrated Database Management System (IDMS). IDMS currently hosts three legacy CHP applications: a timekeeping application, a database related to commercial vehicle highway incidents and safety, and a department-wide message-passing system. OTech bills departments for IDMS use by dividing the total cost of maintaining the system between the number of users each client department has. Over time, many departments have migrated off the IDMS system, leaving fewer users across which to spread costs. This has resulted in an increase in CHP costs over time. CHP has indicated that they are in the process of migrating the final three systems off of IDMS, and will be fully off the service by June 2017, at which point further IDMS funding will no longer be necessary.

2. **Reimbursements.** The budget requests a permanent budget augmentation of $14 million in MVA reimbursement authority to ensure collection authority for all reimbursable activity undertaken by CHP. The department's billings for reimbursable activities have exceeded reimbursement authority since 2013-14, requiring the department to absorb excess costs in its general operating budget.

2740 – Department of Motor Vehicles

1. **Inglewood Swing Space.** The budget requests $2 million (MVA) one-time costs and $407,000 (MVA) in ongoing costs for temporary field office swing space to house Inglewood field office staff while the previously-approved Inglewood Field Office On-Site Replacement project, which involves demolishing the old office and building the new office on the same site, is completed. A portion of the ongoing costs will also pay for a permanent relocation of the Inglewood Investigations division, which will not have space in the Inglewood field office upon completion of the On-Site Replacement.

0521 Secretary for the California Transportation Agency

The California State Transportation Agency develops and coordinates the policies and programs of the state's transportation entities to achieve the state's mobility, safety and environmental sustainability objectives from its transportation system.

Governor's Budget: The budget includes $336 million and 54 positions for the California State Transportation Agency in 2017-18. This is a reduction of roughly $200 million from 2016-17, largely from the shifting of Greenhouse Gas Reduction Fund resources from the agency budget to a Control Section. Specifically, the budget proposes an increase of $400 million from the Green House Gas Reduction Fund through Control Section 15.14 to be allocated for the Transit and Intercity Rail Capital Program as part of the Governor's Transportation Package. In addition, an increase of $85 million from accelerated loan repayments to the Public Transportation Account is included in the package.

EXPENDITURES BY FUND (in millions)

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
0270	Administration of Transportation Agency	23.1	21.0	21.0	$3,825	$5,019	$5,019
0275	California Traffic Safety Program	30.2	33.0	33.0	95,907	118,753	96,933
0276	Transit and Intercity Rail Capital Program	-	-	-	-	425,952	234,480
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**53.3**	**54.0**	**54.0**	**$99,732**	**$549,724**	**$336,432**

FUNDING		**2015-16***	**2016-17***	**2017-18***
0044	Motor Vehicle Account, State Transportation Fund	$2,362	$2,897	$2,897
0046	Public Transportation Account, State Transportation Fund	5	9,006	85,006
0890	Federal Trust Fund	95,454	118,397	96,577
0995	Reimbursements	1,905	2,403	2,403
3228	Greenhouse Gas Reduction Fund	6	417,021	149,549
TOTALS, EXPENDITURES, ALL FUNDS		**$99,732**	**$549,724**	**$336,432**

Issues Proposed for Discussion

Issue 1: Governor's Transportation Package

Governor's Proposal: The budget incorporates a transportation funding package similar to the one the Governor proposed during the transportation special session. The budget proposes to provide new funding of $1.9 billion in 2017-18, and $4.3 billion on an annual ongoing basis. The annual funding package provides $2.1 billion from a new $65 fee on all vehicles; $1.1 billion by setting the gasoline excise tax at 21.5 cents (with future adjustments for inflation); $425 million from an 11-cent increase in the diesel excise tax; $500 million in additional cap-and-trade proceeds; and $100 million from cost-saving reforms to be implemented by Caltrans as shown in the figure below. The $1.9 billion of additional funding in 2016-17 includes $235 million from the acceleration of General Fund loan repayments over the next three years ($706 million in total repayments), rather than repaying these loans over the next 20 years.

Governor's Budget Transportation Funding and Reform Package

Funding Source	Annual Amount	Comments
Road improvement charge	$2.1 billion	A new $65 fee on all vehicles that equally funds state and local transportation priorities.
Gasoline excise tax	$1.1 billion	Sets the gasoline excise tax at the historical average of 21.5 cents beginning in 2018-19 and going forwards adjusts annually for inflation.
Diesel Excise tax increase	$425 million	Increases the diesel excise tax by 11 cents beginning in 2018-19 and going forwards adjusts annually for inflation.
Cap-and-trade	$500 million	Provides additional funding for the Active Transportation Program ($100 million) and transit capital improvements ($400 million).
Caltrans efficiencies	$100 million	Implements cost-savings reforms.

The 2017-18 proposals for spending the increased funding are:

- **Local Streets and Roads.** The increased funding will provide $206 million to cities and counties for local road maintenance.

- **Active Transportation Program.** The budget provides $100 million cap-and-trade revenues for the Active Transportation Program which funds projects encouraging active transportation such as bicycling and walking, with at least 50 percent of the funds going to disadvantaged communities.

- **Transit and Intercity Rail Capital.** The budget provides $400 million from cap-and-trade revenues for transit capital investments that provide greenhouse gas reductions, with at least 50 percent of the funds going to disadvantaged communities.

- **Highway Maintenance and Repair.** The budget provides an increase of $351 million ($42 million from loan repayments) for repairs and maintenance on the state highway system.

- **Trade Corridor Improvements.** The budget provides an increase of $358 million ($108 million from loan repayments) for Caltrans to fund projects along the state's major trade corridors.

- **Corridor Mobility Program.** The budget provides $300 million for the Corridor Mobility Program, including $25 million for local planning grants, to focus on multi-modal investments in key congested commute corridors that demonstrate best practices for public transit and managed highway lanes, such as priced express or high occupancy vehicle lanes.

Reforms and Efficiencies. The budget proposes to improve Caltrans' performance by establishing measurable targets for improvement. It also proposes to streamline project delivery by making various changes that include advancing project environmental mitigation, and implementing more innovative procurement methods.

BACKGROUND

Overview of Transportation Funding in California

The California state highway system includes 50,000 lane-miles of pavement, approximately 13,000 bridges, 205,000 culverts and drainage facilities, 87 roadside rest areas, and 29,183 acres of roadside landscaping. In addition, California's 58 counties and 480 cities are responsible for 304,000 miles of local streets and roads, as well as numerous local bridges. Approximately 180 public agencies provide public transit, such as intercity bus and passenger rail, resulting in about 1.3 billion passenger trips each year. The programs described in this section relate to state highways, local roads, and mass transit, and include the Department of Transportation (Caltrans) and the California Transportation Commission (CTC).

These areas of transportation are funded from local, state, and federal sources as shown in the figure below. In addition, the California Highway Patrol (CHP), the Department of Motor Vehicles (DMV), as well as various programs within the Air Resources Board (ARB), are funded with revenues from vehicle registration and driver licenses' fees. High-speed rail funding is excluded here.

California Transportation Funding
Major Sources

Funding Source	Comments
Local Revenues	Locally-imposed revenues such as add-on sales tax, property tax, developer fees, and transit fares. Some funds used to reimburse Caltrans for locally-supported work on the highway system.
Federal Revenues	Primarily federal gas tax revenue (18.4 cents/gallon). Includes funds for highways and transit.
Motor vehicle fuel taxes	Allocated to the state and local governments. In 2017-18, the state gasoline tax is expected to be 29.7 cents and the diesel excise tax 16.3 cents.
Fees on cars and drivers	Primarily from vehicle registration and driver licenses. Supports the operations of the DMV, CHP, and ARB.
Truck weight fees	Revenue pays for debt service on transportation-related general obligation bonds.
Cap-and-trade	Supports transit operations and capital projects, and active transportation.
Diesel sales tax	Primarily supports local transit operators.
GO bonds	State general obligation bonds, primarily from Proposition 1B.

Special Session on Transportation Funding

The Legislature convened in 2015 a special session on transportation funding to address the funding shortfall for maintaining the current system of state highways, transit, and local streets and roads. For example, the State Highway Operation and Protection Program (SHOPP), which funds highway maintenance and repairs, has an annual funding shortfall of about $6 billion. Various options to increase state funding and achieve efficiencies at Caltrans were proposed during the Special Session by both the Legislature and the Administration. Generally, the total amount of funding the proposed plans would generate each year (for a variety of transportation purposes) varied from the low billions to up to $7 billion. The special session ended without the passage of a funding package.

Options to Increase the Accountability and Efficiency of Caltrans

In addition to increasing funding for transportation infrastructure, many of the options considered during the special session would increase the accountability of Caltrans' work and allow for other efficiencies. Over time, increasing the accountability and efficiency of Caltrans has the potential to decrease the amount of funds that are potentially mismanaged, reduce cost-over runs, and reduce total project costs. The savings from implementing such activities would be less in dollar terms than the funding proposals described earlier. However, improving the department's performance, and better ensuring that the limited funding available for transportation is put to the best use, should also be a priority.

The CTC included several recommendations for improving transparency, accountability, and efficiency in transportation spending in its 2015 and 2016 annual reports. These include:

- Require the State Highway Performance Plan to include measurable targets for improving the state system, and require Caltrans to provide regular reports on its progress to the California State Transportation Agency and the CTC. Give the CTC the responsibility to allocate both project development and delivery costs for Caltrans projects.
- Allow direct contracting between Caltrans and federally-recognized Native American tribes in California for transportation program purposes.
- Provide flexibility for Caltrans to contract for more engineering and right-of-way workload. Permit Caltrans to prequalify consultants by type of work and draw from a list of those consultants as work becomes available. Authorize Caltrans and its partners to use alternative procurement methods permanently and without limits.
- Expand the use of "advance mitigation" and other expedited environmental review processes to streamline the environmental planning and compliance portion of transportation project development.
- Require Caltrans to implement efficiency measures with the goal of generating $100 million per year in savings to invest in maintenance and rehabilitation of the state highway system.

ISSUES TO CONSIDER

The current level of funding is inadequate to maintain the state's transportation system and it is important for the Legislature to address this. The Legislature may want to consider several issues as they review the funding package proposed in the budget:

- **Amount of Funding.** According to the Governor's budget, the cost of deferred maintenance for the state highway system is $59 billion and the annual funding shortfall for maintenance and repair of these roads is $6 billion. The proposed transportation funding package, however, only provides $4.3 billion per year. Given the scale of the problem, and the state's fiscal outlook, the Legislature may want to consider what an appropriate level of funding for transportation projects would be.

- **Use of Funding.** The proposed transportation package provides $4.3 billion per year, spread across highways, public transit, local streets and roads, and active transportation such as biking and walking. However, as stated above, the annual funding shortfall for highways alone is nearly $6 billion. Given this shortfall, the Legislature may want to consider options for prioritizing spending in various transportation categories to ensure that the limited funding available is directed at the highest priority projects.

- **Source of Funding.** The gas tax is the traditional funding source for transportation infrastructure because it follows the "user pays" principle by tying the use of a public good with the cost of maintaining it – the more miles driven, the more gas burned and the more gas tax paid. The gas tax has remained the primary funding source for transportation projects, even as gas mileage has risen and inflation has reduced the value of the collected tax. Any effort to raise additional revenue for transportation will likely include increasing existing taxes and fees or the creation of additional taxes and fees. Obtaining the votes necessary to pass such a package may be challenging. The Legislature may want to consider other options for raising revenues, such as raising fees, though such fees may not follow the “user pays” principle as closely as the existing fuel tax.

2600 CALIFORNIA TRANSPORTATION COMMISSION

The California Transportation Commission is responsible for programming and allocating funds for the construction and improvement of highways, passenger rail systems, and transit systems throughout California. The Commission advises and assists the Transportation Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs. The Commission also initiates and develops state and federal transportation policies that seek to secure financial stability for the state.

Budget Overview: The budget provides $29.6 million and 20 positions for the CTC in 2017-18, an increase of three positions and roughly $500,000. This is mostly due to an increase in resources provided by the Governor's transportation proposal and other staffing proposals.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
1800	Administration of California Transportation Commission	17.4	17.1	20.1	$2,956	$4,049	$4,551
1805	Clean Air and Transportation Improvement	-	-	-	4,861	25,000	25,000
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**17.4**	**17.1**	**20.1**	**$7,817**	**$29,049**	**$29,551**

FUNDING		2015-16*	2016-17*	2017-18*
0042	State Highway Account, State Transportation Fund	$1,017	$1,660	$1,913
0046	Public Transportation Account, State Transportation Fund	1,760	1,845	1,878
0703	Clean Air and Transportation Improvement Fund	4,861	25,000	25,000
0995	Reimbursements	105	426	426
3290	Road Maintenance and Rehabilitation Account, State Transportation Fund	-	-	216
6055	Corridor Mobility Improvement Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006	18	6	6
6056	Trade Corridors Improvement Fund	17	35	35
6058	Transportation Facilities Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006	16	-	-
6059	Public Transportation Modernization, Improvement and Service Enhancement Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fd of 2006	4	12	12
6060	State-Local Partnership Program Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006	8	6	6
6062	Local Bridge Seismic Retrofit Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006	1	6	6
6063	Highway-Railroad Crossing Safety Account, Highway Safety, Traffic Reduction, Air Quality and Port Security Fund of 2006	3	22	22
6064	Highway Safety, Rehabilitation, and Preservation Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006	7	19	19
6072	State Route 99 Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006	-	12	12
TOTALS, EXPENDITURES, ALL FUNDS		**$7,817**	**$29,049**	**$29,551**

Issue 1: Transportation System Planning and Oversight

Governor's Proposal: The budget requests $395,000 per year from various special funds for one new permanent position, the conversion of one limited-term position to permanent, and $20,000 in contracting funds to implement a variety of legislative mandates. Specifically, the requested positions will administer the state's Active Transportation Program (ATP) and the implement new requirements for regional and statewide transportation planning.

Background: The ATP is a competitively-awarded state grant funding program with the goal of funding projects that increase walking and biking. The program receives approximately $123 million in state and federal funds annually and is funding categories open to any project statewide, projects from small urban and rural organizations, and projects from Metropolitan Planning Organizations. The CTC's role includes adopting project guidelines, adopting fund estimates for the program, allocating funds to projects, and evaluating and reporting on the status of the overall program to the Legislature. The ATP was created by SB 99 (Committee on Budget and Fiscal Review), Chapter 359, Statutes of 2013, and AB 101 (Committee on Budget), Chapter 354, Statutes of 2013, which amalgamated several existing state and federal programs, most of which were formula-driven rather than competitive. The CTC is currently redirecting one full-time position to administer the program.

SB 486 (DeSaulnier), Chapter 917, Statutes of 2014, gave the CTC a major role in the development of the California Transportation Plan, which guides the development of numerous regional and statewide transportation plans. Specifically, it provided that the CTC may prescribe study areas for analysis and evaluation by Caltrans, and may establish guidelines for updates to the California Transportation Plan. The bill also requires the CTC to approve the Interregional Transportation Strategic Plan and the Interregional Transportation Improvement Program. Additionally, SB 64 (Liu), Chapter 711, Statutes of 2015 required the CTC to review any recommendations in the California Transportation Plan and "prepare specific, action-oriented, and pragmatic recommendations for transportation system improvements." Prior to the passage of SB 486 and SB 64, the CTC had no role in the development or administration of any of these plans. The 2015-16 budget resourced the CTC with one limited-term position, which is set to expire in June 2017, to implement the planning provisions of SB 486 and SB 64.

The state is responsible for the maintenance and rehabilitation of the 50,000 mile state highway system, as well as the associated bridges, culverts, and other infrastructure. Caltrans describes its plans for the rehabilitation and reconstruction of this infrastructure in the State Highway Operations and Protection Program (SHOPP). The SHOPP is a $10 billion four-year portfolio of projects that allocate funds to a variety of high-priority rehabilitation projects that require more extensive design and construction work than a simple maintenance project.

SB 486 requires the CTC to adopt the four-year SHOPP Program and approve the 10-year SHOPP Plan. Additionally, Caltrans, in consultation with the CTC, is required to prepare an Asset Management Plan to guide SHOPP project selection in phases, with the first phase included in the 2016 SHOPP. As part of this process the CTC is further required to adopt targets and performance measures to guide state transportation investments. The Asset Management Plan, performance measures and targets, and the CTC's Fund Estimates together help inform future project prioritization and programming decisions.

The CTC received one permanent position in the 2016-17 budget to implement the SHOPP-specific requirements of SB 486.

Staff Comment:

Conversion of Limited-Term Position to Permanent is Reasonable. Based on workload data provided by the CTC, and on the provisions of SB 486 and SB 64, the CTC's request for two permanent positions is generally reasonable. The CTC was given one limited-term position for the planning requirements of SB 486 and SB 64, which is set to expire in June 2017. The responsibilities given to CTC by these bills are ongoing, and a permanent position is appropriate to administer them.

ATP Created Significant New Workload at CTC. The creation of the ATP created significant new workload at the CTC. While several of the legacy active transportation programs that were combined into the ATP were administered by the CTC, they were predominantly formula-based programs and therefore created relatively limited workload. SB 99 and AB 101 shifted these programs into a competitive structure, requiring more active administration by the CTC and creating significant workload, without providing additional resources to administer the program. To date the CTC has administered the program by permanently redirecting one position to administer the program on a full-time basis, redirecting other positions as needed during periods of high workload, and contracting with the Community College Foundation to provide temporary administrative support when necessary. CTC workload data indicates that administering the ATP requires roughly two full-time positions year-round. An additional permanent position, and continued contractor support, can help minimize the redirection of personnel from other CTC programs during periods of high workload.

CTC Workload May Increase in the Future. In addition to the workload created by the ATP and the planning requirements of SB 486 and SB 64, the CTC has been tasked with an increased oversight role in statewide transportation planning and programming. SB 486 gave the CTC a more active role in the planning and programming of SHOPP funds, as well as the continued development of Caltrans' Asset Management Plan. The CTC was provided with a single position in the 2016-17 budget to coordinate this work, and has indicated that they will continue to track SHOPP-related workload to determine if additional resources are required in future budget years.

Additionally, several transportation funding proposals have included changes to the CTC's role. These include establishing the CTC's independence from the California Transportation Agency, expanding the CTC's role in programming SHOPP funds, and increasing CTC involvement in other transportation programs. All of these proposals may increase CTC workload in out years, and may require further resources to implement.

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

The California Department of Transportation (Caltrans) designs and oversees the construction of state highways, operates and maintains the highway system, funds three intercity passenger rail routes, and provides funding for local transportation projects. Through its efforts, Caltrans supports a safe, sustainable, integrated, and efficient transportation system to enhance California's economy and livability.

Budget Overview: The budget proposes $10.9 billion to support 19,000 positions at Caltrans. This is an increase of nearly $1.3 billion, mostly due to the allocation of funds provided by the Governor’s Transportation Package. In total, the Governor's Transportation Package allocates $358 million for Trade Corridor Enhancement, $351 million for state highway repairs and maintenance, $300 million for the Corridor Mobility Improvement Program, which includes $25 million for local planning grants. In addition to the funding in Caltrans' budget, the package provides $485 million for the Transit and Intercity Rail Capital Program, $206 million for local road repairs and maintenance, and $100 million for greenhouse gas reduction projects in the Active Transportation Program.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
1830019	Aeronautics	24.7	24.0	24.0	$6,531	$8,629	$7,993
1835010	Capital Outlay Support	7,596.4	8,160.6	8,160.6	1,957,449	1,788,038	1,790,811
1835019	Capital Outlay Projects	-	-	-	3,669,748	2,975,152	3,639,224
1835020	Local Assistance	251.4	267.5	266.5	1,204,544	2,067,487	2,504,610
1835029	Program Development	192.8	222.2	224.2	66,213	79,430	77,974
1835038	Legal	253.2	278.6	276.6	120,339	127,115	128,078
1835047	Operations	1,325.0	1,061.2	1,061.2	264,004	248,571	250,857
1835056	Maintenance	6,300.4	6,014.3	6,014.3	1,657,773	1,512,461	1,665,430
1840019	State and Federal Mass Transit	56.0	62.7	62.7	157,497	194,291	122,063
1840028	Intercity Rail Passenger Program	40.0	47.7	43.7	189,098	392,893	522,265
1845013	Statewide Planning	613.0	658.9	628.9	113,465	132,999	130,128
1845022	Regional Planning	46.2	38.5	38.5	86,499	92,767	94,767
1850010	Equipment Service Program	699.5	634.6	634.6	273,581	191,956	191,965
1850019	Equipment Service Program - Distributed	-	-	-	-273,581	-191,956	-191,965
9900100	Administration	1,527.2	1,573.5	1,577.5	776,537	374,442	390,021
9900200	Administration - Distributed	-	-	-	-776,537	-374,442	-390,021
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**18,925.8**	**19,044.3**	**19,013.3**	**$9,493,160**	**$9,619,833**	**$10,934,200**

Issue 1: Information Technology Infrastructure Refresh

Governor's Proposal: The budget requests one-time funding of $12 million (State Highway Account) to replace outdated information technology infrastructure equipment that has reached the end of its end of life.

Background: Caltrans IT Infrastructure was developed, and is maintained, in accordance with a Finance Letter for network infrastructure approved in 1997-98, which budgeted $21 million in one-time funds, and $5.8 million for ongoing maintenance and operations for the department's IT infrastructure. Caltrans IT infrastructure has grown significantly in the intervening years to support the demands of business operations without a significant increase in the IT budget.

Caltrans IT infrastructure supports daily operations at more than 600 locations statewide. Operations supported by aging infrastructure include: management of freeway traffic, ramps lanes, and lights, maintenance of highways and bridges, changeable message signs, and other public communication efforts. Additionally, IT infrastructure supports the daily operations of Caltrans staff.

As of June 16, 2016, Caltrans had 10,938 IT infrastructure devices, with a value of approximately $60 million. Approximately 55 percent of these devices, including 5,483 network devices, 447 servers, and 108 storage appliances, will reach their design End of Life (EOL) by June 2017. A number of recent IT failures have created significant interruptions to Caltrans operations. These include an outage in the Caltrans Construction Management System, which resulted in a department-wide assessment of necessary IT reforms.

Caltrans has identified 1,081 pieces of high-priority IT infrastructure to replace, with a combined cost of $11.9 million. These replacements are detailed below.

Device Type	Quantity	Average Hours to Replace	Level of Effort to Replace (Hours)	Full Time Equivalent FY 17-18	Costs (000's)
Network	869	18	15,642	9	$ 6,002
Server	126	42	5,292	3	3,013
Storage	86	80	6,880	4	2,906
Total	**1,081**	**140**	**27,814**	**16**	**$11,921**

Staff Comments: Functional IT infrastructure is crucial to Caltrans daily operations. Caltrans has experienced significant IT failures in recent years with increasing frequency. Caltrans has provided an accounting of the number and type of IT devices to be replaced, and the cost for doing so, which supports this request, and have indicated that procurement of the required pieces of IT infrastructure will be completed by June 2017.

However, this request does raise a number of questions. Specifically, given recent advances in technology, are most cost-effective options for addressing aging IT infrastructure available? And, should the Legislature choose to fund this request, how does Caltrans plan to maintain the requested infrastructure to ensure the department can maintain the IT function without repeating the major interruptions experienced in recent years?

Alternative Solutions Exist. The BCP provides an alternative option of migrating all servers and storage capacity to the California Department of Technology's (OTech) CalCloud program, without replacing servers and storage appliances at Caltrans. Caltrans has indicated that this would limit long-term maintenance costs and free up staff for more high-priority IT projects. However, Caltrans has also indicated that many applications are not designed for the cloud, and may require significant reworking to ensure compatibility. OTech has indicated that this alternative will require ongoing annual costs, would migrate specific applications to CalCloud, and may not necessarily include all of the most aged and vulnerable equipment. To determine those costs, a more in-depth review of the Caltrans IT applications and infrastructure is currently underway. Specifically, Caltrans is working with CDT to review the entire Caltrans IT infrastructure design, applications and equipment, and expects to have a plan and cost for Alternative 2 by this spring.

Long Term Maintenance Plan Unclear. Additionally, it is unclear what Caltrans' long-term plan would be for maintaining the requested infrastructure. Caltrans is requesting these funds to replace a large batch of IT infrastructure that was purchased years ago and allowed to reach EOL in a single wave, rather than maintaining and replacing the infrastructure as needed to spread replacement costs over multiple years.

OTech utilizes a Lifecycle Management Program and publishes equipment lifecycles that follow industry standards and best practices for ensuring equipment is monitored and replaced prior to failure. Caltrans has indicated that they plan to follow OTech's lead and adopt an IT Asset Lifecycle Replacement Program to emphasize IT asset management and avoid IT equipment failure and disruptions to business operations. Caltrans has not provided a due date for this plan.

Issue 2: Information Technology Enterprise Security

Governor's Proposal: The budget requests $4 million (State Highway Account) and six permanent positions to create, implement, and administer the Information Technology Cyber Security Program. This request includes:

- Six permanent positions beginning in 2017-18.
- $1.7 million for contracting costs in 2017-18; $1.1 million in 2018-19; and $500,000 in ongoing contractor costs in out years.
- $1.4 million in one-time operating costs for hardware and software purchases, with $425,000 in ongoing hardware and software purchases.
- Ongoing training expenses of $5,000 per year per position.

Background: Caltrans is becoming increasingly dependent on its information technology assets, which are themselves becoming more complex, interconnected and exposed to cyber threats. Caltrans is mandated by numerous compliance directives to protect the security, confidentiality, integrity, and availability of the information and technology assets under its control. Audits and assessment by a variety of state and federal organizations have identified potentially-significant gaps in Caltrans' compliance with these state and federal IT security directives.

In recent years, a number of unsophisticated and generally untargeted cyberattacks have led to system outages, interrupted Caltrans service, and compromised potentially valuable information, such as login credentials and network information. Caltrans has indicated that a more sophisticated and targeted attack that results in 24 hours of system downtime could cost more than $40 million in lost productivity and economic costs, as well as creating significant potential safety challenges on the state highway system.

Caltrans has previously created and filled the position of Information Security Officer, but has indicated that the Department lacks the resources necessary to close the gaps identified in previous audits and cybersecurity reviews.

Staff Comments: While the department's proposal has merit, the proposed implementation plan lacks detail. Specifically, Caltrans has proposed a high-level plan for the development of the Caltrans Security Roadmap, which will guide the creation and management of the proposed Cybersecurity Program. The proposed plan lacks key detail around implementation dates and costs. Caltrans has indicated that a portion of the requested contracting funds will support the development of a detailed roadmap, using the proposed plan as a guide. Without this detailed roadmap, it is difficult to assess whether the ongoing funding requested in this proposal is appropriate.

Issue 3: Toll Bridge Maintenance Reimbursements

Governor's Proposal: The budget requests an increase of up to $24.5 million in reimbursement authority for toll bridge maintenance work on locally-operated toll bridges. Existing staff will continue to perform the maintenance work.

Background: Funding responsibility for Bay area toll bridge maintenance was given to the Bay Area Toll Authority (BATA) on January 1, 1998. Caltrans has historically continued to perform the work, subject to BATA reimbursement. The BATA reimbursement agreement for tow services was suspended in 2001 to allow BATA to recover the cost of the seismic retrofit work on the Richmond-San Rafael Bridge. AB 144 (Hancock), Chapter 94, Statutes of 2005, amended the responsibility to administer and oversee all maintenance services on state-owned toll bridges to BATA upon completion of seismic retrofit work, including the work on the two spans of the San Francisco-Oakland Bay Bridge.

Caltrans has indicated that current State Highway Account (SHA) reimbursement authority is insufficient to cover all of the maintenance work required for the toll bridges. Caltrans believes that all applicable retrofit work has been completed and maintenance costs, including tow costs, are now BATA's responsibility per AB 144. However, any such transfer of funding responsibility would require a new Memorandum of Understanding between Caltrans and BATA.

Caltrans has further indicated that increasing the SHA reimbursement authority would allow Caltrans shift SHA funds currently paying for Bay Area toll bridge maintenance to pavement maintenance project elsewhere in the state. Specifically, the department is proposing to apply SHA resources to 17 pavement projects throughout the state, representing approximately 250 lane miles of pavement.

Staff Comments: The seven Bay Area toll bridges are state-owned, though BATA owns the toll revenue. It is reasonable for Caltrans to request BATA toll reimbursement for maintenance work performed on the bridges. However, there appears to be considerable disagreement between Caltrans and BATA on the appropriate level of reimbursements. Specifically, BATA has provided the following comments:

- Under the terms of AB 144 and the current cooperative agreement between BATA and Caltrans, BATA is responsible for bridge maintenance on the state-owned toll bridges beginning with the completion of the seismic retrofit of the bridges. We take no issue with Caltrans requesting additional reimbursement authority for that legitimate purpose. However, based on the proposal, it appears a substantial part of the request is due to the inclusion of over $8 million in annual tow service costs, which are not considered "maintenance" work and are not referenced in the cooperative agreement or the statute.
- Furthermore, the obligation to cover maintenance costs under AB 144 begins once the seismic retrofit program work on each bridge is complete. Technically, this transfer of responsibility for the San Francisco-Oakland Bay Bridge does not begin until the demolition of the original east span of the San Francisco-Oakland Bay Bridge is completed, work that is ongoing and not anticipated to be completed until later this year.

- Finally, the BCP references a renegotiated MOU with BATA. Caltrans has not initiated detailed conversations with BATA regarding opening up the terms of the existing cooperative agreement. Therefore, as far as BATA is concerned, this proposal is a surprise and premature.

Issue 4: Sustainability Program and ZEV Infrastructure

Governor's Proposal: The department is providing an informational BCP to highlight actions underway to implement the Strategic Management Plan's Sustainability, Livability, and Economy goals. Specifically, this informational BCP highlights actions underway to implement the Governor's Zero Emission Vehicle (ZEV) Action Plan item to install 30 direct current (DC) fast-charging stations by December 2018.

Background: The Governor's 2016 Zero Emission Vehicle Action Plan, among other goals, calls for the installation of 30 new public "direct current (DC) fast-charging stations"—electric vehicle charging stations that can recharge the battery of an electric vehicle to an 80 percent charge in 30 minutes—at highway rest stops or other Caltrans properties. The plan establishes a goal of constructing these charging stations by December 2018. To date, Caltrans has constructed one DC fast charging station that was funded with grants received from other public entities and the local utility provider.

The Governor's budget includes provisional language to allow Caltrans to spend up to $40 million—$20 million from the State Highway Account (SHA) and $20 million from federal funds—to construct DC fast charging stations at seven locations in 2017-18. Specifically, the provisional language provides this funding from the State Highway Operation and Protection Program (SHOPP)—the state's program for rehabilitating and operating state highways. The seven locations would provide a total of fourteen charging stations, or an average of two charging stations at each location. The proposal is the first year of a two-year effort to build charging stations at 30 locations as stated in the Zero Emission Vehicle Action Plan. Caltrans plans to request funding for the remaining 22 locations as part of the 2018-19 budget process.

The department indicates that the provisional language would provide flexibility as the precise amount of federal or SHA funding needed is not known at this time for several reasons. First, the department plans to pursue various grants and other funding sources that would reduce the need for SHA or federal funds. Second, Caltrans is still in the process of developing per location cost estimates for the charging stations, which are expected to range from $1.1 million to $3.8 million for each location.

Staff Comments: While the Governor's Zero Emission Vehicle Action Plan and its proposed activities are consistent with statewide priorities on climate and clean energy, this request raises several issues.

Proposal Lacks Detail. The proposal lacks certain details, making it difficult for the Legislature to evaluate the proposal. Specifically, the proposal does not identify the 30 locations proposed for electric vehicle charging stations, including the seven locations proposed for construction in 2017-18. Without this information it is impossible for the Legislature to determine the potential benefits from the proposal or to ensure that the overall scope of the effort will be effective. In addition, the proposal lacks specificity with regard to the associated costs for each charging station and only provides a large range of potential costs. Based on the range of costs identified, it appears that the construction of all 30 stations would range from about $30 million to about $110 million.

Use of SHOPP Funding Is a Policy Change With Broader Implications. State law establishes SHOPP as the state's program of capital projects to rehabilitate and operate state highways. Caltrans generally does not use SHOPP funds to assist motorists with the operation of their vehicles, such as by providing fueling stations. As such, the Governor's proposal would use provisional budget language to create an entirely new category of potential SHOPP projects. This approach circumvents various requirements in state law for Caltrans to plan and identify needs and priorities in SHOPP. Specifically, state law requires the development of a ten-year plan that identifies longer-term needs and goals, the identification of a four-year program of specific projects to be funded, and the review and approval of the program of projects by the California Transportation Commission (CTC). The proposed electric vehicle charging stations are not included in the current ten-year SHOPP plan, or in the four-year program of specific projects. Funding the installation of these stations would therefore lead to the deferral of other highway repair and rehabilitation projects to future years.

Proposal Not Coordinated with Similar Efforts. Caltrans is not the only entity proposing to invest in ZEV charging infrastructure. For example, the three largest investor-Owned Utilities (IOUs) in the state are proposing to spend a combined $197 million over the next several years to install ZEV charging infrastructure for public use. It is unclear how or if the Caltrans proposal coordinates with these efforts.

LAO Comments: The LAO has provided the following recommendations:

> ***Ensure Consistency With Legislative Priorities.*** We recommend that the Legislature determine whether the administration's goal of building electric vehicle charging stations at highway rest stops is consistent with its policy and funding priorities prior to taking action on the Governor's proposal. In doing so, the Legislature will want to have better information on the costs and benefits associated with the proposal to inform its budget deliberations. Specifically, we recommend that the Legislature require Caltrans to provide at budget hearings a more refined estimate of the total cost of a proposed project and identify the locations where the charging infrastructure will be installed.
>
> ***Direct Caltrans to Report on Other Funding Sources.*** After receipt of this information, if the Legislature decides to approve the request, it will then want to determine an appropriate funding source. In order to assist the Legislature in identifying potential funding sources, we recommend that the Legislature require Caltrans to report at budget hearings about other funding sources it has considered and provide an update on its efforts to identify other potential sources of funding.

2665 CALIFORNIA HIGH SPEED RAIL AUTHORITY

The California High-Speed Rail Authority's mission is to plan, design, build, and operate a high-speed train system for California. Planning is currently underway for the entire high-speed train system, which consists of Phase 1 (San Francisco to Los Angeles/Anaheim) and Phase 2 (extensions to Sacramento and San Diego). The Authority has entered into design-build contracts and continues to acquire real property and right-of-way accesses for the first section of the high-speed train system, extending 119 miles from Madera to just north of Bakersfield.

Budget Overview: The budget provides $1.9 billion for the High-Speed Rail project in 2017-18. This is a reduction of roughly $100 million from 2016-17, mostly due to reductions in expenditures for blended system projects.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
1970	High-Speed Rail Authority Administration	185.8	184.4	184.4	$35,624	$38,635	$39,402
1975	Program Management and Oversight Contracts	-	-	-	-	1	1
1980	Public Information and Communications Contracts	-	-	-	169	500	500
1985	Fiscal and Other External Contracts	-	-	-	-	3,750	3,750
1990	Blended System Projects	-	-	-	-	632,000	500,000
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**185.8**	**184.4**	**184.4**	**$35,793**	**$674,886**	**$543,653**

FUNDING		2015-16*	2016-17*	2017-18*
0890	Federal Trust Fund	$-	$32,000	$-
3228	Greenhouse Gas Reduction Fund	-	103	103
6043	High - Speed Passenger Train Bond Fund	35,793	642,783	542,800
9331	High-Speed Rail Property Fund	-	-	750
TOTALS, EXPENDITURES, ALL FUNDS		**$35,793**	**$674,886**	**$543,653**

SUMMARY OF PROJECTS

	State Building Program Expenditures	2015-16*	2016-17*	2017-18*
1995	**CAPITAL OUTLAY**			
	Projects			
0000131	CA High Speed Train System Planning	94,253	198,259	85,820
	Performance Criteria	94,253	198,259	85,820
0000132	Initial Operating Segment, Section 1	875,688	-277,231	-8,810
	Acquisition	143,244	67,408	-
	Design Build	732,444	-344,639	-8,810
0000727	Phase 1 Blended System	105,560	601,734	474,897
	Design Build	105,560	601,734	474,897
TOTALS, EXPENDITURES, ALL PROJECTS		**$1,075,501**	**$522,762**	**$551,907**

FUNDING		2015-16*	2016-17*	2017-18*
0890	Federal Trust Fund	$46,774	$104,279	$-
3228	Greenhouse Gas Reduction Fund	69,729	652,839	474,897
6043	High - Speed Passenger Train Bond Fund	958,998	-234,356	77,010
TOTALS, EXPENDITURES, ALL FUNDS		**$1,075,501**	**$522,762**	**$551,907**

Issues Proposed for Oversight Discussion

Issue 1: 2017 Project Update and Funding Plans

Background:
The High-Speed Rail Authority was established in 1996 by SB 1420 (Kopp), Chapter 796, Statutes of 1996, for purposes of planning and constructing a high-speed train system to connect the state's major population centers. The project was partially funded following the passage of the High-Speed Rail Passenger Bond Act (Proposition 1A) in 2008, which allowed the state to sell $9 billion in general obligation bonds for the development and construction of the high speed rail line while imposing certain requirements on the project, such as the requirement that the system operate without a subsidy and provide specified minimum travel times along particular routes. State law also requires the public provision of a Business Plan and Funding Plans for the project.

High Speed Rail Business Plans Required by Law. Pursuant to state law, beginning in 2012 and every two years thereafter, HSRA is required to prepare and submit to the Legislature a business plan outlining key elements of the high - speed rail project. At minimum, the plan must include project development information, including a description of the type of service being developed, the timing and sequence of project phases and segments, and estimated capital costs. It must also include estimates and descriptions of the total anticipated federal, state, local, and other funds that HSRA intends to access to construct and operate the system, forecasts of financial scenarios based on projected ridership levels, and maintenance and operations costs. Additionally, it must identify all reasonably foreseeable risks to the project and outline HSRA's strategies for managing those risks.

Statute requires the project to be developed in phases, with Phase I connecting San Francisco to Anaheim. A subsequent Phase II would extend the system to San Diego in the south and add a separate link to Sacramento in the north. The 2012 Business Plan outlined a framework for development of Phase I at a cost of approximately $68 billion, including an Initial Operating Segment (IOS) that would connect the Central Valley with the Los Angeles Basin within 10 years.

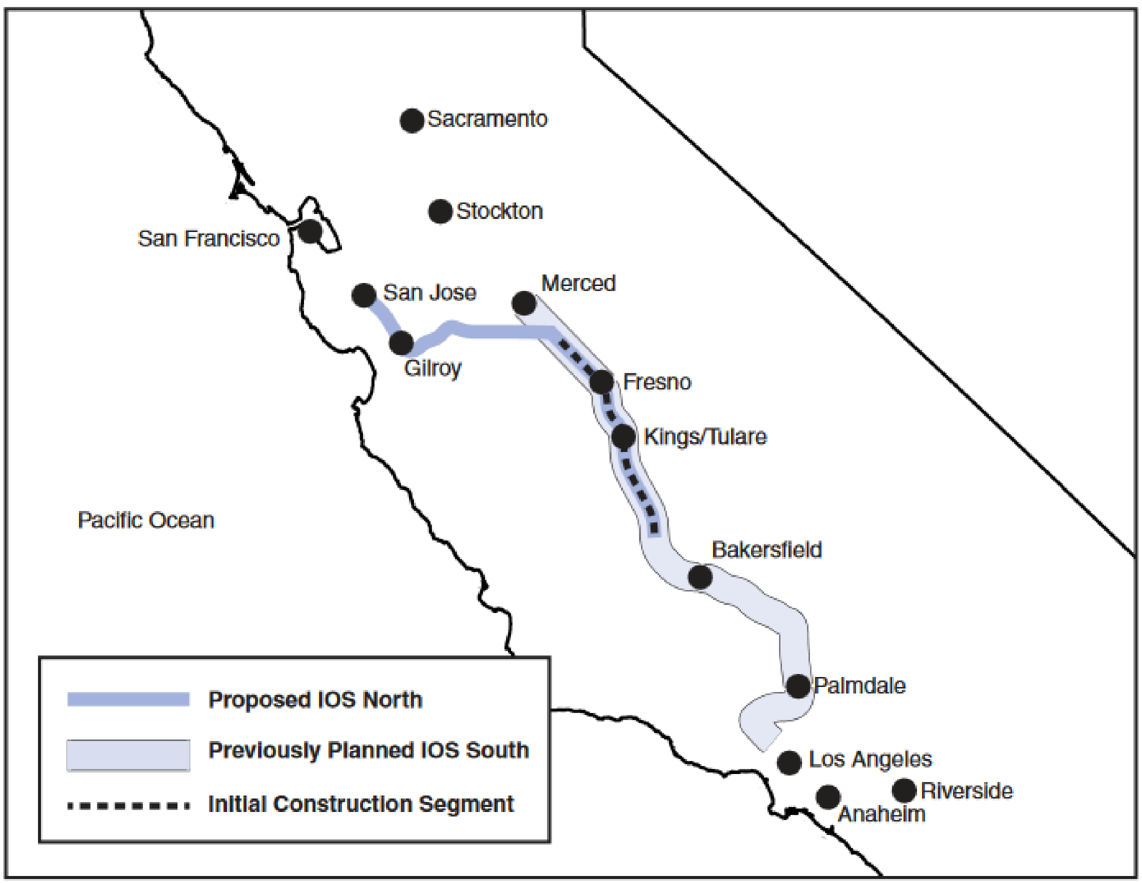
The 2012 plan proposed to accelerate the benefits of high-speed rail through a "blended approach" which utilizes and upgrades existing rail infrastructure wherever possible, combined with increased early investment in the bookends. The purpose of this early investment was to enhance regional rail service in two major population centers while simultaneously paving the way for future high-speed rail service. At that time, the primary rationale for a southern-oriented IOS (as opposed to a northern connection to San Francisco) was that the densely populated Los Angeles Basin could provide the high levels of ridership needed to operate the system without a subsidy. The intent was to complete the northern connection to San Francisco once the IOS was operational and ridership levels could be demonstrated. The 2014 Business Plan maintained the project's cost estimates at $68 billion, proposed a number of potential revenue sources, and revised HSRA's ridership and revenue forecasts, but did not significantly alter the construction plan.

2016 Business Plan Made Significant Changes to the 2012 and 2014 Plans. The 2016 Business Plan is the first provided by HSRA since construction has commenced on the ICS and the Legislature appropriated a portion of revenues from the Cap –and-Trade program to the project. It provides updated cost and schedule information informed by lessons learned through the work completed to date.

In addition, it proposes significant changes to the construction plan and sequencing originally outlined in the 2012 Business Plan. Key elements of the plan include the following:

- Change to northern orientation for IOS now to travel from the central valley to San Jose (see figure below)
- Full funding plan for northern IOS
- Updated cost and schedule estimates for Phase 1 (including projected savings)
- Expanded project scope in Burbank-to-Anaheim Corridor (using projected savings)
- Concepts for full funding of the total Phase 1

Proposed Initial Operating Segment (IOS)



Source: Legislative Analyst's Office

2017 Funding Plans Reflect the 2016 Business Plan. On January 3rd, 2017 the High Speed Rail Authority (HSRA) submitted proposed funding plans to the Department of Finance and the Joint Legislative Budget Committee for the San Francisco to San Jose Peninsula Corridor and the Central Valley segments of the proposed high speed rail project. Under the provisions of Proposition 1A, the Director of Finance must review the plans within 60 days and determine whether they meet the requirements to allow HSRA to spend Proposition 1A funds on the project segments. The two funding plans are detailed below.

	San Francisco – San Jose	***Central Valley Segment***
State Funding	$741 million	$4.84 billion
Federal Funding	$978 million	$2.97 billion
Local Funding	$262 million	N/A
Total	**$1.98 billion**	**$7.81 billion**

A major component of the San Francisco – San Jose Peninsula Corridor plan was the electrification of this segment —totaling $1.98 billion.

The electrification of Caltrain has been one of the top priorities for Bay Area business groups for decades. Electrification will cut commute times, save fuel costs, improve air quality and reduce traffic congestion in the short-term, while providing a critical link between San Jose and San Francisco for the statewide high-speed rail system in the long-term. Among various funding sources for the electrification project, this plan identified approximately $600 million in Proposition 1A bond funds and $647 million in federal "Core Capacity funds."

However, on February 17, the Federal Transit Administration (FTA) deferred the execution of the Core Capacity grant agreement in order to be considered part of the development of the federal budget proposal for the 2018 fiscal year, thus jeopardizing $647 million in project funding identified in the plan.

The federal government recently published a budget proposal that included significant cuts to a variety of transportation grant programs. This puts the availability of significant federal funding in doubt. HSRA has indicated that, while the Central Valley Segment does not depend on any further federal funding to complete, the San Francisco – San Jose Peninsula Corridor (and any future segments) would need to identify new sources of funding before work could proceed.

Current Status. From July 2006 to June 2016, California invested $2.3 billion in constructing high-speed rail, of which 94 percent has gone to companies and people in California —investments that have involved more than 600 companies and generated up to $4.1 billion in economic activity, 52 percent of which occurred in disadvantaged communities. As of March 17, 2017, HSRA had acquired 1,075 of the 1,702 parcels required for the first four construction packages on the Initial Operating Segment, and had 11 active construction sites across 119 miles of right of way.

2720 Department of the California Highway Patrol

The California Highway Patrol (CHP) promotes the safe, convenient, and efficient transportation of people and goods across the state highway system and provides the highest level of safety and security to the facilities and employees of the State of California.

Budget Overview: The budget requests $2.3 billion and 10,748.7 positions for 2017-18. This is an increase of roughly $6 million and 10 positions, mostly related to requests for funding related to technology replacements and cybersecurity.

The CHP, along with the Department of Motor Vehicles (DMV), is primarily funded by the Motor Vehicle Account (MVA), which is primarily funded by vehicle registration fees. The Legislature increased the vehicle registration fee as part of the 2016-17 budget to prevent the MVA from becoming insolvent. The Department of Finance's five-year projections (2017-18 through 2021−22) estimate there will be sufficient funding available in the MVA to pay for projected expenditures. However, over the next few years, the MVA would be barely balanced and likely face a modest operational shortfall in certain years.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2050	Traffic Management	8,239.0	8,282.3	8,298.3	$2,001,600	$2,010,717	$2,017,572
2055	Regulation and Inspection	1,042.4	1,047.0	1,047.0	231,019	239,958	239,253
2060	Vehicle Ownership Security	221.4	222.4	222.4	50,690	52,611	52,410
9900100	Administration	1,173.7	1,181.0	1,181.0	144,260	202,262	202,294
9900200	Administration - Distributed	-	-	-	-144,260	-202,262	-202,294
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**10,676.5**	**10,732.7**	**10,748.7**	**$2,283,309**	**$2,303,286**	**$2,309,235**

FUNDING		2015-16*	2016-17*	2017-18*
0042	State Highway Account, State Transportation Fund	$75,343	$75,176	$75,195
0044	Motor Vehicle Account, State Transportation Fund	2,084,774	2,096,273	2,088,212
0293	Motor Carriers Safety Improvement Fund	2,394	2,100	2,100
0840	California Motorcyclist Safety Fund	1,986	3,191	3,191
0890	Federal Trust Fund	16,374	20,776	20,761
0942	Special Deposit Fund	41	2,336	2,336
0974	California Peace Officer Memorial Foundation Fund	143	300	300
0995	Reimbursements	102,254	103,134	117,140
TOTALS, EXPENDITURES, ALL FUNDS		**$2,283,309**	**$2,303,286**	**$2,309,235**

Issue 1: Academy Phone System Replacement

Governor's Proposal: The budget requests a one-time augmentation of $2.8 million (MVA) to upgrade the antiquated phone equipment and related infrastructure at the CHP Academy and related facilities. It includes a request for provisional authority for an additional $1 million, upon the approval of the Department of Finance and notification of the Joint Legislative budget Committee, for costs associated with design, asbestos abatement, and general construction.

Background: The phone systems for the CHP Academy, Fleet Operations, Telecommunications Section (TS) North Shop, and Supply Services were installed in 1979. The existing phone system at the Dignitary Protection Section – North command and the Capitol Protection Section was installed in 1998. These systems are approaching their end of life, and have been subject to several system failures in recent years.

All new and upgraded phone systems purchased by the department now use Voice over Internet Protocol (VoIP), which allows phone traffic to be rerouted to other locations should a catastrophic system failure occur, allowing communications to continue even during a partial outage. The Academy has been designated as an alternate command post for various government offices during emergency situations in which a functioning phone system is crucial.

Staff Comments: CHP has indicated that the cost estimate of $2.8 million comes from private vendors who have provided quotes for the requested work. As the majority of the cost lies in rewiring the listed facilities, many of which date to the 1970s, asbestos exposure is a risk of the project. It is therefore likely that CHP will use the requested provisional authority.

CHP has indicated that they are likely to use the "Form 20" process to perform the work funded in this request, and will therefore not require a lengthy procurement process.

Issue 2: Cloud-Based Disaster Recovery Solution

Governor's Proposal: The budget requests two positions and $1.2 million (MVA) in 2017-18, and $979,000 ongoing costs, to establish a cloud-based disaster recovery solution for the CHP data center and related IT services.

Background: State Administrative Manual (SAM) Section 5325 requires that all state-owned data be kept secure and available during a disaster. The CHP's current disaster recovery relies on an antiquated tape backup solution to provide off-site data backup. The backup data is stored on magnetic tapes, boxed, and shipped to an offsite storage facility. In the event of a disaster and subsequent failure of CHP's data center, it could take up to three months to procure new equipment, retrieve tapes from offsite storage, and begin to restore critical data and applications.

CHP has indicated that the department currently utilizes the equivalent of 0.25 permanent positions to maintain the current tape-based backup system.

Staff Comments: The current tape backup system creates a significant risk to the continuity of CHP operations should a major disaster occur. The proposed Cloud-Based Disaster Recovery Solution would help mitigate this risk and enable the department to better comply with SAM 5325.

However, it is worth noting that this proposal is not cost-saving. It would replace the 0.25 positions and roughly $16,000 in program resources currently devoted to the tape-based backup system with two permanent full-time positions and $979,000 in ongoing costs.

Issue 3: Privacy and Risk Management Office

Governor's Proposal: The budget requests 12 permanent positions, two limited-term positions, and $1.8 million (MVA) to establish a Privacy and Risk Management Program to protect personally-identifiable information stored in CHP systems.

Background: The CHP relies on high-speed networks and computing devices to easily share and access information necessary to the completion of its mission. State Administrative Manual (SAM) Section 5300 requires state organizations to establish an Information Security program, Privacy and Risk Management Program, and Business Disaster Recovery / Business Continuity Program. Additionally, CHP is required to comply with multiple regulations, including the Information Practices Act, which requires agencies to establish appropriate and reasonable administrative, technical, and physical safeguards to ensure confidentiality or records and to protect against anticipated threats or hazards. The department is also required to maintain the integrity of any personally identifiable information (PII) it collects to protect individuals against identity theft. Recent security assessments have identified significant gaps in CHP's cybersecurity efforts as they pertain to privacy protections and risk management, and have identified specific areas where improvement is needed.

Additionally, previous staffing studies by the Department of Finance have noted that state organizations comparable to CHP in terms of size, complexity, and mission typically employ 25-30 IT staff in information security offices separate from typical IT programs to perform compliance monitoring, security oversight, and policy review. The CHP currently has a single position devoted to this work.

Staff Comments: CHP has broken this request into several broad components. This includes two limited-term positions to initially monitor, track, and develop projects to mitigate identified risks to the department's IT infrastructure assets, as well as permanent resources to implement required reforms and perform broader computer and hardware management and sever security functions. It is reasonable to perform an initial risk management review to ensure that the proposed program's efforts are properly targeted. However, it is possible that the risk review could identify risks not considered in this proposal, or determine that the identified risks are not as serious as believed. Such a finding could result in significant rescoping of the proposed program's efforts in future years.

Issue 4: Capital Outlay proposals

Governor's Proposal: The Governor's budget provides about $144 million from the MVA to fund site acquisition for new CHP offices in Humboldt and Quincy, and to construct new offices in El Centro, Hayward, Ventura, and San Bernardino. Specifically the budget includes:

1. **Statewide Planning and Site Identification.** The budget requests $800,000 (Motor Vehicle Account – MVA) to fund site identification efforts to identify suitable parcels for the replacement of up to three additional field offices and to develop suitability studies for those offices. The budget also requests provisional language to allow augmentation of up to $2 million for the purpose of entering into purchase options for the identified parcels, should such an option become necessary and reporting requirements have been met.

2. **Keller Peak Tower Replacement.** The budget requests $223,000 (MVA) for the preliminary plans phase of a project to replace the Keller Peak radio tower, which was destroyed by inclement weather in January of 2016. Working drawings will be funded in 2018-19 and construction in 2019-20. Total project cost is estimated to be $2.3 million.

3. **Humboldt Area Office Replacement.** The budget requests $2.5 million (MVA) for the acquisition and performance criteria phase of the Humboldt Area Field Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department plans to fund the Design-Build contract in 2018-19. Total project cost is estimated to be $36.8 million.

4. **Quincy Replacement Facility.** The budget requests $2.1 million (MVA) for the acquisition and performance criteria phase of the Quincy Area office replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department plans to fund the Design-Build contract in 2018-19. Total project cost is estimated to be $34.1 million.

5. **El Centro Area Office Replacement.** The budget requests $30.4 million (MVA) for the Design-Build phase of the El Centro Area Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department received $4.3 million in 2016-17 for the acquisition and performance criteria phase of the project. Total project cost is estimated to be $34.7 million.

6. **Hayward Area Office Replacement.** The budget requests $38.1 million (MVA) for the Design-Build phase of the Hayward Area Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department received $15 million

in 2016-17 for the acquisition and performance criteria phase of the project. Total project cost is estimated to be $53.1 million.

7. **Ventura Area Office Replacement.** The budget requests $37.1 million (MVA) for the Design-Build phase of the Ventura Area Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department received $7.3 million in 2016-17 for the acquisition and performance criteria phase of the project. Total project cost is estimated to be $44.4 million.

8. **San Bernardino Area Office Replacement.** The budget requests $33.2 million (MVA) for the Design-Build phase of the San Bernardino Area Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department received $5.4 million in 2016-17 for the acquisition and performance criteria phase of the project. Total project cost is estimated to be $38.5 million.

9. **Santa Ana Area Office Replacement.** The budget requests provisional language to allow CHP, in cooperation with the Department of Finance and the Department of General Services, to enter into a build-to-suit lease / purchase or lease with option to purchase agreement for a new Santa Ana Area Office. The current facility no longer meets the department's needs and is too small for an on-site replacement.

Background: The Administration's recent Five-Year Infrastructure Plan—which proposes state spending on infrastructure projects in all areas of state government through 2021−22—includes ongoing projections of the CHP's area office replacement needs. Specifically the plan proposes a total of $497 million over the next five years. The Administration plans to spend $264.3 million for the study, acquisition, performance criteria, and design-build phases and lease costs at specified locations. Another $233 million is projected to be spent on yet-to-be-identified office replacement projects. Under the plan, $144.2 million is proposed in 2017‑18, dropping by $69.7 million (about 48 percent) in 2018‑19 to $74.5 million. Thereafter, funding remains relatively steady, ranging between $80 million and $102 million annually.

Plan to Replace CHP Offices Initiated in 2013‑14. The CHP operates 103 area offices across the state, which usually 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 a few CHP field offices each year for the next several years. The Legislature has approved funding in accordance with this plan each year since 2013−14. 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 preliminary plans for five new 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 additional unspecified CHP area offices. The 2015−16 budget provided $136 million to fund the design and construction of the 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 2016−17 budget provided about $30 million for the acquisition and preliminary plans for the area offices in El Centro, Hayward, San Bernardino, and Ventura and $800,000 for advanced planning and site selection.

Vehicle Registration Fee Increase Intended to Stabilize MVA. As part of the Governor's 2016−17 budget proposal, the Administration estimated a MVA shortfall of about $310 million in 2016−17 (assuming no new revenue or expenditures), with this amount increasing in future years. If left unaddressed, the ongoing shortfalls would result in the MVA becoming insolvent in 2017−18. In response, the 2016−17 budget package includes trailer legislation (1) increasing the base vehicle registration fee by $10 (from $46 to $56) beginning April 1, 2017 and (2) indexing the fee to automatically increase with inflation.

Staff Comments: CHP owns and operates a large stock of aging infrastructure, including radio towers, field offices, and office complexes. While the recent MVA fee increase is likely to prevent the fund from becoming insolvent in the near future, it is likely to remain narrowly balanced over the next several years. However, the Administration has indicated that the MVA has an adequate fund balance to fully fund the planned capital outlay projects at both CHP and DMV without causing the fund to become insolvent through 2021-22.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers and protects consumers by issuing vehicle titles and regulating vehicle sales.

Budget Overview: The budget requests $1.03 billion and 8,268 positions for 2017-18. This is a decrease of roughly $20 million and 130 positions.

The DMV, along with the Department of the California Highway Patrol (CHP), is primarily funded by the Motor Vehicle Account (MVA), which is primarily funded by vehicle registration fees. The Legislature increased the vehicle registration fee as part of the 2016-17 budget to prevent the MVA from becoming insolvent. The Department of Finance's five-year projections (2017-18 through 2021−22) estimate there will be sufficient funding available in the MVA to pay for projected expenditures. However, over the next few years, the MVA would be barely balanced and likely face a modest operational shortfall in certain years.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2130	Vehicle/Vessel Identification and Compliance	3,897.1	3,879.5	3,878.4	$592,327	$564,627	$561,649
2135	Driver Licensing and Personal Identification	2,757.1	2,299.6	2,171.0	334,194	303,907	287,840
2140	Driver Safety	1,149.1	1,177.7	1,182.7	133,987	127,684	127,771
2145	Occupational Licensing and Investigative Services	437.9	448.8	448.8	57,094	54,869	54,887
2150	New Motor Vehicle Board	9.5	13.0	13.0	1,412	1,627	1,626
9900100	Administration	560.4	574.3	574.3	95,984	102,514	102,090
9900200	Administration - Distributed	-	-	-	-95,984	-102,514	-102,090
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**8,811.1**	**8,392.9**	**8,268.2**	**$1,119,014**	**$1,052,714**	**$1,033,773**

FUNDING		2015-16*	2016-17*	2017-18*
0001	General Fund	$-	$3,888	$-
0042	State Highway Account, State Transportation Fund	11,064	11,522	6,565
0044	Motor Vehicle Account, State Transportation Fund	1,069,755	1,002,096	986,485
0054	New Motor Vehicle Board Account	1,412	1,627	1,626
0064	Motor Vehicle License Fee Account, Transportation Tax Fund	14,785	13,723	16,421
0516	Harbors and Watercraft Revolving Fund	5,168	2,434	5,317
0890	Federal Trust Fund	954	2,875	2,810
0995	Reimbursements	15,876	14,549	14,549
TOTALS, EXPENDITURES, ALL FUNDS		**$1,119,014**	**$1,052,714**	**$1,033,773**

Issue 1: Driver License Eligibility (AB60)

Introduction: The budget requests $8.6 million (MVA) and 91 permanent positions to continue to implement the requirements of AB 60 (Alejo), Chapter 524, Statutes of 2013.

Background: Assembly Bill 60 requires that DMV accept driver license applications from California residents who are unable to submit satisfactory proof of legal presence in the US (such as a social security number), provided they meet all other application requirements and provide proof of identify and residency. Assembly Bill 60 licenses look the same as other California driver licenses, except for a notation on the upper right portion of the license. California residents with an AB 60 license can use the license to operate a vehicle on California roadways and as identification for state or local purposes. Assembly Bill 60 licenses are not a valid form of identification for federal purposes, such as to verify identity in order to board a commercial air flight.

In order for DMV to implement AB 60, the Legislature has provided temporary funding and positions since 2014‑ 15 to the department. In the current year, these resources consist of $14.8 million and 258 positions, which are set to expire on July 1, 2017. Since the implementation of AB 60 on January 1, 2015, and through January 31, 2017, DMV has issued 836,000 AB 60 licenses. Due to pent up demand, the majority of AB 60 licenses, about 605,000, were issued in the first year alone.

LAO Comments: The LAO has reviewed this proposal and provided the following analysis:

> ***Proposal Assumes Future Workload Will Be Lower Than Current Level.*** The level of resources proposed in the Governor's budget assumes that 2,000 people will visit DMV each week on an ongoing basis to apply for an AB 60 license. However, over the last few months, the average number of weekly visits to DMV from November 2016 through early February 2017 for AB 60 licenses was 2,700, or about 35 percent higher than the level assumed in the Governor's budget. Thus, the proposal assumes that workload associated with AB 60 will decline in the spring and level off at a rate of 2,000 visits each week beginning in 2017‑ 18.
>
> ***Impact of Federal Immigration Policy Changes on AB 60 Workload Remains Uncertain.*** In the coming months and years, it is uncertain how potential changes in federal immigration policies could change the size of the population of California residents who qualify for an AB 60 license. For example, an increase in federal immigration enforcement could result in fewer individuals being eligible than otherwise. On the other hand, it is possible that the population eligible for AB 60 licenses could increase, such as to the extent immigrants from other states relocate to California. It is also unclear whether federal immigration policy changes would result in more or fewer eligible California residents applying for an AB 60 license. For example, some eligible residents may be uncomfortable identifying themselves to a government agency, while others may be more motivated to apply for an AB 60 license in order to ensure that they are complying with the state's driving laws.
>
> ***Withhold Action Pending Updated Workload Numbers This Spring.*** Due to uncertainty about the number of AB 60 applicants, as well as the Governor's assumption that the number of applicants will decline over the next several months, the Legislature will want to have updated information before making a decision on the level of resources to provide for DMV's future AB 60 workload. Accordingly, we recommend that the Legislature direct DMV to report at

budget hearings this spring with updated information on the actual AB 60 workload levels experienced by DMV. This information will help the Legislature assess whether the level of resources included in the Governor's proposal is appropriate or requires modification. Accordingly, we recommend the Legislature withhold action on the Governor's proposal pending the updated workload information.

Ensure Ongoing Reporting Has Sufficient Information on Workload. Given the potential uncertainty with AB 60 workload, we recommend that the Legislature require DMV to report annually, beginning March 1, 2018, on the number of field office visits for AB 60 licenses and the number of licenses issued each year. This information will ensure that the Legislature receives detailed information on AB 60 workload and outcomes in future years.

Staff Comments: Staff generally concurs with the LAO analysis. The DMV proposal estimates roughly 2,000 applications per week; however, DMV data indicates that the department currently receives roughly 2,700 applications per week. DMV has indicated that they have sufficient capacity to absorb workload related to any applications over the estimated 2,000. However, given the unknown direction and impact of federal immigration actions, there is significant uncertainty about the accuracy of DMV's long-term estimate of 2,000 applications per week.

Issue 2: Ignition Interlock Device Program (SB 1046)

Introduction: The budget requests five limited-term positions and $730,000 (MVA) in one-time funds for 2017-18, seven positions and $671,000 (MVA) in 2018-19, and 26 positions and $1.9 million (MVA) in 2019-20.

Background: SB 1046 (Hill), Chapter 783, Statutes of 2016 extends the previously-authorized IID pilot and requires, from January 1, 2019, to January 1, 2026, repeat DUI offenders, and first time offenders under judicial discretion, to install Ignition Interlock Devices (IIDs) in their vehicles for six to 48 months. Specifically, it extends, until July 1, 2018, the existing four-county pilot project requiring a person convicted of a DUI to install an IID, and requires, beginning July 1, 2018, every DUI or alcohol-related reckless driving offender to install an IID for a specified period of time, depending on the nature of a violation, in every motor vehicle they own or operate as a condition of having his or her driver's license reinstated. The bill authorizes DMV to collect an administrative fee to cover its reasonable costs. Under the existing four-county pilot, the department charges a $45 fee.

Staff Comments: During the consideration of SB 1046, the DMV estimated program costs based on data from the *2015 Annual Suspension and Revocation Report*, which identified over 117,000 DUI suspensions/revocations and approximately 126,500 APS suspensions imposed by DMV during that calendar year, that are broadly in line with this BCP.

DMV has indicated that the department plans to cover the entirety of IID program costs through the administrative fee authorized by SB 1046. However, setting and implementing the fee requires the department to go through the relevant regulatory rulemaking process at the Office of Administrative Law. The DMV has indicated that they plan to complete this process in time for the January 1, 2019 implementation date required by SB 1046, at which point MVA funding will no longer be necessary.

Issue 3: Automobile Dismantling Task Force (AB 1858)

Introduction: The budget requests $294,000 (MVA) in 2017-18, $282,000 (MVA) in 2018-19, and $147,000 (MVA) in 2019-20, to implement the requirements of AB 1858 (Santiago), Chapter 449, Statutes of 2016, which establishes an interagency task force to investigate the occurrences of unlicensed and unregulated vehicle dismantling activities.

Background: AB 1858 requires DMV to collaborate with the Board of Equalization (BOA), CalEPA, the Department of Toxic Substance Control (DTSC), the State Water Resources Control Board (SWRCB), CalRecycle, and the California Air Resources Board (CARB) until January 1, 2020, to review and coordinate enforcement and compliance activity related to unlicensed, unregulated, and underground automobile dismantling activities. It also requires that DMV and its partner agencies submit a report to the Legislature on unlicensed and unregulated vehicle dismantling activities on or before January 1, 2019.

Staff Comments: During the consideration of AB 1868, the DMV provided costs estimates that are broadly in line with this BCP. Additionally, the department estimates that the current Investigations unit has the capacity to absorb the work required by this bill by utilizing overtime and blanket funding authority.

ISSUE 4: CAPITAL OUTLAY PROPOSALS

Governor's Proposal: The Governor's budget provides about $26 million from the MVA to initiate or continue several DMV field office replacement and renovation projects as well as the construction of perimeter fencing at nine existing DMV field offices. Specifically the budget includes:

1. **Perimeter Security Fences.** The budget requests $3.95 million (MVA) for the design and construction of perimeter fences at nine DMV-owned facilities across the state. These facilities have had frequent issues with unauthorized after-hours access to DMV facilities, which have at times threatened the health and safety of DMV employees. DMV has identified 18 total structures with such issues, and plans to build perimeter fencing, at comparable cost, for the nine facilities not covered by this request in 2018-19. This request also includes Budget Bill Language to extend the encumbrance period for these funds to June 30, 2019, in the event that projects require more than a year to complete design as required by the Department of General Services.

2. **San Diego (Normal Street) DMV Field Office Replacement.** The budget requests $1.5 million (MVA) to continue the previously-approved 2016-17 Capital Outlay BCP to execute an on-site replacement of the San Diego Normal Street Field Office. The planning phase was approved and funded in 2016-17, with the construction phase to be funded in 2018-19. Total project cost is estimated to be $22 million.

3. **Inglewood Construction Phase.** The budget requests $15.1 million (MVA) to fund the construction phase of the Inglewood Field Office Replacement project. The planning phase was approved and funded in 2015-16 and the working drawings phase in 2016-17. Total project cost is estimated to be $17.2 million.

4. **Oxnard Field Office Renovation.** The budget requests $418,000 (MVA) to fund the preliminary plan phase for a reconfiguration / renovation project at the department's Oxnard Field Office. The department has indicated that this work is required to address several infrastructure and code deficiencies. The department will request a further $394,000 in 2018-19 for working drawings and $5 million in 2019-20 for construction. Total project cost is estimated to be $5.8 million. Because the project will involve a lengthy closure of the Oxnard Field Office, the department will submit a future request for funding for temporary space in 2018-19.

5. **Statewide Planning and Site Identification.** The budget requests $750,000 (MVA) for statewide planning and site selection activities to identify suitable parcels for replacing two field offices, and to fund planning studies for the two replacement projects and three reconfiguration / renovation projects. It also includes a request for provisional language to allow an augmentation of up to $1 million for purchase options on the identified parcels, should such an option be necessary.

6. **Reedley DMV Field Office Replacement.** The budget requests $2.2 million (MVA) to fund the acquisition phase of the previously-approved Reedley Field Office Replacement Project. Following acquisition of the required parcel, the preliminary plan phase will be

funded in 2018-19, working drawings in 2019-20, and construction in 2020-21. Total project cost is estimated to be $18.4 million.

Background: The Administration's recent Five-Year Infrastructure Plan—which proposes state spending on infrastructure projects in all areas of state government through 2021-22—includes ongoing projections of DMV's office replacement needs. Specifically the plan proposes a total of $657 million over the next five years.

As part of the Governor's 2016−17 budget proposal, the administration estimated a MVA shortfall of about $310 million in 2016−17 (assuming no new revenue or expenditures), with this amount increasing in future years. If left unaddressed, the ongoing shortfalls would result in the MVA becoming insolvent in 2017−18. In response, the 2016−17 budget package includes trailer legislation (1) increasing the base vehicle registration fee by $10 (from $46 to $56) beginning April 1, 2017, and (2) indexing the fee to automatically increase with inflation.

Staff Comments: DMV owns and operates a large stock of aging field offices and workspaces. While the recent MVA fee increase is likely to prevent the fund from becoming insolvent in the near future, it is likely to remain narrowly balanced over the next several years. However, the Administration has indicated that the MVA has an adequate fund balance to fully fund the planned capital outlay projects at both CHP and DMV without causing the fund to become insolvent through 2021-22.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 23, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: James Hacker

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.

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 30, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Joe Stephenshaw

Vote Only Calendar

<u>Vote Only Calendar – Continued</u>

<u>Issues for Discussion</u>

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Vote-Only Calendar

3850 Coachella Valley Mountain Conservancy

Issue 1 – New Appropriation of Local Assistance Grant Program Propositions 12 and 40

Governor's Proposal. The Governor's budget proposes $73,000 from Proposition 12 (the Neighborhood Parks, Clean Water, Clean, Air, and Coastal Protection Bond), and $297,000 from Proposition 40 (the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund), and provisional language allowing the funds to be available for encumbrance for three years. The requested funding is part of the statutory allocation to the conservancy; however, it was never appropriated.

This request represents the remaining amounts allocated to the conservancy from these sources and the funding is primarily for local assistance grants, which are the central programs used by the conservancy to implement its statutory mission, namely to protect the natural and cultural resources of the Coachella Valley. The grants support land acquisition and restoration efforts, as well as educational and recreational projects such as trail building and maintenance.

Issue 2 – Environmental License Plate Fund Operations Shift

Governor's Proposal. The Governor's budget proposes $15,000 from the Environmental License Plate Fund (ELPF), as well as a $35,000 reduction in reimbursement authority to maintain base operations and address lower than anticipated reimbursements in the future.

In previous years, the conservancy has generated a significant portion of its revenue from non-state sources through contracts with the Coachella Valley Association of Governments. However, the conservancy is currently experiencing a reduced availability of reimbursements and the amount of reimbursements is expected to remain lower than recent budgeted authority.

Issue 3 – Office Equipment Replacement Funding

Governor's Proposal. The Governor's budget proposes $21,000 from the ELPF, on a one-time basis, to replace office equipment. Specifically, the funding will be used to replace a copy machine/printer in service since 2006, a large document laser printer in service since 2008, and three workstation computers. The equipment replacement has been driven by frequent breakdowns or malfunctions and the unavailability of replacement parts.

3830 San Joaquin River Conservancy

Issue 1 – Environmental License Plate Fund Increase for Administrative and Management Services

Governor's Proposal. The Governor's budget proposes $30,000 from the ELPF to allow the San Joaquin River Conservancy to sustain administrative and management services. The conservancy's main support budget funds two positions, office space and supplies, an interagency agreement with the Department of Parks and Recreation to provide administrative services, and legal services provided by the Department of Justice. The conservancy's support budget has not received an increase since 2001.

3810 Santa Monica Mountains Conservancy

Issue 1 – Proposition 1 Baseline Support Budget

Governor's Proposal. The Governor's budget proposes $750,000, on a one-time basis, from Proposition 1 (Water Quality, Supply, and Infrastructure Improvement Act of 2014), and a corresponding reduction in reimbursement authority, for program delivery, planning, and monitoring. This request will support implementation of projects consistent with Proposition 1, the Santa Monica Mountains Comprehensive Plan, the Santa Monica Mountains Conservancy (SMMC) Workprograms for Land Acquisition and Park Development and Improvements, the SMMC Strategic Plan, and the Rim of the Valley Trail Corridor Master Plan.

Issue 2 – Outdoor Education Local Assistance Program

Governor's Proposal. The Governor's budget proposes $20,000 from the ELPF for local assistance for the outdoor education program. Consistent with its statutorily defined mission, the conservancy will award grants to provide outdoor education programs that increase access to outdoor experiences for underserved communities. These programs include Transit to Trails, which offers free bus trips to the mountains; and the Youth Leadership Series that provides education, training, and experience in the outdoors to young people.

3855 Sierra Nevada Conservancy

Issue 1 – Proposition 84 Support Funding

Governor's Proposal. The Governor's budget proposes $80,400, $30,000 of which is ongoing until the funds are exhausted, in Proposition 84 (The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006) funds.

Proposition 84 contained $54 million for appropriation to the Sierra Nevada Conservancy (SNC) for grants and other agreements for protection and restoration of rivers, lakes and streams, their watersheds and associated land, water, and other natural resources. Of this amount, up to 10 percent ($5.4 million) can be used for planning and monitoring, and up to five percent ($2.7 million) can be used for program delivery. The SNC is requesting $30,000, ongoing, for monitoring and $50,400, one-time, for program delivery.

Issue 2 – Proposition 1 Support Funding

Governor's Proposal. The Governor's budget proposes to shift $550,000 in Proposition 1 funding from local assistance to support planning and monitoring. This funding is requested to be expended over eight fiscal years, 2017-18 through 2026-27, and would reduce the original local assistance appropriation from $5.3 million to $4.7 million. This funding shift is needed in order for conservancy to pay for California Environmental Quality Act (CEQA) reviews for Proposition 1 projects and is consistent with allowable use of up to 10 percent of funding for planning and monitoring.

3110 Special Programs - Tahoe Regional Planning Agency

Issue 1 – Multi-Stakeholder Consensus-Based Planning Process and Environmental Impact Statement for Lake Tahoe Shoreline

Governor's Proposal. The Governor's budget proposes $250,000 from the Harbors and Watercraft Revolving Fund to help fund mediation services and an environmental review. An identical budget request has been submitted to the State of Nevada. Funds from both states, and other impacted groups, will be used to develop and implement a mediated consensus-based program to ensure access to the lake and recreational opportunities in consideration of climate change and possible prolonged drought scenarios in the future. In addition to this request, the Tahoe Regional Planning Agency is contributing resources, such as staff time, to the shoreline planning initiative. The total cost of the initiative is estimate to be $1 million.

3125 California Tahoe Conservancy

Issue 1 – California Tahoe Conservancy – Local Assistance Funding – Implementation of the Environmental Improvement Program for the Lake Tahoe Basin

Governor's Proposal. The Governor's budget proposes $4.0 million for local assistance funding for implementation of the Lake Tahoe Environmental Improvement Program (EIP) from the following sources:

- Bonds - $77,000 from Proposition 40 and $1.2 million from Proposition 84.
- Special funds - $100,000 from the Lake Tahoe Conservancy Account and $350,000 from the Lake Tahoe Science and Lake Improvement Account.
- Reimbursements - $2.3 million to Proposition 84 via Federal Funds.

Together with $2.97 million in capital outlay requests, this proposal would make an additional $6.99 million available in 2017-18 for projects and programmatic activities continuing California's commitment to implementing the EIP. This commitment began in 1997 through a partnership with Nevada, the federal government, the Tahoe Regional Planning Agency, and others.

Issue 2 – Support Baseline Adjustment

Governor's Proposal. The Governor's budget proposes $73,000 federal funds, $175,000 in reimbursement authorities, and $50,000 from Proposition 40. The requested increase in federal funds and reimbursement authority allows the conservancy to pursue additional grant awards from the federal government and partner grantors. The funds from proposition 40 will go toward program delivery.

Issue 3 – Upper Truckee River and Marsh

Governor's Proposal. The Governor's budget proposes $1.3 million for the working drawing phase of the Upper Truckee River and Marsh Restoration project from the following sources:

- $168,000 from Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002).
- $51,000 from Proposition 84.
- $481,000 from the Habitat Conservation Fund.
- $600,000 in reimbursement authority from federal trust funds.

The Upper Truckee Marsh is the largest remaining wetland area in the Tahoe Basin. Historically, the marsh occupied a larger area along the south shore of Lake Tahoe, encompassing approximately 1,600 acres. Development in the late 1950's through the 1970's drastically altered the marsh, most notably through the excavation and filling of wetlands to create the Tahoe Keys home pads, marina, and lagoons.

This development disturbed approximately 600 acres in the center of the original marsh, resulting in a large loss of wetland habitat. The Tahoe Keys also fragmented the marsh habitat into what is now known as Pope Marsh on the west and the Upper Truckee Marsh on the east, and channelized a portion of the Upper Truckee River. The channelized river rarely overflows its banks or inundates the marsh. As a result, the marsh no longer serves as a functional wetland habitat, and most of the river's sediment flows directly into the lake.

Conservancy staff is currently working on completing the preliminary planning phase of the proposed project. Funded with existing appropriations under the conservancy's capital outlay program budget, this will include pre-project assessments, preliminary plans and draft permit applications; and property due diligence activities such as title review, easement descriptions, maps, and surveys. The proposed project seeks to restore the area's ecological values and water filtering capacity. The estimated total project cost is $10.3 million. However, the conservancy anticipates that reimbursements will be available to cover a substantial amount of the construction costs.

Issue 4 – South Tahoe Greenway Shared Use Trail Phase 1b & 2 Project

Governor's Proposal. The Governor's budget proposes $250,000 in reimbursement authority from federal trust funds for the working drawing phase of the South Tahoe Greenway Shared Use Trail Phase lb and 2 project, which consists of two segments totaling approximately one mile of the planned 3.9 mile bike trail from the state line to Sierra Boulevard in the City of South Lake Tahoe. The estimated total project cost is $3.8 million. The conservancy anticipates that reimbursements will be available to cover a substantial amount of the construction costs.

Issue 5 – Minor Capital Outlay

Governor's Proposal. The Governor's budget proposes $475,000 ($204,000 from the Tahoe Conservancy Fund and $271,000 from Proposition 84) for improvements needed to secure conservancy acquisitions, such as erosion control and American with Disabilities Act (ADA) requirements. Since its inception in 1984, the conservancy has acquired an ownership of over 4,700 parcels (over 6,500 acres), the vast majority consisting of undeveloped small lot properties. In other cases, the conservancy has acquired and improved, land and facilities for more formal public access and recreational use. The conservancy is currently engaged in an effort to identify and install any necessary upgrades to keep these facilities compliant with current ADA requirements. It is anticipated that up to 20 smaller minor capital outlay projects will be completed in any given year.

Issue 6 – Conceptual Feasibility Planning

Governor's Proposal. The Governor's budget proposes $742,000 for conceptual development of new conservancy capital outlay project proposals and opportunities from the following sources:

- $18,000 from Proposition 12 (Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000).
- $674,000 from Proposition 84 (Water Quality and Supply, Flood Control, River and Coastal Protection Fund of 2006).
- $50,000 in reimbursement authority from federal trust funds.

The requested resources will be used for conceptual development of new conservancy capital outlay project proposals and opportunities. Since 1998-99, the conservancy has received approximately $301 million for Environmental Improvement Program implementation purposes. This request is consistent with the continuation of this commitment.

Issue 7 – Opportunity Acquisitions

Governor's Proposal. The Governor's budget proposes $200,000 from Proposition 84 for funds for pre-acquisition activities and for full fee acquisition, or interests therein, of strategic acquisitions in road less subdivisions, high priority watersheds, lakefront areas, and other environmentally sensitive or significant resource areas in the Tahoe Basin.

3640 Wildlife Conservation Board

Issue 1 – Wildlife Restoration Fund-Minor Capital Outlay (Public Access)

Governor's Proposal. The Governor's budget proposes a one-time appropriation of $1 million from the Wildlife Restoration Fund for capital outlay projects within the Wildlife Conservation Board's (WCB) Public Access Program. The requested funds are for six projects, as follows: one project for a fishing access site, two projects involving the construction of hiking trails, and three projects involving the construction and/or renovation of boat launch facilities. The WCB partners with federal and local entities for public access projects. These state funds will serve as a match to leverage federal funds.

Issue 2 – Proposition 12, New Appropriation - SJRC Reverted Funds

Governor's Proposal. The Governor's budget proposes to revert and reappropriate $141,000 Proposition 12 for the San Joaquin River Conservancy's land acquisitions, public access, recreation, and environmental restoration projects.

Proposition 12 included an allocation specifically to implement the San Joaquin River Parkway through the San Joaquin River Conservancy. San Joaquin River Parkway projects include a combination of low-impact recreational and educational uses and wildlife conservation and protection. This request is for the remaining unspent funds and will allow the program to continue uninterrupted.

Issue 3 – Proposition 1 State Operations Augmentation

Governor's Proposal. The Governor's budget proposes $85,000 Proposition 1 for state operations to support an interagency agreement with the State Water Resources Control Board (SWRCB) and to fund temporary help needed to provide intermittent resources that will assist with proposal review and grant agreement execution.

Through Proposition 1, and subject to appropriation by the Legislature, $200 million was authorized for the WCB to fund projects that enhance stream flows. The WCB developed and adopted grant guidelines and implemented a streamflow enhancement program in 2015, and awarded grants in 2016. The WCB received $38.4 million in each of the last two fiscal years and is scheduled to receive $38.4 million in the budget year for local assistance and project funding. This proposal will fund an interagency agreement with the SWRCB to provide a range of analytical services in support of WCB's stream flow enhancement program, including scientific review, analysis, and consultation related to water-rights; and the preparation, analysis, review, and approval of related documents. Additionally, this request will provide intermittent resources to assist with proposal review and grant agreement execution.

Issue 4 – Proposition 12 State Operations Request for Project Delivery Funding

Governor's Proposal. The Governor's budget proposes $140,000 Proposition 12 for program delivery. The funding is requested to support the cost of a .5 PY Senior Environmental Scientist position and a .5 PY Senior Land Agent position. The proposal also includes a reduction in Proposition 40 authority to create a net zero increase to WCB's overall state operations authority.

Proposition 12 allows the WCB to acquire, develop, rehabilitate, restore, and protect real property for the benefit of fish and wildlife species. This proposal seeks the necessary state operations funding needed to implement projects funded by a concurrent $3.7 million capital outlay request from Proposition 12 resources.

Issue 5 – Proposition 12, New State and Capital Outlay Appropriation, Naturally Reverted Funds

Governor's Proposal. The Governor's budget proposes a one-time allocation of $3.7 million from Proposition 12 funds that have reverted, for local assistance and capital outlay projects. The WCB is also requesting provisional language allowing these funds to be made available for local assistance.

The WCB has identified viable projects for the allocation of the unencumbered balance of the original appropriation, which will allow the WCB to continue implementation of Proposition 12 in a manner consistent with the proposition's intent and that maintains the state's commitment to partnering with local, state, and federal agencies in acquisition or restoration of habitat or habitat corridors.

Issue 6 – Proposition 50, Reappropriation - Colorado River, Salton Sea

Governor's Proposal. The Governor's budget proposes the reappropriation $8.7 million, which is the unencumbered balance from Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002), and to make these funds available for encumbrance through June 30, 2020.

The Budget Act of 2003 appropriated $32.5 million from Proposition 50 for the Colorado River Acquisition, Protection and Restoration Program, which includes the restoration of the Salton Sea. This proposal requests the reappropriation of the unencumbered balance to carry out the program.

Issue 7 – Proposition 84, New Appropriation – Natural Community Conservation Plan

Governor's Proposal. The Governor's budget proposes $11 million from Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Fund of 2006) for Natural Communities Conservation Planning (NCCP); and reversion of the unencumbered balance of a prior Proposition 84 appropriation. The funds will be utilized for grants to implement or assist in the establishment of NCCP's. Additionally, the WCB is requesting the reversion of previous unencumbered Proposition 84 balances to provide funds for the new appropriation.

A NCCP is a plan for the conservation of natural communities that takes an ecosystem approach and encourages cooperation between private and government interests. The plan identifies and provides for the regional or area-wide protection and perpetuation of plants, animals, and their habitats, while allowing compatible land use and economic activity. A NCCP seeks to anticipate and prevent the controversies caused by species' listings by focusing on the long-term stability of natural communities. Proposition 84 provided funding for NCCPs. Of the amount provided, approximately $11 million remains unencumbered. This proposal requests a reversion of the unencumbered balances and a new appropriation of $11 million.

Issue 8 – Proposition 84, New Appropriation – SB 8, Sacramento-San Joaquin Delta NCCP

Governor's Proposal. The Governor's budget proposes $5.7 million from Proposition 84 and the reversion of the unencumbered balance of a previous Proposition 84 appropriation. This will allow the WCB to continue its support of administering grants to local agencies to implement or assist in the establishment of Natural Community Conservation Plans for the areas in or around the Sacramento-San Joaquin Delta.

3340 California Conservation Corps (CCC)

Issue 1 – Funding for C^3 Operation and Maintenance

Governor's Proposal. The Governor's budget proposes $150,000 from the Collins Dugan Account, annually, for three years, to fund enhanced operating and maintenance costs for the C^3 project.

In 2014, the Department of Technology approved a feasibility study report (FSR) to develop and deploy an automated system – now known as C^3 – to replace CCC's nearly 30 year old, legacy data collection and reporting system. The C^3 project was approved through the budget acts of 2014, 2015, and 2016, which provided a total of $4.5 million. Now that the project is complete and the system is operational, the CCC needs funding to support ongoing operations and maintenance needs.

Issue 2 – Auburn Campus: Kitchen, Multipurpose Room, and Dorm Replacement

Governor's Proposal. The Governor's budget proposes to reappropriate $19.7 million General Fund for the construction phase for the Auburn campus project due to unanticipated project delays. In 2015-16, $2.7 million General Fund was appropriated for preliminary plans ($1.4 million) and working drawings ($1.3 million), and in 2016-17, $19.7 million General Fund was appropriated for construction of a new kitchen, multi-purpose room, and dormitories to replace the current facilities at the Auburn campus. Completion of the preliminary plans was delayed, as the CEQA process was unexpectedly prolonged, but has since been resolved. Consequently, the construction phase will be delayed to 2017-18.

Issue 3 – Residential Center, Ukiah: Replacement of Existing Residential Center

Governor's Proposal. The Governor's budget proposes $1.8 million General Fund for the acquisition phase of the residential center replacement project, which was initiated in 2016-17.

The focus of the CCC's Ukiah Residential Center is for corpsmembers to gain work experience, advance their education through a high school diploma program with a charter school, and learn about careers, while helping to enhance California's natural resources and its communities. Projects include, but are not limited, to the following:

- Partnership with US Forest Service (USFS), Mendocino Forest who sponsors a Type II Fire crew that provides corpsmembers with all the necessary training. After spending two seasons on that crew, corpsmembers are usually hired by USFS, Mendocino fire crews.
- Reimbursed project work in the surrounding area, such as: Mendocino County Resource Conservation District - Willits Bypass Revegetation, Grace Hudson Museum Education Project, Sonoma County Caltrans Storm Water, National Oceanic Atmospheric Administration (NOAA), Veteran's Fisheries Interns.
- Partnership with the California Department of Fish and Wildlife (DFW) performing in-stream Anadromous Fish Habitat Restoration at the following sites: Little River, North Fork Big River - James Creek, North Fork – Noyo, North Fork/South Fork Noyo - Phase II.

This proposal would fund the renovation of an existing facility to replace the current residential center in the City of Ukiah. The CCC currently operates a residential facility through a month-to-month lease on land owned by the Mendocino County Office of Education. The existing facility was built in the 1930s and the multiple fire/life/safety building compliance code issues prevent the CCC from being able to enter into a long-term lease. This replacement project will allow the CCC to meet the health and safety standard needs of its corpsmembers and staff.

The current facility is approximately 30,000 square feet and houses 80 corpsmembers. The replacement facility will be approximately 56,000 square feet and house approximately 100 corpsmembers. The CCC will continue leasing the existing facility on a month-to-month basis until the new facility is completed.

Staff Recommendation. Approve vote only items as budgeted.

Issues for Discussion

3340 California Conservation Corps

The California Conservation Corps (CCC) provides young women and men the opportunity to work hard responding to fires, floods and other disasters, restoring California's environment, and installing clean energy and energy conservation measures at public facilities throughout the state. Through their service, the corps members gain life, work, and academic skills to become strong workers and citizens.

In addition to the CCC, there are 13 local conservation corps located in metropolitan communities throughout the state that are annually certified by the CCC, and engage young people in conservation, recycling, education, and training activities.

The CCC's budgeted program (Training and Work) focuses on four areas:

- **Natural Resource Work:** Corpsmembers protect and enhance the state's natural resources through park development, trail construction, tree-planting, fire hazard reduction, watershed improvement, wildlife habitat enhancement, removal of nonnative vegetation, meadow restoration, energy and water auditing and retrofitting, irrigation system installation, and drought-tolerant and other landscaping.
- **Disaster Response:** Corpsmembers are dispatched to fires, assisting with initial attack, mop-up and logistical support; floods, filling sandbags, reinforcing levees and stabilizing hillsides; earthquakes, removing hazards and staffing disaster assistance centers; oil spill cleanup; snow removal; search-and-rescues; pest infestation eradication; and homeland security assistance.
- **Corpsmember Education:** Corpsmembers are provided opportunities to advance their academic skills while in the CCC through local adult and charter schools, and community colleges.
- **Corpsmember Development and Training:** The CCC stresses the development of both a work and service ethic, which includes teamwork, self-discipline, leadership, and giving back to California. Corpsmembers learn conservation principles and career planning. The CCC also offers training in trail building, first aid, hazardous waste operations and emergency response, and firefighting certification, which can lead to internship opportunities with various employers in California.

Following is the Governor's budget three-year summary of positions and expenditures for the CCC. The CCC's primary sources of funding are the General Fund and the Collins Dugan Account. In the budget year, $44.0 million of the commission's budget is proposed to come from the General Fund and $44.3 million is proposed to come from the Collins Dugan Account.

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2360	Training and Work Program	255.8	271.3	271.0	$93,567	$93,432	$97,476
9900100	Administration	69.9	60.9	60.9	12,349	12,296	12,189
9900200	Administration - Distributed	-	-	-	-12,349	-12,296	-12,189
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**325.7**	**332.2**	**331.9**	**$93,567**	**$93,432**	**$97,476**

***Dollars in thousands**

Issue 1 – Vehicle Replacement Plan Funding Realignment

Governor's Proposal. The Governor's budget proposes to move spending authority of $812,000 (Collins Dugan Account) from 2018- 19 to 2017-18 to allow the CCC to replace 60 vehicles in 2017-18 and complete its fleet replacement by June 30, 2018. These resources were originally approved as part of the 2016-17 Vehicle Replacement Plan Budget Change Proposal.

Background. The CCC relies heavily upon crew support trucks, large passenger vans, and crew carrying vehicles (CCVs) on a daily basis to transport corpsmember crews, project materials, tools and other equipment to and from project sites and when responding to natural disasters, in a safe and energy efficient manner. Travel distances increase significantly when all available CCC crews, regardless of location, are called to respond to natural disasters.

The current CCC fleet is significantly older than industry standards recommend. The CCC has reduced its fleet to a mandated total determined by Department of General Services, and has begun the process of systematically replacing those vehicles that have extremely high mileage, have repairs that are greater than the value of the vehicle, are unsafe to be used for personnel transport, or are no longer operable.

This request will fund the continuation of the CCC's vehicle replacement plan, but complete it in two years instead of three. The CCC will purchase 30 vehicles in the current year and 60 vehicles in 2017-18, at an average cost of $27,067 per vehicle, allowing the CCC to replace vehicles that have reached their useful life and/or are not in compliance with current fuel efficiency requirements.

Staff Recommendation. Approve as budgeted.

Issue 2 – Funding to Operate Delta Residential Center

Governor's Proposal. The Governor's budget proposes $1.4 million, $825,000 ongoing, to fund the incremental increase in permanent operating costs for one additional position and 20 corpsmembers to fully staff the Delta residential center. This request proposes a funding split of 55 percent General Fund ($776,000) and 45 percent from the Collins Dugan Account ($635,000).

Background. The new Delta Center is a residential center that was approved as a capital outlay project in 2000-01. After significant delays, this project is scheduled for completion in January 2018. The Delta facility will be approximately 51,000 square foot (s.f.) on 20 acres. It will have nine buildings: four dormitories, recreation, education and training with library, administration, multi-purpose with kitchen and dining, warehouse with work area and laundry, and a hazardous materials storage warehouse. There will also be 100,000 s.f. of paved surface for service and staging areas, walkways, driveways, and parking. This facility will accommodate up to 104 corpsmembers. A residential center in the Delta is important to provide the following:

- **Flood Response and Traditional Staging Area:** The CCC has had a long history in Stockton when it occupied the old Stockton Developmental Center before it was demolished. The CCC serves as the premier flood response entity working closely with the Department of Water Resources. CCC flood response dates back to the late 1970s when crews rolled out Visqueen and sandbagged many of the Delta islands. Crews from residential centers all over the state can be staged at this facility to fight the floods when there are future large scale problems in the Delta islands.

- **High Demand for Conservation Work:** The demand for project work continues to increase in the San Joaquin Delta area. The current demand of project sponsors and hours of work available exceeds the capacity of the two Stockton satellite crews totaling 30 full-time equivalent corpsmembers. Stockton staff are already scheduling work for existing crews well into 2017 for agencies including U.S. Forest Service, Department of Water Resources, State Parks, and fire safe councils.

- **Regional Unemployment:** A residential center in Stockton will provide opportunities for young adults who do not live close enough to one of CCC's non-residential centers (many corpsmembers lack transportation and/or rely upon public transportation). Unemployment in the region served by the Delta (Stockton) Center is very high, at 9.5 percent, when compared to the statewide rate of 6.3 percent.

- **Strategic Training Center:** The Delta Center will serve as a training center for other CCC locations in Northern California in hazwoper, emergency response, and trail building. The CCC utilizes its residential facilities as a low-cost option for centralized regional and statewide training classes. The CCC brings young people and staff together from different CCC locations. The CCC kitchen and dining halls make it possible to temporarily house many corpsmembers and feed them in an efficient manner during large training sessions. Currently, options include housing corpsmembers in hotels or driving many hours to another residential center for large training classes. Centralized training includes chainsaw; energy auditing; water conservation; trail construction; watershed management; fire training; flood response; safety and other similar courses.

The CCC will permanently transfer the current staff and corpsmembers from the Greenwood Residential Center to the Delta Center. This will allow for Placer staff and corpsmembers to be transferred over to Greenwood, for another capital outlay project to begin at Placer. Because the state has invested significant resources in building a Delta residential center, the CCC is requesting additional expenditure and position authority to permanently fund residential operations and fully staff its facility. This will require one additional staff position (one Conservationist I), 20 additional corpsmembers, and additional operational costs. Lastly, this request includes $586,000 in one-time furnishing items and moving costs.

Staff Recommendation. Approve as budgeted.

Issue 3 – Funding for Increased Workers' Compensation Costs

Governor's Proposal. The Governor's budget proposes $1.1 million to fund increased workers' compensation costs. This proposal will be funded by approximately 55 percent General Fund ($578,000) and 45 percent from the Collins Dugan Account ($473,000).

Background. The department has an annual workers' compensation budget of $3.4 million. However, in 2015-16, the costs amounted to $3.9 million and the costs are expected to grow to over $4.4 million in 2016-17 and 2017-18. Although training classes are conducted, and the department stresses safety for all corpsmembers and staff, injuries are sometimes unavoidable. According to the corps, the increase is due to a number of factors:

- Number of Participants: Since 1976 when CCC was created, over 120,000 young adults have participated in the corps.
- Rise in Medical Costs: Costs have increased by about 6.7 percent in 2017.
- Nature of CCC's Work: Emergency response and project work are physical in nature, and many projects occur in remote, mountainous terrain. Staff and corpsmembers use heavy tools and equipment on these projects, such as chainsaws, sledge hammers, drills, etc. Since 1976, over 74.1 million hours of natural resource work, and 11.3 million hours of emergency response (i.e., fighting wildfires, helping flood relief) have been completed. In 2015, CCC devoted more than 500,000 hours to wildland fires.
- Isolated Incident: In February 2016, there was a tragic vehicle accident that occurred in Fresno County near Reedley. The crew was in route to a water conservation turf removal project. The accident killed three corpsmembers. One surviving corpsmember will continue to receive medical care indefinitely.
- State Compensation Insurance Fund (SCIF) Monthly Fee: The department's monthly fee is calculated on a nine-month rolling average of open claims, applying to SCIF's annual operating budget. SCIF's budget increased from $112 million in 2015-16, to $134 million in 2016-17. For corpsmembers, the fee increased from $36,279 in 2015-16, to $49,595 in 2016-17, equivalent to about 37 percent increase. Similarly, for staff, the fee increased from $9,657 in 2015-16, to $12,119 in 2016-17, which is a 25 percent increase.

Staff Recommendation. Approve as budgeted.

3560 California State Lands Commission

The California State Lands Commission serves the people of California by providing stewardship of the lands, waterways, and resources entrusted to its care through preservation, restoration, enhancement, responsible economic development, and the promotion of public access. Diligent execution of the commission's responsibilities since its inception in 1938 has resulted in the generation of over $11 billion in revenues while protecting and enhancing the public's ability to enjoy those lands and resources.

Consisting of the Lieutenant Governor, the State Controller, and the governor's Director of Finance, the California State Lands Commission serves as a trustee for the people of the state, managing California's sovereign public trust lands and resources, which the state received upon admission into the union in 1850. It also manages other lands subsequently conveyed to the state by the federal government (commonly known as "school" lands) and oversees the management of public trust lands legislatively granted in trust to over 70 local jurisdictions. These grants encourage development and use of the state's tidelands consistent with the public trust doctrine, and typically require grantees to reinvest revenues produced from the granted lands back into the trust.

Public trust or "sovereign" lands include the beds of all natural and navigable waterways, including non-tidal rivers, streams and lakes, and tide and submerged lands within tidal rivers, sloughs, bays and the Pacific Ocean extending from the mean high tide line seaward to the three-mile offshore limit and totaling over four and one-half million acres. In addition to sovereign lands, the commission manages "school" lands, which were granted to California by the federal government for the purpose of supporting public education in California. School lands include the 16th and 36th sections of each township (with the exception of lands already reserved for public use or previously taken by private claims) and lands known to be mineral in character. Of the five and one-half million acres of school lands originally granted to the state, only about 460,370 acres remain in state ownership and these are mostly concentrated in the California desert. The commission also retains a reserved mineral interest in approximately 790,000 acres of sold school lands.

Following is the Governor’s budget three-year summary of positions and expenditures for the commission. The commission’s primary sources of funding are the General Fund and the Oil Spill Prevention and Administration Fund. In the budget year, $14.7 million of the commission’s budget is proposed to come from the General Fund and $13.6 million is proposed to come from the Oil Spill Prevention and Administration Fund.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2560	Mineral Resources Management	71.3	71.2	71.2	$10,981	$12,526	$14,552
2565	Land Management	47.3	52.6	52.6	10,483	11,949	12,360
2570	Marine Environmental Protection Division	89.4	87.3	87.3	11,421	11,851	12,342
9900100	Administration	-	-	-	3,869	4,172	4,183
9900200	Administration - Distributed	-	-	-	-3,869	-4,172	-4,183
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		208.0	211.1	211.1	$32,885	$36,326	$39,254

***Dollars in thousands**

Issue 1 – Long Beach Office Relocation

Governor's Proposal. The Governor's budget proposes $1.2 million from various funds ($382,000 General Fund, $237,000 Marine Invasive Species Control Fund, $808,000 Oil Spill Prevention and Administration Fund, and $37,000 School Land Bank Fund) to be used for one-time moving and set up expenses for the relocation of the Commission's Mineral Resources Management Division and Marine Environmental Protection Division offices in Long Beach, and ongoing funding of $235,237 ($62,000 General Fund, $38,000 Marine Invasive Species Control Fund, $129,000 Oil Spill Prevention and Administration Fund, and $6,000 School Land Bank Fund) for increased rent.

Background. The California State Lands Commission (CSLC) is headquartered in Sacramento, but also has offices in Long Beach and Hercules and smaller field offices in Huntington Beach and Goleta. The Long Beach office houses most of the staff of the Marine Environmental Protection Division and all of the Mineral Resources Management Division, a total of 97 positions. The two divisions occupy the 9^{th} and 12^{th} floors, respectively, in an office building located at 200 Oceangate Avenue. In 2013, Molina Health purchased the building, along with 300 Oceangate Avenue, with the ultimate intent to fully occupy both buildings. Molina has given the DGS notice that it will not renew the CSLC's lease when it expires in November 30, 2018. Accordingly, DGS initiated a search for substitute office space in the Long Beach area.

The CSLC currently occupies 29,160 square feet of office space at the 200 Oceangate Avenue building. The annual rent for the space is $829,310, which equates to $2.37 per square foot per month. The annual rent is scheduled to increase so that in the last year of the lease, the rent will be $939,425, or $2.68 per square foot. According to DGS the minimum size space needed to meet the needs of the two divisions is 21,753 square feet. According to DGS representative conducting the search for replacement office space, the current market rent for similar office space in the Long Beach area is $4.50 per square foot per month. Based on the minimum size space needed and the current market rent, the new total annual rent for the CSLC office space in Long Beach would be $1,174,662. This is an annual increase of $235,237 (25 percent) over the last year of the existing lease.

This request also includes an additional $523,000 in specialized tenant improvements necessary for the two divisions' office needs, and $706,000 in moving expenses, new modular furniture, telephone system installation, and purchase and installation of data equipment.

The Marine Environmental Protection Division has regulatory authority over marine oil terminals, ballast water transfers, and marine invasive species in California waters. The ports of Long Beach and Los Angeles are the two largest ports in California and much of this division's regulatory responsibilities are located there. The Mineral Resources Management Division oversees the leasing and management of the CSLC's mineral interests, which include offshore oil production. The division also has engineering, inspection, and oil spill prevention responsibilities associated with oil production. Most of the CSLC's offshore oil leases and agreements are located in the Pacific Ocean offshore Los Angeles, Orange, Ventura, and Santa Barbara counties. The largest agreement in terms of revenue generation is located in Long Beach and division staff frequently meets with the oil operator and City of Long Beach staff on oversight and lease management issues.

Staff Recommendation. Approve as budgeted.

Issue 2 – Bolsa Chica Lowlands Restoration Project Operations Management Funding

Governor's Proposal. The Governor's budget proposes $1.0 million General Fund, on a one-time basis, to fund operations and management costs for the Bolsa Chica Lowlands Restoration Project in Orange County. Operations and management costs average $1.5-$2.0 million annually, including required dredging, on-site staff, repairs and other operational costs. The trust fund within the Kapiloff Land Bank Fund currently used to support the Bolsa Chica Lowlands is estimated to have at least $1.0 million available for 2017-18.

Background. Historically, thousands of acres of highly productive saltwater and freshwater marshes extended from Anaheim Bay to the Huntington Beach bluffs, including 2,300 acres of the Bolsa Chica Lowlands, as part of a vital part of the coastal ecosystem. Today, 90 percent of California's historic coastal wetlands have been lost, primarily due to development.

By 1900, the ocean inlet had been cut off destroying the tidal nature of these coastal wetlands. In the 1940s, oil production began in Bolsa Chica and oil drilling rigs dominated the area, and remains today. In 1973, the commission acquired about 330 acres in Bolsa Chica through a settlement agreement. Between 1996 and 2005, the commission acquired about 950 additional acres in the Bolsa Chica Lowlands, bringing public ownership to more than 1,200 acres. In 1996, the commission entered into an interagency agreement with three state and four federals agencies to plan, design, construct, and maintain the project as mitigation for impacts from the new terminal facilities for the ports of Long Beach and Los Angeles. In all, approximately $150 million has been invested in the restoration and operation of the project.

Restoration of the severely degraded wetlands began in 2004, and the majority of the first phase of the restoration project was completed in 2006. After more than 100 years, a new tidal inlet opened in 2006, restoring tidal influence to the historic Bolsa Chica Project wetlands. This project, the result of decades of planning and cooperation by the public and government agencies, is the largest coastal wetland restoration in Southern California history.

Ten years of post-restoration monitoring has shown that the wetlands have meaningfully increased the availability of bay habitat, improving southern California fishery resources. The project created new and critical habitat for 22 endangered and special status species, including a variety of vegetative, invertebrate, fish, and avian species. The wetlands are also a critical stop for migrating shorebirds on the Pacific Flyway. In addition to providing a valuable ecological resource, the Bolsa Chica Lowlands today also provide a valuable public resource.

Educational groups, non-profit organizations and the general public frequent the site throughout the year to learn about wetland habitats, photograph wildlife, hike or fish in designated areas, and enjoy the wetland open space. With 20 access points and two adjacent parking lots, as many as 400 members of the general public access the wetlands on any given day. Special events and organizations such as the Amigos de Bolsa Chica, provide additional educational and public out-reach programs throughout the year, bringing an estimated public visitation of more than 80,000 people per year to the Bolsa Chica Lowlands.

The initial endowment for long-term management costs of $15 million have been nearly depleted due to record low investment returns in recent years and unanticipated adapted management costs necessary to maintain the success of the wetland. Annual operational costs average $1.5-$2.0 million, including required tidal inlet dredging, costs for on-site CDFW manager, and other site maintenance and repairs. The project is now threatened by insufficient financial resources to maintain the system, with approximately $2.8 million remaining in operational funds. Without augmented funding, reserve funds will be exhausted before the end of 2017-18.

If the ocean inlet closes from a lack of operational funds, the tidal connection is lost and the wetlands cannot drain resulting in a rise in the water levels, and catastrophic effect to the habitat and wildlife. Additionally, the state could be exposed to liability for potential damages to the adjacent residential areas and to the oil field operator for any lost production or oil spill cleanup costs caused by flooding.

Staff Recommendation. Approve as budgeted.

Issue 3 – Records Digitization and Indexing

Governor's Proposal. The Governor's budget proposes $200,000 ($100,000 from the Marine Invasive Species Control Fund, and $100,000 from the Oil Spill Prevention and Administration Fund), on a one-time basis, for contracted records digitization services.

Background. The CSLC houses over four million, mostly paper-based, vital records dating from the mid-1800s. The records provide important information to an array of land management professionals as they serve the public. Hand-drawn maps, deeds, letters, legal judgments, aerial photographs, reports and CSLC meeting minutes, all relating to the administration of state lands, are accessed on a regular basis by CSLC staff. Currently, in most instances (over 80 percent), the non-digitized records have no backup copies and are exposed to potential disasters of fire and flood. These records are used daily in work products, created by commission staff, for leasing activities that generate revenue to the General Fund and The State Teachers Retirement Fund. This everyday use causes deterioration from handling and increases the risk of the records being lost. Many of these records are one-of-a-kind and provide the basis for the state's ownership of both its sovereign and school land assets. The current processes for locating these records are built around a paper-based spatial reference tool developed in the 1950s known as the ZNE system (Zone Northing and Easting). Within this system is an index of all land transactions that the CSLC has undertaken. The ZNE system is essentially a paper geographic information system. The chief threat to this system is that there is no way to back it up or provide redundancy and there are no provisions for business continuity should a disaster ensue. This central index touches nearly every record series at the commission.

Leveraging the existing CSLC Enterprise GIS system, CSLC would begin to digitize and create the appropriate related geospatial content in order to preserve and locate many of the vital records. An outside services contract of $200,000 will be used to begin the process of digitizing the highest value datasets. Because CSLC lacks the specialized equipment and resources for digitizing, it would be cost-effective to pay a vendor for digitizing services. With an estimated cost of 0.44 cents per page to digitize, a budget of $200,000 annually would allow the commission to scan approximately 400,000 records, or 10 percent of its estimated four million records, per year.

Staff Recommendation. Hold open.

Issue 4 – Selby Slag Site Remediation

Governor's Proposal. The Governor's budget proposes $470,000 General Fund to support the state's obligation to pay a proportionate share of certain ongoing hazardous waste remediation costs at the Selby Slag site pursuant to a 1989 consent judgment.

Background. The commission is a party to the 1989 consent judgment that requires remediation of extensive heavy metal contamination on a 66-acre site in Selby, Contra Costa County, just west of the Carquinez Bridge. Between 1886 and 1970 a lead, gold, and copper smelter operated on the site. Beginning in the late 1940s, the state, apparently unaware of the toxic character of the smelter slag, negotiated leases of tidelands to the American Smelting and Refining Company (ASARCO) and its predecessors that directed placement of the remnant smelter slag on and into state-owned land. It was later discovered that the heavy metals in the slag had been migrating from the site into San Francisco Bay. In 1983, the then-current leaseholder sued ASARCO and the commission, under the comprehensive Environmental Response, Compensation, and Liability Act, to allocate liability for cleanup costs. Due, in part, to certain lease provisions approved by the commission in 1951, the Attorney General's Office recommended entering into a settlement agreement with the other two parties in 1989.

The consent judgment required the commission, along with ASARCO and the current upland landowner, C.S. Lands Inc., to pay one-third each of specified Phase I remediation costs. Phase I work included dredging of contaminated sediments, soil de-acidification, and placement of an asphalt cap over the contamination, and closure of an oxidation pond and hook-up of a new sewer line to the Rodeo Sanitary District sewer system.

The state is required to make reasonable efforts to obtain funding to perform the activities spelled out in the consent judgment. Failure to fulfill these obligations may result in a re-allocation of liability by the federal court retaining jurisdiction over this matter. Approval of this proposal will fulfill the state's obligation to fund its share of the remediation and will allow site remediation to proceed in a timely manner. Heavy metals continue to migrate from the site into San Francisco Bay. Any delay due to lack of funding will result in greater mass loading of metals into the Bay than would have occurred if the project proceeded on schedule.

Staff Recommendation. Approve as budgeted.

Issue 5 – Abandonment of the Becker Onshore Well

Governor's Proposal. The Governor's budget proposes $700,000 General Fund to conduct Phase 2 activities related to the abandonment of the Becker Onshore Well.

Background. The Summerland Oil Field was developed in the late 1890s from shore and from wharfs that extended into the Pacific Ocean in an area of naturally occurring oil and gas seeps. The field was the first offshore oil development in the United States. No records exist of the drilling and later abandonment of the wells. When production ceased to be economical in the early 1900s, operators simply left many of the wells and piers to deteriorate. Others were "abandoned" by their operators. Any well abandoned by its operator was typically completed in a manner consistent with the procedures of the time, which consisted of plugging the well with poles, dirt, rocks, rags, and any other material that might be available.

In the late 1960s the CSLC conducted a Summerland Beach Cleanup Project that included the abandonment of 60 wells with short cement plugs (about five feet) and the cutting off of their casings. In 1993, the CSLC abandoned three more wells on Summerland Beach as part of its Summerland Well Abandonment Project. These three wells were exposed at low tide and submerged about three feet at high tide. The wells were abandoned using a rig mounted on a 20-foot high steel structure, known as a SSV (Surf Sled Vehicle). The project was completed for approximately $863,000.

In 1994, the CSLC, the Office of Oil Spill Prevention and Response, and the offices of U.S. Senator Feinstein and State Representative Jack O'Connell, requested the U.S. Coast Guard (USCG) to secure Oil Spill Liability Trust Fund revenues to abandon wells in the area that might be responsible for oil seepage into the ocean. The USCG conducted a two-phase study of the Summerland area seeps. The first phase was a geophysical/ hydrographic sight survey. A Summerland area map describing the oil well casings, oil seeps, and wharf and pier piling type hazards was developed from the survey. Forty-three potential targets were identified for further investigation. During phase two, seven of the 43 sites were determined to require excavation to determine seep sources. Sheens in the area were believed to be caused by natural seepage using the plug or well casing as a conduit. After spending about $215,000 on the study, the USCG determined that one well (originally drilled from the long since removed Becker Pier) was leaking about four barrel of oil per day and represented the greatest concern. The well is described as the Becker Onshore Well.

The Becker Onshore Well is located in the surf zone area approximately 30 to 40 feet offshore from the mean high tide line at the point where the former Becker pier complex terminated onshore. This pier complex was constructed at the turn of the century and only a few remnants can be identified further offshore. Fresh oil can be observed bubbling up through the beach sand during certain conditions. These conditions occur when the beach sand cover is removed by tidal action coupled with low tides. This condition persists in the spring and fall months after storms and the lowest tides of the year occur. Oil from the leaking well causes sheening to occur in the ocean off Summerland Beach. As stated above, the well casing was discovered during survey work directed by the Coast Guard and CSLC in the fall of 1994. The Becker Onshore Well was drilled at the turn of the century prior to any regulatory or CSLC leasing authority being in place. Regulation of offshore oil and gas development and production did not occur until the State's Tidelands Act in 1921. Since no responsible party has been identified for the abandonment of the Becker Onshore Well, the State of California, as owner of the land on which the well is located, may have to assume responsibility.

This project first requires CSLC staff to prepare the appropriate environmental document to comply with CEQA. It also requires obtaining necessary permits and approvals for beach access, as well as engineering, environmental and administrative staff monitoring of the project. These actions represent Phase 1 of the abandonment plan. Phase 2 will be the actual abandonment activities. Funding for Phase 1 was provided through an approved 2016-17 budget change proposal. That budget change proposal also approved $700,000 for actual abandonment activities in 2017-18. The $700,000 abandonment cost was based on a prior estimate. However, a study commissioned by CSLC staff, prepared by Interact, an international engineering firm specializing in oil and gas production, development, and decommissioning services, in March 2016, reported a cost estimate of $1,400,000. Accordingly, the CSLC is requesting an additional $700,000 for Phase 2 in FY 2017-18.

Staff Recommendation. Approve as budgeted.

3540 Department of Forestry and Fire Protection

The California Department of Forestry and Fire Protection (CAL FIRE) serves and safeguards the people and protects the property and resources of California. CAL FIRE provides all hazard emergency - fire, medical, rescue and disaster - response to the public and provides leadership in the protection of life, property and natural resources. CAL FIRE safeguards the public through: engineering; research, development and adoption of regulations; fire and life safety programs; fire prevention, law enforcement, and public information and education; resource protection; and emergency response.

CAL FIRE limits the damage caused by fires, disasters, environmental degradation, and related emergencies by employing diverse yet complimentary efforts including: training California's fire service professionals; public education and prevention awareness; responsible stewardship of our natural resources; and natural resource and emergency management.

Following is the Governor's budget three-year summary of positions and expenditures for CAL FIRE. CAL FIRE's primary source of funding is the General Fund. In the budget year, $1.3 billion of CAL FIRE's budget is proposed to come from the General Fund.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2460	Office of the State Fire Marshal	135.8	154.8	-	$26,587	$27,687	$-
2461	Office of the State Fire Marshal	-	-	166.8	-	-	31,329
2465	Fire Protection	5,659.4	5,858.0	5,436.2	1,774,307	1,914,769	1,814,639
2470	Resource Management	328.3	328.3	334.1	52,523	129,947	73,208
2475	Board of Forestry and Fire Protection	6.0	6.0	8.0	934	1,959	2,254
2480	Department of Justice Legal Services	-	-	-	3,457	6,164	6,164
9900100	Administration	574.2	617.0	652.2	82,855	100,836	112,293
9900200	Administration - Distributed	-	-	-	-81,311	-100,836	-112,293
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**6,703.7**	**6,964.1**	**6,597.3**	**$1,859,352**	**$2,080,526**	**$1,927,594**

***Dollars in thousands**

Issue 1 – Timber Regulation and Forest Restoration Program Proposals

Governor's Proposal. The Governor's budget includes the following three proposals:

1. **Timber Regulation and Forest Restoration Program.** The Governor's budget proposes $9 million Timber Regulation and Forest Restoration Fund (TRFRF) and 15 positions in FY 2017-18, $1.2 million and seven positions ongoing, for three state entities to implement the Timber Regulation and Forest Restoration Program (outlined in the following table).

Timber Regulation and Forest Restoration Program Proposals	
Natural Resources Agency	➢ $470,000 one-time for development of the on-line timber harvest permitting system. ➢ $90,000 ongoing for system maintenance and operation of the on-line timber harvest permitting system. ➢ $300,000 for two years to extend current support for pilot projects and forest condition data acquisition. ➢ $149,000 for one permanent position to support expanding AB 1492 (Blumenfield), Chapter 289, Statutes of 2012, program implementation responsibilities.
Department of Forestry and Fire Protection	➢ $424,000 for two positions to support on-line timber harvesting permit system. ➢ $1.6 million for a one-year extension of eight limited-term forest restoration grant positions. ➢ $3.5 million to continue local assistance grant funds for FY 2017-18.
State Water Resources Control Board	➢ $2 million annually, for two years, to continue existing forest restoration grants. ➢ $549,000 to convert four current limited-term positions to permanent positions to help implement accountability and forest restoration components of the Timber Regulation and Forest Restoration Program.

2. **Implementation of AB 1958, AB 2029, SB 122.** The Governor's budget proposes $1.4 million ($1.3 million Timber Regulation and Forest Restoration Fund and $120,000 reimbursements) and six positions to comply with AB 1958 (Wood), Chapter 583, Statutes of 2016; AB 2029 (Dahle), Chapter 563, Statutes of 2016; and SB 122 (Jackson), Chapter 476, Statutes 2016 (see description below). The requested resources will be used for:
   a. Monitoring the use of, and compliance with Timber Harvest Plan (THP) exemptions and emergency notice provisions.
   b. Reviewing the effectiveness of THP exemptions and emergency notice provisions.
   c. Preparing records of proceedings concurrently with the preparation of a project's environmental document to improve the California Environmental Quality Act review process.

The $120,000 reimbursements will be funded by the requesting party paying for the costs of preparing the record of proceedings, which is separate from and not required for THP review.

3. **L.A. Moran Reforestation Center – Operational Restoration and Forest Health.** The Governor's budget proposes $4.8 million TRFRF, and two permanent and 3.8 temporary help positions, to restore reforestation nursery operations at the L.A. Moran Reforestation Center.

Background. The State Z'Berg-Nejedly Forest Practice Act of 1973 requires timber harvesters to submit and comply with an approved timber harvesting permit. The most common permit is a Timber Harvesting Plan (THP), which describes the scope, yield, harvesting methods, and mitigation measures that the timber harvester intends to perform within a specified geographical area over a period of five years. After the plan is prepared, TRFRP staff review and approve them for compliance with timber harvesting regulations designed to ensure sustainable harvesting practices and lessen environmental harms. CAL FIRE takes the lead role in conducting these reviews but gets assistance from the Department of Fish and Wildlife (DFW), the Department of Conservation, and the State Water Resource Control Board (SWRCB). The regulation of timber harvesting is exempt from meeting certain CEQA requirements, including the preparation of an environmental impact report, because this process is sufficiently equivalent to the CEQA process. The state approved 254 THPs in 2015-16.

Prior to 2012-13, the state's review of THPs was funded mainly from the General Fund. In addition, DFW and SWCRB also levied a few fees for various THP-related permits to support such activities. Total funding for THP reviews was about $25 million. However, General Fund support for THP-related activities was reduced to less than $20 million as a result of the state's fiscal condition during the recession. Position authority also declined during this period.

AB 1492 authorized a one-percent assessment on lumber and engineered wood products sold at the retail level, to fully fund THP regulatory activities. This revenue was to be used to increase staffing and reduce the amount of time it takes for departments to review THPs, as well as provide departments with additional resources necessary to perform more comprehensive THP reviews. Revenues collected from this tax are deposited into the TRFRF and are intended to fully fund the timber harvest regulatory program. In 2015-16, the lumber assessment generated $40 million in revenues.

AB 1492 required that, in addition to funding regulatory costs (and maintaining a minimum $4 million reserve), revenue from the TRFRF can be spent on specific programs to improve forest health and promote climate change mitigation or adaptation in the forestry sector. In 2016-17, about $7.5 million—or roughly one-fifth of the TRFRP budget—is budgeted for local assistance grants for forest restoration. The largest program is the California Forest Improvement Program (CFIP) run by CAL FIRE, which currently receives about $5 million from TRFRF.

CFIP reimburses part of the costs for smaller landowners (between 20 and 5,000 acres) to conduct certain forest health activities on their land, such as preparing management plans, tree planting, land conservation, and improvement of fish and wildlife habitat. In 2015-16, this program provided 96 grants to treat 35,000 acres of forest land. The rest of the TRFRF local assistance funding is administered by DFW and SWRCB and supports grants to nonprofits and local governments, primarily for restoration of habitat and watersheds. For example, in 2015-16, funding for SWRCB supported four projects for habitat restoration and watershed assessments and planning.

AB 1958, AB 2029, SB 122. AB 1958 and AB 2029 provide landowners an exemption from the need to submit a THP to conduct timber operations on their lands. AB 1958 addresses the consistent decline of oak woodlands due to the encroachment of conifers, by providing an exemption from the requirement to submit a THP for the cutting and/or removal of trees to restore and conserve oak woodlands. Once conifers become established within areas historically occupied by native oak woodlands, they can quickly overtop oak trees, shading them out and jeopardizing the oak's ability to regenerate. This bill provides landowners with a cost-effective way to enhance oak woodlands while ensuring the protection of other resources that could be impacted by timber harvesting operations.

AB 2029 addresses the lack of use of the Forest Fire Prevention Exemption (FFPE). To date there have only been 21 requests to use this exemption, totaling 2,588 acres. Barriers, such as the limitation on the size of trees that can be removed and the existing sunset date, limited the success of the FFPE. Five consecutive years of unprecedented drought has prompted epidemic levels of bark beetles and tree mortality across the state. Longer and drier summers place additional demands on trees and push the limits of their tolerance of water stress. Larger, more intense, and more frequent wildfires are also causing widespread tree mortality. Wildfires release thousands of tons of greenhouse gas emissions and other harmful pollutants into the atmosphere. The thinning of forests is widely known to reduce the threat of catastrophic wildfires by removing vegetative fuels from the forests; reducing risk of canopy fire; increasing water storage by reducing the need for water in forests; and creating conditions that favor healthier, more resilient forests. Taken together, these events are creating an urgent need for immediate, cost-effective fuels management to protect lives and property within the urban interface. In addition, there is a need within the broader forest landscape perspective to prevent large, catastrophic wildland fires, as well as contribute to firefighter safety by reducing forest vegetative fuels. At the same time, fuels reduction reduces the threat that wildfire poses to watersheds, water quality, and fish and wildlife habitat.

SB 122 addresses the lack of transparency in the CEQA environmental review process and the length of time it can take a project applicant to complete the CEQA review process, including all associated legal challenges, thereby improving the CEQA environmental review process. SB 122 requires CAL FIRE, as specified, to prepare a record of proceedings concurrently with the preparation of a project's environmental document when requested by project applicants, and for CAL FIRE to post all documents and other materials in the record of proceedings on an Internet website maintained by CAL FIRE.

L.A. Moran. The L.A. Moran Reforestation Center (LAMRC) has been used in the past to support the reforestation of public and private forest lands, especially those that have been damaged by fire, flood, drought, insects, and disease. The Governor’s budget proposes these activities to encourage landowners to participate in reforestation activities, as soon as possible following natural disasters, in order to begin recovery of forest health and reduce soil erosion and water pollution. The center is expected to provide 300,000 seedlings annually.

Historically, the state operated three nurseries, which provided 600,000 to 800,000 seedlings annually that were native to the state’s approximately 80 “seed zones” or habitat types. The last of these nurseries closed in 2011 due to budget constraints during the recession. The department indicates that federal and private nurseries were unable to fully backfill the loss of state seedlings, and that there are currently no private nurseries operating within California that cover all of California’s seed zones. Additionally, according to the department, private nurseries typically only grow seedlings on request, which can result in significant delays in acquiring seedlings after a natural disaster. Conversely, state nurseries keep seedlings stocked so they are immediately available. Seedling delays can allow unwanted vegetation to take over and increase erosion. The department anticipates a significant demand for seedlings over the next few years due to tree mortality and the associated increased fire risk.

Legislative Analyst's Office (LAO). The LAO does not have specific concerns with the activities proposed. Much of the proposal is the continuation of forest health activities that have been funded for the past couple of years. Additionally, these activities are in line with those identified in TRFRP statute to promote forest health, and requested funding levels appear to be in line with associated workload.

However, the LAO notes that under the Governor's budget plan, total spending from TRFRF is expected to be about $15 million higher than revenues in the budget year. This does not present a problem in 2017-18, because the fund has accumulated a large fund balance. However, in out years—perhaps as early as in 2018-19—the fund is unlikely to be able to support the same level of spending for program operations and grants. While the funding for CFIP and SWRCB grants is only proposed on a limited-term basis, the Legislature has supported these programs in each of the past few years, suggesting they might reflect ongoing legislative priorities. Consequently, the LAO suggests that decisions about whether to approve the increase in ongoing funding from TRFRF—totaling $4.4 million—should take into consideration how these new funding requests should be prioritized against other spending options in the future, such as for local assistance grants.

Staff Comments. While the LAO raises legitimate concerns in regard to the long-term condition of the fund, the Administration has indicated that the funds revenue projections are higher than at the time of the Governor's budget and that the fund's balance will be sufficient to meet the minimum requirement of $4 million in the next couple of fiscal years. Further, the Administration reports that due to the one-time nature of many of the programs funded out of the TRFRF, adjustments can be made if needed. Given this, staff would note that these proposals implement bills recently passed by the Legislature or are policies that the Legislature has previously supported.

Staff Recommendation. Approve as budgeted.

Issue 2 – Emergency Drought Actions

Governor's Proposal. The Governor's budget proposes $91.0 million ($88.0 million General Fund and $3.0 million State Responsibility Area Fire Prevention Fund) in 2017-18, to address heightened fire conditions brought on by drought conditions.

Background. The recent drought left California with a range of challenges, which continue despite this year's rain and snow. While reservoir levels have recovered, there is significant wildfire risk from millions of dead trees.

The latest United States Forest Service aerial survey estimated over 102 million trees have died because of the drought and the effects of bark beetle infestation, an additional 36 million dead trees since the last aerial survey in May 2016. In 2016 alone, 62 million trees have died, representing more than a 100 percent increase in dead trees across the state from 2015. Millions of additional trees are weakened and expected to die in the coming months and years. All of this will increase the susceptibility of the fuel bed for ignitions, thus increasing the potential for large and damaging fires.

In previous budgets, to help meet the unprecedented drought conditions, CAL FIRE staffed up its engines, air attack bases, and helitack bases earlier than normal and added command and control functions and staff the Governor's budget reserves funding for the continued staffing of engines, air attack bases, helitack bases, and the augmentation of resources between January and June 2017. In the budget year, CAL FIRE is proposing to take other actions to protect public safety during this time of elevated fire risk. CAL FIRE is requesting additional resources through calendar year 2017, in order to enhance CAL FIRE's fire protection capabilities. The request is broken down into the following categories:

- **Earlv Start/Delayed Down Staffing.** CAL FIRE requests funding for extended staffing on engines, at air attack bases and helitack bases. The extended staffing will end on December 31, 2017.

- **LT Engineer.** CAL FIRE requests funding to hire additional Fire Apparatus Engineers (FAEs) in each of the 21 units, to staff engines in direct support of delayed shift relief and increased overtime that already exists and will be compounded by an increase in wildland fire incidents.

- **Fire Crew Supervisors/ Military Crew Coordinators.** CAL FIRE requests funding to hire additional fire protection staff, given the ongoing drought conditions and the associated increase in fire danger. CAL FIRE has been required to staff fire crews beyond what would be normally expected following the end of fire season.

- **Training and Safety.** CAL FIRE requests additional funding to ensure the firefighters contained within this budget request receive necessary required training and safety classes.

- **Public Education Funding.** CAL FIRE requests funding for public education media buy for the already developed tree mortality bark beetle campaign that focuses on the high hazard tree mortality areas that have critical infrastructure and life safety hazards.

- **CAL Card/Logistics.** CAL FIRE requests funding to support prompt processing and payment of CAL Card statements. The use of CAL Card allows CAL FIRE to purchase mission-critical items on incidents from local vendors who desire immediate payment for services.

- **Command Center Support.** CAL FIRE requests funding to contract with a vendor to update the Computer Aided Dispatch (CAD) maps for the 56 counties with SRA. CAD map support has a direct impact on firefighter and public safety. The requested funding will allow software, database, and geographic information system mapping maintenance, helping to ensure more accurate dispatching and resource tracking, quicker emergency response, and increased initial attack success while enhancing firefighter and public safety.

- **Intel Support.** CAL FIRE requests funding additional Intel support positions in Sacramento and for the two regions.

- **Firefighter Surge Capacity.** CAL FIRE requests funding to create a pool of 416 firefighters to meet various operational needs as those conditions manifest and necessitate. Given the extreme fire conditions that have occurred with five consecutive years of drought, this resource pool will provide additional response capability on assigned engines (increased efficiency for initial attack) and the ability, if necessary, to staff 23 reserve engines that CAL FIRE has delayed in surveying out to the Department of General Services.

- **Defensible Space/ Prevention Education.** CAL FIRE requests funding for additional Forestry Aides to complete defensible space inspection and fire prevention education workload.

- **Vehicle Repair and Maintenance.** CAL FIRE requests additional funding for increased vehicle repair funding, given drought driven fire conditions that results in more wear and tear on equipment.

- **Exclusive Use LAT and VLAT Contracts.** CAL FIRE requests additional funding for two exclusive use (Large Air Tanker) LATs and one exclusive use Very Large Air Tanker (VLAT) that will supplement the Department's 22 air tankers.

- **McClellan Reload Base.** CAL FIRE requests to fund the ground crew at the McClellan Reload Base given drought driven fire conditions that results in higher demand for aircraft support.

- **Helicopter Pilot Surge Capacity.** CAL FIRE requests funding to add seven additional Forestry Fire Pilots given increased fire activity that has increased the pilot flight hours and pilot flight hour limitations.

- **CCC Fire Suppression Crews.** CAL FIRE requests additional funding to temporarily convert CCC reimbursement crews to fire crews at the Placer Residential Center, in order to provide additional fire crews within close proximity to areas with high amounts of tree mortality. CAL FIRE is also requesting funding in order to ensure the Placer Residential Center crews are exclusively available to CAL FIRE to complete fire prevention work to mitigate the fire and falling hazard caused by the current and inevitable greater amount of dead and dying trees within the Sierras.

- **Mobile Equipment Budget.** CAL FIRE is requesting funding for the permanent acquisition of replacement and additional mobile equipment that would be added to the fleet. This will include, but is not limited to surge fire engines, relief fire engines, and frontline engines.

- **Contract Counties.** CAL FIRE requests funding to provide proportional funding for the six contract counties (Kern, Marin, Orange, Los Angeles, Santa Barbara, and Ventura) that directly provide fire protection for State Responsibility Area (SRA) within their boundaries. The six contract counties have seen a similar increase in SRA fire activity, as experienced in the 50 counties protected by CAL FIRE.

Legislative Analyst's Office. The LAO offered a framework for the Legislature to use when considering the drought proposals, consisting of three categories:

- **Necessary Emergency Response.** One-time emergency response activities needed to address lingering drought impacts.

- **Build Drought Resilience.** Activities that both respond to current conditions and could be continued on an ongoing basis to help build the state's resilience for future droughts.

- **Potentially Not Necessary.** Activities that could be decreased or eliminated based on improved hydrologic conditions and decreased response needs.

The LAO expects that some drought response activities will continue to be needed, despite increased precipitation and improved conditions. The vast number of dead and dying trees in the state's forests has contributed to an increased risk of wildfire and many need to be removed to improve public safety. The LAO anticipates that funding for tree removal and firefighting through CAL FIRE and the Office of Emergency Services still will be needed in 2017-18. Additionally, drought conditions and impacts linger, particularly in the southern half of the state. As such, the LAO expects that some level of statewide coordination and emergency response will need to continue.

Staff Comment. Given the fact that CAL FIRE's drought proposal, along with other drought proposal's contain in the Governor's budget, was developed prior to this winter's storms, it is reasonable for the Legislature to expect that the proposal may change to account for the changes in conditions. However, as the LAO points out, there will still be a need for some of the activities contained in this proposal. As such, the Legislature should assess the effectiveness of activities to date and whether the activities that the Administration ultimately proposes align with Legislative priorities. For example, at the request of the Legislature, the 2016 Budget Act included $10 million in local grants from the SRA fund directed toward tree mortality and fire prevention projects involving fuel reduction, emergency planning and public education. The Legislature may wish to ask the Administration to report on use of these funds and whether these efforts should be maintained.

Additionally, At a February 27th joint informational hearing held by the Senate Committee on Natural Resources and Water and the Assembly Natural Resources Committee, the committees heard testimony in regard to the need to increase the use of prescribed and managed fire. The Legislature may wish to explore opportunities to provide additional resources for CAL FIRE's prescribed fire program.

Staff Recommendation. Hold open.

Issue 3 – Board of Forestry and Fire Protection Fiscal Realign

Governor's Proposal. The Governor's budget proposes a net increase of $293,000 ($193,000 State Responsibility Area Fire Prevention Fund, $410,000 Timber Regulation and Forest Restoration Fund and reductions of $308,000 General Fund and $2,000 Professional Forester Registration Fund) for specified Governor's appointee and staff salary increases and one position for a full-time, dedicated attorney.

Background. The Board of Forestry and Fire Protection is a government-appointed body within CAL FIRE. The board is responsible for developing the general forest policy of the state, for determining the guidance policies of CAL FIRE and for representing the state's interest in federal forestland in California. Together, the board and CAL FIRE work to protect and enhance the state's unique forest and wildland resources.

The board's workload is primarily developing regulations, development and certification of CEQA compliant projects. Currently, the board pays the Department of Justice for its legal needs on an hourly basis. The board is requesting a full-time, dedicated Attorney IV due to the increase in legal counsel needs of the board.

The board recently filled its Executive Officer position. The salary range for the Executive Officer was increased by approximately 20 percent. Additionally, the board intends on soon filling the Assistant Executive Officer. The board is also requesting funding for a 20 percent salary increase for the Assistant Executive Officer.

The Resources Protection Management Committee (RPC) is a standing committee of the Board. The RPC reviews safety elements of revised general plans for all counties, and provides recommendation of approval or denial to the board. A position is solely dedicated to staffing the RPC. The board is also requesting for a salary increase for this position and a reclassification from an Associate Government Program Analyst to a Staff Services Manager I.

Staff Recommendation. Hold open.

Issue 4 – Hiring and Training – Permanent Funding and Staffing

Governor's Proposal. The Governor's budget proposes $14.2 million ($10 million General Fund, $332,000 in Special Funds, and $3.865 million in reimbursements) and 55 positions to address increased hiring and training demands.

Background. Funding for personnel who are responsible for hiring and training CAL FIRE's firefighting workforce is based on the traditional fire season length. However, climate change, demographics, invasive species, and past fire management are lengthening the fire season in California.

The longer and more active fire season requires that more firefighters be hired and trained as expeditiously as possible. CAL FIRE has requested and received authority over the last several years to augment its firefighting force to deal with the longer and more active fire season. In addition, CAL FIRE has requested and received additional short-term funding to partially address this increased hiring and training workload. CAL FIRE, however, has not received any additional permanent funding or positions for its hiring and training workload.

Predictably, hiring transactions have increased significantly in recent years. Some of the additional workload is related to additional positions; some related to separations and replacements behind seasonal hires "timing-out" during the longer fire season, and some related to separations and replacements due to attrition. Additionally, each transaction requires significantly more time due to requirements added by control agencies (e.g. extended duty week compensation must now be factored into lump-sum payouts, and there are new processing requirements for health benefits).

The hiring workload is further exacerbated by staffing limitations at CAL FIRE's Academy. The academy has staff to cover training needs for the traditional fire season, which includes mandated basic fire control training for firefighters, engine operators, and dozer operators at a rate of approximately 200 students per year. Staff is also responsible for other mandated training courses for incident command, forest and fire law enforcement, and employee development (Government Code Section 19995.4). The longer fire season, as well as the other factors enumerated above and further in this request, have resulted in an estimated sustained training need for more basic fire control classes than the Academy is funded to provide. Between FY 2012-13 to FY 2016-17, CAL FIRE has and will train up to 800 basic fire control students. This does not include the sustained training needs for the other courses noted above. CAL FIRE has been able to partially meet the increased basic fire control need by sacrificing the provision of the other courses noted above, through the provision of additional drought training funding.

The sustained hiring and training need is, in part, due to CAL FIRE's aging workforce. When analyzing 45 CAL FIRE specific classifications, it was discovered that 19 of the classifications have over 50 percent of the employees over the age of 50. This presents serious issues if a large number of employees were to retire or seek employment around the same time without a plan in place to mitigate impact. Without a workforce and succession plan in place, there are insufficient resources to mentor and cross train employees, which puts CAL FIRE in the position of scrambling to fill vacancies. The analysis also uncovered vacant classifications that do not have a succession plan in place. For example, the Senior Arson and Bomb Investigator and Senior Forestry Equipment Manager both are vacant and do not have current incumbent knowledge to assist with a mentor and/or creating a succession plan.

The capacity limitations have also resulted in an inability to fill positions that require academy training, which has created a backlog in permanent hiring and increased overtime hours at fire stations. In addition to causing significant labor strife and employee complaints, it raises serious fatigue and related safety concerns.

Staff Recommendation. Hold open.

Issue 5 – Real Estate Design and Construction

Governor’s Proposal. The Governor's budget proposes $750,000 General Fund to support a portion of the agency-retained major capital outlay personnel costs (15 positions). These costs will be offset by reductions in the individual project costs.

Background. The Budget Act of 2006 shifted costs for 15 positions from CAL FIRE's state operations appropriation to individual capital outlay project appropriations. These 15 positions primarily support the design, detailing, specification development, contract advertising, contract bid, contract award, and construction oversight of six to eight agency-retained major capital outlay projects per year. Each of the 15 positions has a specific role in carrying out the projects through completion. Retention of the six to eight major capital outlay projects managed by CAL FIRE was intended to increase the rate of replacement of CAL FIRE's aging facilities due to the DGS backlog, inability to complete projects on schedule, increased costs, and incomplete construction closeout at the expense of CAL FIRE. Therefore, retaining a small amount of workload at CAL FIRE would not negatively impact DGS.

The limiting factor of a capital outlay appropriation for these 15 positions meant they could only work on those specific projects, and could not spend a portion of their time on other workload typically performed by these types of CAL FIRE classifications. This includes capital outlay projects that are managed by DGS, or any CAL FIRE minor capital outlay, deferred maintenance, and special repair project work.

The shift from capital outlay to state operations will allow a portion of the15 CAL FIRE staff to complete workload related to DGS-managed projects, along with CAL FIRE minor capital outlay, deferred maintenance, and special repairs projects. A portion of the 15 staff will also be able to complete associated architectural and engineering workload including: critical analysis; estimating; design; construction inspection; oversight; and code compliance. Having a portion of the 15 staff funded by a state operations appropriation will allow CAL FIRE to more successfully complete the $8 million in deferred maintenance projects funded from Control Section 6.10 in the Budget Act of 2016, along with minor capital outlay and special repairs.

Staff Recommendation. Approve as budgeted.

Issue 6 – California Underground Facilities Safe Excavation Board

Governor's Proposal. The Governor's budget proposes $3.8 million from the Safe Energy Infrastructure and Excavation Fund ($3.6 million ongoing) and 11 positions (growing to 23 positions ongoing) to implement provisions of SB 661 (Hill), Chapter 809, Statutes of 2016.

Background. Prior to the passage of SB 661, the State's "Call Before You Dig" law required excavators, except in the case of an emergency, to contact a regional notification center by placing a call to "811", prior to an excavation in order to ascertain the location of subsurface installations. Excavators were only required to contact the regional notification center if the area was known, or reasonably should be known, to contain subsurface installations. Subsurface utility operators were required to respond to a notification and subsequently mark the location of their subsurface installations.

SB 661 created the California Underground Facilities Safe Excavation Board, which falls under, and is to be assisted by the staff of, the Office of the State Fire Marshal (OSFM). The Board is tasked with:

- Coordinating education and outreach programs.

- Developing standards relevant to safety practices in excavating around subsurface installations, including procedures and guidance.

- Investigating possible violations of the act.

- Following an investigation, enforce the provisions of the act, either by recommending the authority having jurisdiction take action or, where there is no authority having jurisdiction, taking action itself.

The OSFM Pipeline Safety Program is responsible for ensuring that hazardous liquid intrastate pipeline operators properly mark pipelines as part of the state's "Call Before You Dig" law. If there is a failure to properly mark a pipeline, then the OSFM would fine the operator. In practice, the OSFM has not cited a hazardous liquid pipeline operator for not properly marking a pipeline in the last 10 years, as there have been no reported violations.

SB 661 authorizes the operational expenses of the newly created board to be funded by a fee charged to members of the regional notification centers, which by existing statute includes every operator of a subsurface installation, with the exception of the Department of Transportation. Collected fees would be deposited into a fund, which would be created by SB 661. In addition, fines or other penalties levied as a result of a violation of the act would be deposited into the fund and would be prohibited from being used to cover the board's operational expenses. The board would also be required to submit a report to the Governor and the Legislature detailing its activities and recommendations, beginning February 1, 2018, and annually thereafter.

The board is a newly-created entity within CAL FIRE, and CAL FIRE is requesting a separate budget subprogram for the Board. There are four main components required to implement the provisions of the SB 661:

- Executive Officer - this position will report to the board chair, and will be responsible for the operations of the board staff.

- Administrative support for the board - including development of regulations to implement the Dig Safe Act of 2016, development of a public education campaign, and scheduling of board hearings, meetings, and workshops.

- Investigative support for the board - these investigators will, at the direction of the board, conduct investigations into violations of the state's Call Before You Dig law and make recommendations for sanctions for violations of the act.

- Administrative support within CAL FIRE - in the same fashion that CAL FIRE provides support for the Board of Forestry and Fire Protection, CAL FIRE will need to provide accounting, human resources support (exams, recruitment, transactions, etc.), budgeting, and other functions to the newly-created board.

Staff Recommendation. Approve as budgeted.

Issue 7 – CAL FIRE Capital Outlay Proposals

Governor's Proposal. The Governor's budget contains the following seven capital outlay proposals for CAL FIRE:

CAL FIRE Capital Outlay Proposals	
1. Shasta Trinity Unit Headquarters and Northern Operations – Relocated Facilities	$365,000 General Fund for the acquisition phase of this project to construct a new joint facility to co-locate the Shasta-Trinity Unit Headquarters and several Northern Region Operations - Redding facilities. The estimated total project cost is $65.5 million.
2. Temecula Fire Station – Relocated Facility	$1.1 million General Fund for the acquisition phase to replace the Temecula Fire Station. The estimated total project cost is $9.4 million.
3. Macdoel Fire Station – Relocate Facility	$500,000 General Fund for the acquisition phase to replace the Macdoel Fire Station in Siskiyou County. The estimated total cost of the proposed project is $9.9 million.
4. Badger Fire Station – Replace Facility	$4.2 million lease revenue bond funds to complete the construction phase of the Badger Forest Fire Station in Tulare County. Total estimated project costs are $9.6 million.
5. Statewide: Replace Communications Facilities, Phase V	$1.8 million General Fund for the working drawing phase of this project to replace existing telecommunications infrastructure at six communications sites with new telecommunications towers, vaults, and other supporting infrastructure as required and add an additional tower at a seventh site. Total estimated project costs are $22.98 million.
6. Potrero Forest Fire Station – Replace Facility	$865,000 General Fund for the preliminary plans phase of this project. Total estimated project costs are $12.8 million.
7. Various Minor Projects	$2.4 million General Fund to perform three minor capital outlay projects.

Background. Following are descriptions of these projects:

1. **Shasta Trinity Unit (SHU) Headquarters and Northern Operations – Relocated Facilities.** This consolidation project includes:

- **Shasta Trinity Headquarters.** The existing facility is located on a 3.88-acre state-owned parcel in downtown Redding. When the facility was constructed around 1940, the facility was located on the fringes of the Redding city limits. Today, Redding is the largest city north of Sacramento and the city limits are several miles in all directions from the facility, placing the facility at the center of the city. This requires personnel to negotiate fire apparatus through narrow and congested city streets to conduct daily and emergency activities, extending response time and increasing the potential for vehicle accidents.

The city owns all the property surrounding the existing facility. In 2015, the City of Redding completed construction of the new Redding Police Department Headquarters directly adjacent to SHU Headquarters on the east property line and in 2009 completed construction of a new library adjacent to the western property line. In addition, in 1999, the city constructed a new city hall adjacent to the eastern property line. Construction of the city hall and police headquarters restricted access to the facility from the main thorough fare; Cypress Avenue, and required access to and from the facility via a side street, Grape Street. This dramatically handicaps the movement of fire apparatus and equipment to and from the facility. The unit's all-risk emergency operations mission is in direct conflict with Redding's General Plan.

The buildings built around 1940 are deteriorated, inefficient, and significantly inadequate for the critical mission of the Unit. Over the years, numerous additions and remodeling projects have been implemented to keep pace with CAL FIRE's evolving mission; however, the facility does not meet the needs of the Unit. Many of the old buildings are non-insulated metal structures that do not meet current building codes and do not provide proper restroom facilities for personnel.

Electrical, sewer, water, heating, and cooling systems are antiquated and failing. Due to the increased power usage from electronic equipment such as radios, computers, copiers, and printers, the electrical load at the facility is at full capacity and repairs are constant. Sewer systems back up regularly due to inadequate sewer capacity, and the public and compound parking areas flood during rainstorm events due to inadequate storm drain capacity. Due to their age, the domestic water delivery pipes are brittle and break often and when this occurs the entire water supply to the facility must be shut off while repairs are made. The cooling and heating systems are inefficient, antiquated and costly to operate.

The facility is not ADA compliant. Ramps and a bell have been installed at the main public entrance to assist persons with disabilities. The bell alerts staff that a handicapped person needs assistance entering the buildings. There are no ADA-compliant restrooms.

- **The Northern Region Operations-Redding (NOPS).** NOPS site is owned by the United States Forest Service (USFS). Built in 1982, the facility was originally the Region II, Sierra Cascade Region Headquarters. Although a joint facility, CAL FIRE occupies approximately 75 percent of the administration building, with the US Forest Service occupying the rest of the building. Due to its age the facility needs significant repairs to provide for health and safety requirements of employees. Currently, the heating and cooling system needs replacement. The HVAC system was not modified with various remodeling of the interior of the building. As a result, differential heating and cooling occurs throughout the building and it is impossible to establish uniform temperatures in all the offices. Offices are either very cold or warm impacting employee health. CAL FIRE funds and provides for repairs to the facility and a new heating and cooling system is more than $1 million (for CAL FIRE side only, the cost is estimated to be $600,000).

Since 1982, CAL FIRE programs housed at NOPS have greatly expanded. The Resource Management Program; including Forest Practice, State Forest, SRA Fire Prevention Fee, Land Use and Planning and Pre-Fire Engineering are new programs. These programs and Cost Recovery have all added personnel which require office space and parking for both state and personally owned vehicles at NOPS.

- **The Northern Region Training Program (NRTP).** The NRTP is responsible for in-service training of uniformed personnel of the California Department of Forestry and Fire Protection. All CAL FIRE fire apparatus engineers must go through training administered and coordinated by the Joint Apprentice Committee (JAC) before becoming fire captains. There is no northern region training facility capable of meeting the assessed need for coordinating, scheduling, sponsoring, or presenting thousands of annual student days of mandated training for fire protection all departmental programs and functions necessary for CAL FIRE to comply with the mission statement and strategic objectives.

  The scope of work will include design and construction of a six bay auto shop, covered vehicle wash rack, emergency command center, flammables storage building, fuel vault cover, service center warehouse, administration building, vehicle equipment wash rack building, weapons ammunition storage building, 48 bed dormitory, training center, 120 foot communication tower, and emergency generator/pump/storage building. Other work will include site development, asphalt paving, curbs, sidewalks, utilities, fire suppression system, fire hose wash rack with drying slab, self-contained breathing apparatus refill station, solar power, a security system with cameras and security fencing.

2. **Temecula Fire Station – Relocated Facility.** The Temecula Fire Station is a two-engine fire station in Temecula; Built in 1948, the facility was modified to meet the changing needs of the fire station. However, many of the structures are no longer compliant with building codes. The existing barracks and mess hall facilities no longer meet the requirements of Health and Safety Code; Section 16001, for an essential services facility. The structures do not meet seismic standards. In addition, the size of the existing parcel, 1.77 acres, is not large enough upon which to build a standard two-engine fire station. Typically, a minimum of five acres of land is required.

   The proposed project will include the design and construction of a standard two-engine fire station, flammables storage building, generator/pump/storage building.

3. **Macdoel Fire Station – Relocate Facility.** The Macdoel Fire Station is a single-engine station located on 3.83 acres in Macdoel in Siskiyou County. The Butte Valley Irrigation District owns the site and the state leased it for 50 years. The lease expired on January 31, 2007 and tenancy is now on a month-to-month basis. The district does not want to sell the property to the state.

   The scope of work includes acquiring a suitable parcel upon which to construct a 12-bed barracks/ messhall, three-bay apparatus building, flammable storage building, generator/pump building, wash rack canopy, fueling canopy. Site development includes demolition, earthwork, drainage, roads, curbs and paving, gutters and walks, fuel island (includes vault), site lighting, vehicle wash rack, hose wash rack, fencing, landscaping.

4. **Badger Fire Station – Replace Facility.** The Badger Forest Fire Station, built in 1946, is a one-engine facility located on 7.34 acres of state-owned property in Northern Tulare County, near the Sequoia and Kings Canyon National Parks. The year-round station provides initial wildland fire protection to approximately 120,000 acres of State Responsibility Area. The Legislature approved funding to replace the 67-year-old fire station because of its deteriorated condition and poor design.

   The existing design and construction phases for this project were appropriated in 2006-07 and 2014-2015; however, due to unanticipated project delays associated with budgetary funding constraints and increased construction costs in the region, the approved scope of the project cannot be completed within the existing appropriations. The project was bid in March 2016, but the lowest bid was 56 percent over the original estimate. As a result, the department must pursue additional funds for the project and rebid in August 2017.

5. **Statewide: Replace Communications Facilities, Phase V.** CAL FIRE operates and manages communications equipment at 192 telecommunications sites throughout the state. CAL FIRE mountaintop communications facilities are remote facilities that essentially consist of a telecommunications tower and a securable radio communications building (vault) that is environmentally controlled to house sensitive radio transmission equipment. These facilities also include back-up electric generators that enable the sites to remain operational during power outages. Depending on site limitations, these generators are housed either within the vault, in a separate room, or in a stand-alone securable building. Where electrical power is not available at the site, facilities are powered by diesel/propane generators or solar panels for primary power.

   CAL FIRE is a member of the Public Safety Radio Strategic Planning Committee, established by the Legislature in December 1994. The committee has primary responsibility for developing and implementing a statewide integrated public safety communication system that facilitates interoperability among state agencies and coordinates other shared uses of the public safety spectrum, consistent with decisions and regulations of the Federal Communications Commission.

   CAL FIRE'S telecommunications sites provide the essential emergency communications linkage for CAL FIRE's fire protection and emergency response command and control throughout the state. In addition, these facilities are essential components of California's PSMN that transmits 911 calls and emergency instructions during major public safety incidents, including floods, firestorms and other natural disasters. Many of the CAL FIRE-managed mountaintop sites are also utilized and relied upon by other public safety agencies for their telecommunications needs.

   Because CAL FIRE operates and manages the majority of state-owned communications facilities in the state, CAL FIRE developed a Tower and Vault Master Plan (T&V Plan) dated December 18, 1995, which was adopted as part of the conversion plan. The T&V Plan was last updated March 22, 1998. The T&V Plan was developed to ensure continued reliability of the towers and vaults, which serve as critical structures in the department's public safety radio system and it also enables compatibility with the requirements of the PSMN. Public safety radio systems serve as critical links for fire and other public safety personnel throughout the state serving to protect the lives and property of the citizens of California.

CAL FIRE T&V Plan: Six facility replacements and the addition of a tower at an existing facility represent the Phase V highest priority projects identified in the 1998 update to the T&V Plan:

1. Chalk Mountain Communications Facility - Replace Facility
2. Sierra Vista Communications Facility - Replace Facility
3. Mount Oso Communications Facility - Replace Facility
4. Bunchgrass Communications Facility - Replace Facility
5. Mount Pierce Communications Facility - Replace Facility
6. Pratt Mountain Communications Facility - Replace Facility
7. Banner Mountain Communications Facility - Construct Additional Tower

New facilities are built to meet essential services seismic standards, withstand 100 mph winds and have 25-year serviceable life spans. Towers are self-supporting, four-legged lattice structures with upper monopoles and with safety ladders, platforms and lightning arrestors. Radio equipment vaults are concrete construction. The scope of work includes installation of new emergency backup generators, fuel systems, multi-purpose alarms, heating, venting and cooling systems and VHF and microwave communication equipment complete with all necessary accessories. Site work includes demolition of existing structures, extension of utilities, road and site paving and security fencing as site needs dictate.

6. **Potrero Forest Fire Station Replacement.** Acquisition funding was provided in 2016-17 to replace and relocate the Potrero Forest Fire Station and construct a standard two-engine fire station consisting of a 14-bed barracks/messhall, three-bay apparatus building, and a generator/pump storage building with generator. This project also includes a fuel dispensing system and fuel vault, vehicle wash rack, hose wash rack and flammable storage building. Site work includes clearing, grading, drainage, paving, walkways, curbs, well drilling and domestic water system with tank storage, septic system, electrical, telephone, irrigation, lighting, fencing, landscaping, solar power and all utilities. Site work also includes demolition and hazmat abatement of existing site.

Among other issues, the current buildings were constructed with un-reinforced concrete block and wood frame. The blocks are separating from each other, and the walls could fall in the event of an earthquake. They are substandard according to Seismic Safety Codes and Uniform Building Code, Chapter 21. The foundation of the station is also made of un-reinforced rock and concrete, and does not meet the standards of Section 1809 of the Uniform Building Code. Since the building was constructed prior to the ADA regulations, it is substandard in virtually all ADA and Title 24 regulations. Many doorways are less than 32 inches wide; there are no disabled accessible walks or sidewalks; public access is over rock curbs, rock landings, and rock steps, and public parking is at a distance across deteriorating asphalt with an uneven and cumbersome footing. In addition, because of the stations age, floor tiles and possibly other construction materials included asbestos.

The original scope of work did not include an acquisition phase as the existing site was going to be used for the replacement of the facility. However, in the process of completing the due diligence, the conducted hydrologic-hydraulic study identified the site as a flood hazard zone. The existing site could potentially be approved by the Federal Emergency Management Agency if the site were built up with fill to elevate the structures out of the floodplain. However, this process is very lengthy and would be more costly than acquiring another property.

7. **Various Minor Projects**

Proposed project 1: Connect a domestic water line to the Occidental Fire Station by installing approximately 2,800 feet of water pipe, two fire hydrants, plumbing upgrades, a water service meter, and paving.

The Occidental Fire Station in Sonoma County does not have an on-site source of water. When originally built, water for the facility was purchased from a well on one neighbor's property and pumped to a storage tank on another neighbor's property and then gravity fed back to the facility. In 2002, after several years of diminished flows from the primary well on the neighbor's property, the landowner was unwilling to continue selling water to the fire station. An attempt to establish an on-site well was unsuccessful. Since then, the station has purchased potable water delivered by truck. During peak staffing (May through November), CAL FIRE pays a minimum of about $300 per week for delivered potable water; and during non-peak staffing, $150 per week. This amounts to over $12,000 annually in support funding just for the purchase of potable water.

Proposed project 2: Replace the old warehouse at the Davis Mobile Equipment Facility constructing by constructing two metal storage buildings to house 12 fire engines.

The Davis Mobile Equipment Facility is the central equipment managing and handling point for the entire statewide fleet of CAL FIRE vehicles and motorized equipment. Currently, there are over 2,800 CAL FIRE mobile equipment units in operation in the statewide fleet. The facility processes approximately 200 new vehicles annually, as well as over 200 turn-in vehicles for reutilization or disposal. The facility services and maintains 60 headquarters vehicles on a continuing basis. The fire engines are stored outside. Since the facility is open to the public, detachable items such as hoses and tools are stored inside a warehouse that is onsite. Storage space in this warehouse is no longer sufficient.

Proposed project 3: Upgrade existing, and construct new apparatus, bays at various facilities to accommodate the Model 34 fire engines. Improvements include all associated site work and appurtenances.

Many fire stations and facilities were constructed more than 50 years ago and were designed for smaller wildland fire engines. Over time, fire apparatus size has progressively increased. The latest equipment being delivered to CAL FIRE is the Model 34. Many front-line fire apparatus cannot safely enter, or in numerous cases cannot physically fit inside, the buildings. To date the newer, larger equipment is rotated and relocated to sites where the increased sizes can be accommodated. As more new equipment is delivered for service, there is also an increase in operationally deficient stations.

Staff Recommendation. Approve as budgeted.

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 30, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112
Consultant: Joe Stephenshaw

OUTCOMES

Vote Only Calendar – Vote Only Calendar was approved 3-1 (Nielsen No); except for Issues 1 and 2 for the Sierra Nevada Conservancy, Issue 6 for the Wildlife Conservation Board, and Issues 1, 2, and 3 for the California Conservation Corp, which were approved 4-0.

Vote Only Calendar – Continued

Issues for Discussion

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—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, April 20, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 113

Consultant: Joe Stephenshaw

Vote Only Calendar

<u>Vote Only Calendar – Continued</u>

Issues for Discussion

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.

Vote-Only Calendar

0540 Natural Resource Agency

Issue 1 – Once-Through Cooling Fees to Complete MPA Management Program

Governor's Proposal. The Governor's budget proposes to transfer $5.4 million dollars, on a one-time basis, from the State Water Resources Control Board Once-Through Cooling (OTC) Interim Mitigation Program mitigation payments to the Ocean Protection Trust Fund.

Background. OTC systems take water from a nearby source (e.g., rivers, lakes, aquifers, or the ocean), and circulate it through pipes to absorb heat from the steam in systems called condensers, and discharge the now warmer water to the local source. OTC contributes to the decline of fisheries and the degradation of marine habitats in its vicinity.

This request will enable the state to meet its legislative mandates pursuant to the Marine Life Protection Act without incurring additional General Fund obligations. The OTC payments will fund mitigation of OTC related impacts, including, among other things, required increases in enforcement, outreach to improve compliance, and evaluations of the Marine Protected Areas (MPA) Network to determine the degree to which the MPA Network is offsetting the impingement and entrainment issues happening both locally and regionally.

Issue 2 – Implementation of AB 2800 (Quirk), Climate Change in Infrastructure Planning and Development

Governor's Proposal. An April 1st Finance Letter proposes $150,000 from the Environmental License Plate Fund to implement AB 2800 (Quirk) Chapter 580, Statutes of 2016.

Background. AB 2800 requires the Natural Resources Agency to establish and manage a climate-safe infrastructure working group, comprised of registered engineers, scientists, other institutions, and registered architects, and requires the working group to provide recommendations to the Strategic Growth Council and Legislature on how to integrate scientific data concerning projected climate change impacts into state infrastructure engineering. The agency will work with staff from the Energy Commission to manage consultant workload requested by this proposal.

Issue 3 – Reappropriations: Ocean Protection, Urban Greening, River Parkways and Museum Grant Programs

Governor's Proposal. An April 1st Finance Letter proposes the reappropriation of the unencumbered balances of several appropriations to complete projects that are underway and to award new grants with funds from projects that came in under budget and for projects that were unsuccessful.

Background. This request would reappropriate the remaining funds for ongoing and new projects from the following programs:

1. Proposition 40 River Parkways Program - This request would reappropriate the remaining balance of $1.1 million from 2014-15.

2. Proposition 40 California Cultural and Historical Endowment (CCHE) - CCHE has provided over $122 million in preservation grants. This reappropriation would allow for utilization of residual funds from a 2014 appropriation from projects that fell through or came in under budget.
3. Proposition 50 River Parkways - Proposition 50 allocated $100 million for river parkway projects. Awards for 118 projects were made from 2006 through 2016. This reappropriation of funds from 2006-07 and 2007-08 will allow ongoing projects to reach completion and would provide an opportunity to award funds to new projects.
4. Proposition 84 River Parkways - A total of 67 projects have been awarded from $72 million in available funds. Funds from three unsuccessful projects and from projects that came in under budget were awarded to three new projects as they became available. This reappropriation would allow the ongoing projects to reach completion and would provide an opportunity to award funds to new projects.
5. Proposition 84 Urban Greening – Proposition 84 authorized $90 million for urban greening projects that reduce energy consumption, conserve water, improve air and water quality, and provide other community benefits. This reappropriation would allow ongoing projects to reach completion and would provide an opportunity to award funds to new projects.
6. Proposition 84 Ocean Protection Council – Proposition 84 authorized $90 million for projects to conserve marine resources. This reappropriation will allow ongoing projects to reach completion and would provide an opportunity to award funds to new projects.

3100 California Science Center

Issue 1 – Restore 13 Custodial Positions to Clean and Maintain the California Science Center

Governor's Proposal. The Governor's budget proposes $644,591 from the Exposition Park Improvement Fund to restore 13 custodial positions necessary to support California Science Center facilities.

Background. Primarily due to the state budget crisis during the recession, Science Center staffing decreased from 148 authorized positions in 2009-10, to 110 authorized positions in 2016-17. The impact on custodial support from this staffing reduction was significant. The Science Center had a total of 41 custodians and seven custodian supervisors to address a three-shift/362-day work year and 10 facilities. Today, the Science Center has 17 custodians, and three custodian supervisors. Moreover, 13 approved custodial positions once slated for the Phase II Ecosystems building were abolished to mitigate employee layoffs. As a result, there is zero custodial support for the Phase II building which opened to the public in April 2010.

Issue 2 – Exposition Park Reimbursement Authority and Expenditure Authority Increases

Governor's Proposal. An April 1st Finance Letter proposes $150,000 from the Exposition Park Improvement Fund and an increase of $225,000 in reimbursement authority, annually, over a three-year period, for the Office of Exposition Park Management to pay for consultant services to develop a new master plan for Exposition Park.

Background. All of the physical land, with the exception of EXPO Center and the Rose Garden, is owned by the State of California, and the majority of buildings and employees are also state. It is estimated there are four million visitors each year, which makes Exposition Park one of the busiest urban parks in the United States.

The last master plan for Exposition Park is approximately three decades old. A new master plan will provide a cohesive vision for the grounds while ensuring the State of California meets its lease obligations with each park entity. Reimbursements will come from park tenants and a Southern California Association of Governments' grant.

Issue 3 – Reappropriate Deferred Maintenance Funds for the California African American Museum

Governor's Proposal. An April 1st Finance Letter proposes reappropriation of funds appropriated to the California African American Museum (CAAM) for deferred maintenance projects that include restroom and water fountain renovations and for improvements to exhibit and art storage facilities.

Background. The 2016-17 budget act provided CAAM with two appropriations that addressed deferred maintenance issues at the museum: 1) $275,000 from the Exposition Park Improvement Fund to renovate four bathrooms and replace the two wall mounted drinking fountains inside the CAAM building both for employees and guests, and 2) $2 million General Fund for other projects including; replacement of existing HVAC system, improved security, new roller doors, energy efficient lighting, painting, etc.

Because contracts have yet to be entered into, and in order to ensure funding is available to complete projects, CAAM is requesting this funding be available for an additional year.

3125 California Tahoe Conservancy

Issue 1 – Local Assistance Funding Technical Adjustment

Governor's Proposal. An April 1st Finance Letter proposes a technical adjustment to add provisional language to two local assistance items. The provision, which has routinely been included in prior conservancy appropriations, will allow the use of the funds for capital outlay purposes upon the approval of the Department of Finance.

Issue 2 – South Tahoe Greenway Shared Use Trail Phase lb/2

Governor's Proposal. An April 1st Finance Letter proposes to switch the fund source for this project from federal funds to reimbursement authority. The $250,000 reimbursement will come from Caltrans via a grant from the Active Transportation Program rather than federal funds.

Issue 3 – Tahoe Pines Campground Restoration and Access Project

Governor's Proposal. An April 1st Finance Letter proposes $323,000 from the Habitat Conservation Fund (Prop 117) and $200,000 from the Lake Tahoe Conservancy Account (LTCA) for the construction phase of the Tahoe Pines Campground Restoration project. A reversion of the unencumbered Prop 117 and LTCA balances from which this project was being funded is also requested.

Background. The project will restore and protect the integrity of onsite riparian habitat, improve water quality, and provide public access for river-oriented recreational day use opportunities. The project site is an eight-acre state-owned property in the Meyers area of the Tahoe Basin, which contains over 900 feet of Upper Truckee River frontage. The total project cost estimate is $873,000. The balance of funding needed is available in other, existing appropriations.

Issue 4 – Conceptual Feasibility Planning

Governor's Proposal. An April 1st Finance Letter proposes a reduction of $18,000 from Proposition 12 (the Clean Water, Clean Air, and Coastal Protection Bond Fund), for conceptual and feasibility studies originally requested in the Governor's budget. This funding is no longer necessary for this project.

3480 Department Conservation

Issue 1 – State Mining and Geology Board Legal Costs

Governor's Proposal. The Governor's budget proposes $200,000 from the Mine Reclamation Account for the State Mining and Geology Board within the Department of Conservation (DOC) to fund legal services provided to the board by the California Attorney General's office.

Background. The board performs a number of duties pursuant to the Surface Mining and Reclamation Act (SMARA), including acting as a lead agency when local agencies are incapable of performing those duties. SMARA was enacted to ensure that adverse environmental impacts of surface mining activities are prevented, that surface mine sites are reclaimed to a usable condition readily adaptable for an alternate, beneficial use, and to encourage production and conservation of mineral resources. The board's legal cost relating to SMARA has increased over the last several years.

Issue 2 – Strategic Growth Council Grant Support

Governor's Proposal. The Governor's budget proposes $220,000 from Proposition 84, on a one-time basis, for the Sustainable Communities Planning grants and Incentives Program grants.

Background. This grant program assists local governments in creating plans that improve air and water quality. The requested funds will be used for program delivery to ensure proper compliance of all grantees, and to provide technical assistance to grantees throughout the grant term.

Issue 3 – Sustainable Agricultural Lands Conservation Program Positions

Governor's Proposal. The Governor's budget proposes three permanent positions to administer the Sustainable Agricultural Lands Conservation Program on behalf of the Strategic Growth Council. An existing memorandum of understanding with the Office of Planning Research and the Strategic Growth Council will fund these positions.

Issue 4 – AB 2756 Implementation

Governor's Proposal. The Governor's budget proposes to transfer the 2016-17 appropriation in the Acute Orphan Well Account into the Oil and Gas Environmental Remediation Account.

Background. AB 2756 (Thurmond and Williams) Chapter 274, Statutes of 2016, eliminated the Acute Orphan Well Account and replaced it with the Oil and Gas Environmental Remediation Account. Both accounts were established to plug and abandon orphan wells. Without action, the balance in the Acute Orphan Well Account will revert to the General Fund.

Issue 5 – CA Agriculture Lands Planning Grant Program

Governor's Proposal. The Governor's budget proposes $150,000, annually, for four years from the Soil Conservation Fund for program support and $2.0 million, annually, for two years from the Soil Conservation Fund for local assistance.

Background. The Agricultural Protection Planning Grant Program provides grants to local governments for agricultural land conservation.

Issue 6 – Technical Adjustment

Governor's Proposal. An April 1st Finance Letter proposes to reappropriate $10 million from 2016-17 for the continued development and implementation of the Well Statewide Tracking and Reporting, a centralized data management system.

3560 State Lands Commission

Issue 1 – Legal Representation

Governor's Proposal. An April 1st Finance Letter proposes $580,000 from the General Fund to provide for out-of-state legal representation in the bankruptcy case for Ricon Island Limited Partnership (RILP).

Background. RILP is a lessee of three state oil and gas leases offshore of Ventura County. RILP filed for Chapter 11 bankruptcy protection in Texas on the eve of a commission public hearing to terminate RILP's oil and gas leases for significant regulatory violations and breach of its leases. Adequate local counsel representation is needed to protect the state from estimated abandonment costs of $30-$55 million and potential environmental risks to the marine environment and the California Coastal Sanctuary.

3600 Department of Fish and Wildlife

Issue 1 – Proposition 1 San Joaquin River Settlement Reversion

Governor's Proposal. The Governor's budget proposes a reversion of a current year state operations appropriation of $16.8 million in Proposition 1 (Water Quality, Supply, Infrastructure Improvement Fund of 2014) funds associated with the San Joaquin River settlement and an increase in local assistance in the budget year.

Background. The Proposition 1 bond funds are part of the $475 million which was specifically identified for the San Joaquin River restoration settlement. The department currently has provisional language that allows the Proposition 1 funds appropriated in local assistance to be available for local assistance or capital outlay. Because the department has used a portion of the overall appropriation (state operations and local assistance) for capital outlay the department is requesting a reversion of the state operations appropriation and an increase to the local assistance appropriation.

Issue 2 – Water Storage Investment Program

Governor's Proposal. The Governor's budget proposes $1.9 million in reimbursement authority to support the development and implementation of the Water Storage Investment Program (WSIP), pursuant to Proposition 1. This proposal will allow the department to meet statutory requirements for the WSIP under Proposition 1, provide full technical and policy level support for the program, and participate in the implementation of projects over the next five years.

Background. Proposition 1 authorized $2.7 billion dollars to the California Water Commission for funding public benefits associated with water storage projects that improve the operation of the state water system, are cost effective, and provide a net improvement in ecosystem and water quality conditions. Proposition 1 requires the department to participate in specific components of the WSIP including: 1) providing ecosystem priorities and relative environmental value of ecosystem benefits associated with storage projects for use in evaluating project proposals, 2) issuing findings associated with ecosystem benefits of individual project proposals, and 3) entering into contracts with successful project applicants to ensure that the project achieves the ecosystem benefits identified.

During the past year and a half of working with the Water Commission on the WSIP program, it has been determined that additional resources are needed for the department to carry out its role as outlined in Proposition 1. The department needs additional funding to 1) engage with potential project applicants on the proposed ecosystem improvements of potential projects, 2) conduct initial review of project proposals to ensure that proposals submitted under WSIP provide measurable improvements to the Delta ecosystem or to the tributaries to the Delta, 3) conduct technical review of project proposals to evaluate ecosystem benefits associated with eligible WSIP project proposals, 4) issue findings for individual projects that the ecosystem benefits of the project meet all of the requirements of WSIP, 5) evaluate and respond to appeals of initial project rankings focused on the ecosystem relative environmental value established during the technical review, 6) negotiate and implement contracts with project applicants to ensure that the public contribution of funds pursuant to WSIP achieves the ecosystem public benefits identified by the projects funded by the Water Commission, and 7) review environmental documents and issue permits associated with WSIP projects following final project rankings and funding commitments.

Issue 3 – Salmon and Steelhead Trout Restoration Grant Program

Governor's Proposal. The Governor's budget proposes $140,000 from the Salmon and Steelhead Trout Restoration Account to fund local assistance grant opportunities.

Background. These funds would be used to fund grants awarded through the Fisheries Restoration Grant Program (FRGP). FRGP is a competitive grant program created to respond to rapidly declining populations of salmon and steelhead trout in California.

Issue 4 – Yolo Bypass Wildlife Area – Waterfowl Habitat

Governor's Proposal. The Governor's budget proposes $246,000 from the Fish and Game Preservation Fund-State Duck Stamp Account for a minor capital outlay project at the Yolo Bypass Wildlife Area to provide habitat for resident and migratory waterfowl and other wetland dependent wildlife.

Background. The Yolo Bypass Wildlife Area - Waterfowl Habitat lack water infrastructure. Lack of water has resulted in fallow ground which does not benefit wetland dependent wildlife. Adding water infrastructure (pump/platform, electrical panel, delivery ditch) will allow the department to deliver water to the units and restore the ground into a functioning wetland. The funding source is from the State Duck Stamp Account (dedicated dollars) from a fee developed for the purpose of restoring and enhancing waterfowl habitat.

3640 Wildlife Conservation Board

Issue 1 – Proposition 1 Position Authority

Governor's Proposal. An April 1st Finance Letter proposes the conversion of two limited-term positions, expiring July 1, 2017, to permanent to meet the ongoing program delivery needs associated with the Wildlife Conservation Board's requirement to enhance stream flows, established by Proposition 1.

Background. The requested position conversion is to provide the staff resources necessary to revise and release grant solicitation guidelines annually, receive and review grant proposals, select and recommend to the board projects to be funded, and develop, execute, and manage grant agreements for projects approved by the board. The positions are currently the only board positions solely dedicated to the Stream Flow Enhancement Program.

3760 State Coastal Conservancy

Issue 1 – Proposition 12 Technical Adjustment

Governor's Proposal. An April 1st Finance Letter proposes a decrease of $3.1 million in Proposition 12 (Safe Neighborhood Parks, Clean Water and Coastal Protection Bond Act of 2000) authority to prevent a negative bond allocation balance.

Background. The Governor's budget contains a local assistance appropriation to the conservancy from Proposition 12 of $14.6 million, which was requested based on assumptions regarding prior year reversions that will not occur as initially estimated. Therefore, a reduction in the conservancy's local assistance appropriation is needed in order to prevent a negative bond allocation balance and to maintain funds for program delivery.

Issue 2 – State Operations Funding Realignment

Governor's Proposal. The Governor's budget proposes $420,000, which includes a shift of $120,000 from the Environmental License Plate Fund and $300,000 in adjustments to existing bond allocations and Special Funds that have historically supported the conservancy. This request does not increase the conservancy's overall baseline support budget because of one-time state operations amounts being reduced as baseline budget adjustments.

Background. The 2011 budget act directed the conservancy to develop a long-term funding plan. That plan was completed and submitted to the Legislature in January 2013. The plan identified three strategies for sustainable funding for the conservancy: 1) reducing its support budget, 2) increasing incoming grants and diversifying its funding, and 3) obtaining non-bond support funding. The conservancy has made progress on the first two strategies; this request seeks to address the third.

Issue 3 – Request for Increased Federal Trust Fund and Reimbursement Authority

Governor's Proposal. The Governor's budget proposes $233,000 in federal fund authority and $500,000 in reimbursement authority to increase state operations support for the conservancy.

Background. The conservancy has submitted more applications to federal, state, and non-state grantors over the past several years, resulting in a higher volume of grants being awarded and the current levels of reimbursement and federal fund authority are insufficient. This has necessitated an increase in submitted budget revisions, which contributes to increased workloads for both the conservancy and Department of Finance. Increasing the baseline authority for federal funds and reimbursements will remedy this situation.

Issue 4 – Proposition 12 Reversion and Appropriation

Governor's Proposal. The Governor's budget proposes a reversion and a new appropriation in the amount of $14.6 million in Proposition 12 funds and provisional language to allow the funds to be used for local assistance and capital outlay and be available for encumbrance until June 30, 2020.

Background. As the conservancy is reaching the end of its Proposition 12 allocation, most of the funds requested for appropriation in this proposal will be used for the completion of ongoing projects funded by Proposition 12. The funds are needed to ensure that progress on several ongoing efforts including restoration of the Ballona Wetlands and Santa Monica Bay, the restoration and enhancement of salmonid habitat north of the Gualala River, and the construction of regional trails as part of the San Francisco Bay Area Conservancy Program is not interrupted or halted.

Issue 5 – Appropriation for Public Access

Governor's Proposal. The Governor's budget proposes $89,000 from the California Beach and Coastal Enhancement Account (Whale Tail Fund), for purposes of local assistance and capital outlay to continue implementation of the conservancy's public access, education and related programs.

Background. This amount reflects the amount that the conservancy is eligible to receive pursuant to the statutory allocation of the Whale Tail Fund. Funds will be used to develop, operate and maintain public access ways, including accepted offers-to-dedicate, to support public education related to coastal resources and to fund the Explore the Coast grant program. The requested funds will be disbursed as grants to public agencies and non-profit organizations and for recreational and interpretive facilities, materials, and events. Provisional language is being requested to allow the amounts appropriated to be utilized as local assistance or capital outlay.

Issue 6 – Federal Trust Fund and Reimbursements – Local Assistance

Governor's Proposal. The Governor's budget proposes $2 million in federal fund authority and $10 million in reimbursement authority to accommodate the federal, state, and other grants that the conservancy anticipates over the next several years.

Background. Over the past several years, the conservancy has been increasingly successful in attracting grant funds for projects from both federal and state sources. The conservancy expects to receive several substantial federal and state grants in the coming years, which will exceed the current levels of both federal fund and reimbursement authorities. This request will align the conservancy's authority with anticipated grant funding.

3790 Department of Parks and Recreation

Issue 1 – Vessel Operator Card Augmentation

Governor's Proposal. The Governor's budget proposes $497,000 from the Vessel Operator Certification Account to implement certification and card issuance for vessel operators.

Background. Pursuant to SB 941 (Monning) Chapter 433, Statutes of 2014, all motorized vessel operators in California are required to become certified. The department was tasked with developing the operator card and certification program. The Budget Act of 2015 included funding and positions authority for three staff to create the new program. This new funding will allow the division to contract with a vendor to administer a required vessel operator exam and issue operator cards. Applicants are charged a $10 fee for certification, which supports this fund. The department projects revenue of approximately $700,000 in 2017-18 and $1.3 million in 2018-19 and 2019-20.

Issue 2 – Oceano Dunes SVRA Visitor Center Project

Governor's Proposal. The Governor's budget proposes $1 million in 2017-18, and $805,000 ongoing from the OHVTF and three positions for facility staffing and maintenance for the Oceano Dunes SVRA/Pismo State Beach Visitor Center and Equipment Storage projects approved by the Legislature in 2014.

Background. In 2014, the Legislature authorized capital improvements in the amount of $6.1 million for this project. The improvements included a multi-purpose facility that will serve as a visitor center to accommodate the increased demand for interactive interpretive exhibits, an education program, Junior Ranger programs, training facilities, campground hosts, dune patrol volunteers, and other park staff. This project also includes an equipment storage building which will protect high-value equipment and six vehicles. It is anticipated that revenue will increase each fiscal year the state beach campgrounds are fully operational.

Issue 3 – Proposition 12 Statewide Bond Close-out

Governor's Proposal. The Governor's budget proposes $81,000 ongoing from Proposition 12 and one half-time position to provide statewide bond oversight and cash management during the bond's final years.

Background. Statewide bond staff will only be needed for Proposition 12 through 2016-17, but a small portion of bond funding is still unencumbered. In addition, tax compliance, cash management, and post-expenditure reporting needs have grown in the last few years, increasing bond oversight workload.

Issue 4 – Marsh Creek – Shea Settlement and Match Fund Reappropriation

Governor's Proposal. The Governor's budget proposes a reappropriation of the unencumbered balance of settlement funds (Shea settlement) deposited into the State Parks Recreation Fund (SPRF) to mitigate damages at Marsh Creek State Park and a reappropriation from SPRF for matching funds related to projects at Point Sur Lightstation (Big Sur). The total estimated balance requested for reappropriation is $700,000.

Background. The department had project permit delays related to the Shea settlement at Marsh Creek State Park. This reappropriation will allow the department to complete construction projects. The department awarded a construction contract for Point Sur Lightstation Bridge rehabilitation for five bridges in spring 2014, but the contractor was unable to execute the project. Rebids came in much higher than expected. The department requests the balance of this funding to complete four of the originally proposed five bridges to stay within the original budget.

Issue 5 – Boating Needs Assessment

Governor's Proposal. The Governor's budget proposes $300,000 from the Harbors and Watercraft Revolving Fund to expand the scope of the department's existing Boating Needs Assessment (BNA).

Background. The BNA is typically conducted every five years to assess boats and boating facilities located in ten regions throughout the state. However, the last survey effort was facilitated in 2000 and 2001 with the final five-volume report released late 2002. The study addressed specific topics such as wet and dry storage, law enforcement boating facility needs, the economic value of recreational boating to the state, and estimated demand projections through 2020.

Issue 6 – Proposition 40- Recreation and Facilities Programs

Governor's Proposal. The Governor's budget proposes $16 million, on a one-time basis, from the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund for grants through a competitive youth soccer and recreation development program. Additionally, the budget includes $10 million, on a one-time basis, for grants through a competitive outdoor environmental education facilities program.

Background. In the 2015-16 Governor's budget, the Administration announced its intent to fund a $26 million youth soccer program in 2017-18, utilizing an available Proposition 40 balance. The Legislature approved the youth soccer and recreation development program concept, but indicated its intent to authorize $10 million of the funds for a separate outdoor environmental education facilities program. This proposal will implement both the youth soccer and recreation development and outdoor environmental education facilities programs.

Issue 7 – Encumbrance Extension Request – San Diego County – 1988 Bond Act

Governor's Proposal. An April 1st Finance Letter proposes to reappropriate the balance of $2.1 million from a 2014 California Wildlife, Coastal and Park Land Conservation Fund of 1988 appropriation to extend the encumbrance period to allow for project scope changes related to the acquisition of natural lands in the Tijuana River Valley as well as time to obtain legislative approval.

Background. The 1988 bond act provided $9.9 million to the county for the acquisition of natural lands in the Tijuana River Valley. The county used the funds to acquire approximately 430 acres of land in the Tijuana River Valley, of which 127.6 acres was taken by the federal government through eminent domain.

In December 2012, a settlement agreement was approved whereby the federal government provided $2.1 million as compensation for the acreage seized. These funds were returned to the 1988 bond act fund, and then appropriated to the county in the 2014-15 fiscal year for the acquisition of natural lands in the Tijuana River Valley. The extension is necessary to allow time for the change of the project scope from acquisition to development as well as time for the County of San Diego to obtain Legislative approval as required by the 1988 bond act.

Issue 8 – Local Assistance Program – Habitat Conservation Fund

Governor's Proposal. An April 1st Finance Letter proposes to reappropriate balances of $2 million appropriations in 2009 and 2010 from the Habitat Conservation Fund (HCF) for local assistance program compliance.

Background. The HCF was created by the California Wildlife Protection Act of 1990 and provides $2 million on an annual basis for a competitive grant program administered by the Office of Grants and Local Services.

From its inception through FY 2012-13, funds from HCF were appropriated annually through the budget process. During the FY 2013-14 budget process, the fund was removed from the annual budget process and converted to a continuous appropriation. Due to withdrawn projects and projects completed under the previous budget act appropriations, reverted balances remain from 2009-10 and 2010-11.

Issue 9 – Reappropriation for Orange County Beach Restoration Program

Governor's Proposal. An April 1st Finance Letter proposes to reappropriate $4.5 million from a 2016 Public Beach Restoration Fund appropriation for beach re-nourishment of the Orange County Beach Restoration Project because the primary funding partner, the US Army Corps of Engineers, is unable to execute the contract within state encumbrance deadlines.

Background. In 2016-17, the department received an appropriation of $5.3 million, of which $739,000 was encumbered to complete engineering and design of this project. The remaining $4.5 million is budgeted for construction, but will be encumbered under a different agreement. Based on the most recent schedule from the corps, this construction agreement will not be executed for a minimum of three months beyond the state encumbrance deadline. Therefore, a re-appropriation for the remaining balance of funding is needed.

An additional $739,000 in construction funding for this project is already proposed in the Governor's budget. The total amount for construction of this project is $5.3 million.

Issue 10 – Division of Boating and Waterways Reimbursement Authority

Governor's Proposal. An April 1st Finance Letter proposes $156,000 in reimbursement authority for local beach restoration projects. The authority will allow the department to receive funds from local project partners.

3810 Santa Monica Mountain Conservancy

Issue 1 – Reappropriation of Proposition 84

Governor's Proposal. An April 1st Finance Letter proposes the reappropriation of $963,000 of Proposition 84 funds, from returned grant funds, to be used for local assistance and capital outlay projects until June 2020.

Background. The conservancy was allocated $56 million of proposition 84 funds, which are almost exhausted. In February 2017, there was a return of funds from a conservancy grant. This proposal is for a new appropriation of up to $963,000 of these returned funds to be used for the implementation of local assistance projects consistent with Proposition 84. Projects are coordinated with federal, state, local governments and non-profit entities.

Issue 2 – Local Assistance Reappropriation of Proposition 40 and 50 Funds

Governor's Proposal. An April 1st Finance Letter proposes the reappropriation of Propositions 40 and 50 funds included in the 2012 budget act. Additionally, the conservancy requests the funds be available for encumbrance and expenditure until June 30, 2020. The funds will be used for the acquisition, enhancement, restoration of natural lands, improvement of public recreation facilities, and for grants to local agencies and non-profit organizations to increase access to parks and recreation opportunities for underserved urban communities.

Background. The conservancy identified projects to be funded and encumbrances and expenditures were inadvertently made from later year appropriations. As a result, several Proposition 40 and 50 projects were not fully encumbered and there is an unencumbered balance from 2012-13 funds that are currently unavailable for encumbrance or expenditure. This request makes those funds available.

3835 Baldwin Hills Conservancy

Issue 1 – Reappropriation of Proposition 84

Governor's Proposal. An April 1st Finance Letter proposes the reappropriation of the balance from a 2014 budget act appropriation from Proposition 84 and authority for the funds to be available for encumbrance or expenditure until June 30, 2020. The funds will be used for local assistance grants or capital outlay for land conservation, preservation, planning and development, as well as, water quality improvements and habitat restoration in the Baldwin Hills and Ballona Creek Watershed.

3845 San Diego River Conservancy

Issue 1 – Proposition 1 Position Authority

Governor's Proposal. An April 1st Finance Letter proposes the conversion of one limited-term position to permanent to manage the Proposition 1 (Water Quality and Supply, and Infrastructure Improvement Act of 2014) program, and continue other reporting requirements.

Background. The conservancy previously hired an environmental scientist on a limited-term basis to manage the Proposition 1 grant program. However, there are ongoing efforts regarding grant administration, project management, and data collection and reporting that necessitate converting the position to permanent. Funding is provided from Proposition 1 program delivery funds.

3855 Sierra Nevada Conservancy

Issue 1 – Request for Federal Trust Fund

Governor's Proposal. An April 1st Finance Letter proposes $30,000 in federal fund authority for a partnership with the U.S. Forest Service to fund activities consistent with the Sierra Nevada Watershed Improvement Program.

Issue 2 – Proposition 84 – New Appropriation

Governor's Proposal. An April 1st Finance Letter proposes $285,000 in Proposition 84 (The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006) funds to provide funding for watershed protection local assistance grants and provisional language to extend the encumbrance period of the funds until June 30, 2020.

Background. Proposition 84 contains provisions that allows the legislature to appropriate $54 million to the conservancy for grants and other agreements for protection and restoration of rivers, lakes and streams, their watersheds and associated land, water, and other natural resources. This request is to ensure the total $54 million continues to be used consistent with bond requirements.

8570 Department of Food and Agriculture

Issue 1 – Environmental Auditing Unit Program Funding and Produce Safety Rule Implementation

Governor's Proposal. The Governor's budget proposes $1.9 million in federal fund authority and seven positions (growing to $3.4 million and 14 positions in 2020-21) to implement the new Federal Produce Safety Rule requirements.

Background. The Food Safety Modernization Act, Produce Safety Rule is a federal mandate to reduce foodborne illness and ensure safe food supply. California Department of Food and Agriculture (CDFA) intends to use the requested funding and positions to make produce safety program enhancements and to establish the Environmental Auditing Unit within CDFA's Division of Inspection Services to serve as the department's produce safety program.

Issue 2 – Use of Antimicrobial Drugs on Livestock

Governor's Proposal. The Governor's budget proposes $2.0 million General Fund and 8.5 positions to implement SB 27 (Hill) Chapter 758, Statutes of 2015.

Background. SB 27 addressed the overuse of antibiotics in livestock and poultry by enforcing limits on antimicrobial use in livestock and requiring CDFA to develop stewardship guidelines, track antimicrobial sales and collect information about on-farm use, sample pathogens for resistance trends and report to the Legislature.

The 2016 Budget Act included eight positions and $1.4 million in General Fund authority for CDFA to gather information on livestock antimicrobial sales and usage, anti-microbial-resistant bacteria, livestock management practice data, and develop science-based antimicrobial stewardship guidelines and best management practices for veterinarians and livestock owners and managers.

This request seeks additional resources for CDFA to contract with the California Animal Health and Food Safety Laboratory to perform pathogen surveillance and antimicrobial resistance testing on samples, as well as to contract with universities to develop and maintain stewardship materials to promote antimicrobial stewardship in livestock and ensure each animal receives the intended benefit from the prescribed drug.

Issue 3 – Short-lived Climate Pollutants (SB 1383)

Governor's Proposal. The Governor's budget proposes $312,000 from the Cost of Implementation Account and two permanent positions to implement SB 1383 (Lara) Chapter 395, Statutes of 2016.

Background. Short-lived climate pollutants (SLCPs) are a class of greenhouse gases or climate pollutants that remain in the atmosphere for a relatively short period of time. SLCPs, such as methane and black carbon (soot), remain in the atmosphere anywhere from a few days to a few decades. This is in contrast to carbon dioxide, which remains in the atmosphere for centuries.

CDFA operates a Dairy Digester Research and Development Program, which provides financial incentives and research funds to assist dairy operators with building and maintaining digesters and energy generating technologies to reduce methane.

SB 1383 requires the Air Resources Board to develop dairy/livestock manure methane regulations and analyze progress in consultation with CDFA.

Issue 4 – Sustaining the Viability of Emergency Exotic Pest Response

Governor's Proposal. The Governor's budget requests $1.8 million in federal fund authority, annually, for two years and 20 permanent positions to create Emergency Plant Health Response Teams.

Background. According to the Center for Invasive Species Research at UC Riverside, agricultural losses to exotic pests in California exceed $3 billion annually. CDFA is responsible for early detection and prompt eradication of such agricultural pests. CDFA accomplishes this through the operation of a statewide detection-trapping program, special detection surveys, and the maintenance of emergency projects response teams.

Due to an increase of exotic pest eradication projects over the past five years, the United States Department of Agriculture awarded CDFA funding to support the hiring and maintenance of Emergency Plant Health Response Teams. These teams develop and implement comprehensive approaches to invasive species eradication.

Staff Recommendation. Approve vote only items as budgeted.

Issues for Discussion

3720 California Coastal Commission

The California Coastal Commission, comprised of 12 voting members appointed equally by the Governor, the Senate Rules Committee, and the Speaker of the Assembly, was created by voter initiative in 1972 and was made permanent by the California Coastal Act of 1976 (Coastal Act). The Coastal Act calls for the protection and enhancement of public access and recreation, marine resources, environmentally sensitive habitat areas, marine water quality, agriculture, and scenic resources, and makes provisions for coastal-dependent industrial and energy development. New development in the coastal zone requires a coastal permit either from local government or the commission. Local governments are required to prepare a local coastal program (LCP) for the coastal zone portion of their jurisdiction. After an LCP has been reviewed and approved by the commission as being consistent with the Coastal Act, the commission's regulatory authority over most types of new development is delegated to the local government, subject to limited appeals to the commission. The commission also is designated the principal state coastal management agency for the purpose of administering the federal Coastal Zone Management Act in California and has exclusive regulatory authority over federal activities such as permits, leases, federal development projects, and other federal actions that could affect coastal zone resources and that would not otherwise be subject to state control.

The Governor's budget proposes $23.3 million in total expenditures for the commission in the budget year. The primary funding source for the commission is the General Fund - $15.7 million is proposed from the General Fund in the budget year.

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2730	Coastal Management Program	125.6	113.1	113.1	$20,926	$22,294	$21,568
2735	Coastal Energy Program	7.3	7.3	7.3	1,463	1,527	1,523
9900100	Administration	1.0	1.0	1.0	2,724	2,765	2,821
9900200	Administration - Distributed	22.5	22.5	22.5	-2,558	-2,655	-2,655
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**156.4**	**143.9**	**143.9**	**$22,555**	**$23,931**	**$23,257**

Dollars in thousands

3820 San Francisco Bay Conservation and Development Commission

The San Francisco Bay Conservation and Development Commission is a state planning and regulatory agency with regional authority. Its mission is to protect and enhance the San Francisco Bay and to encourage the bay's responsible and productive use for this and future generations. The commission authored and maintains the San Francisco Bay Plan and relies on it, the McAteer-Petris Act, and other regulatory authority to maximize public access to the bay and minimize bay fill. The commission issues permits for filling, dredging, and development projects within the bay, along the bay shoreline, and within salt ponds and certain managed wetlands adjacent to the bay. The commission also implements the Suisun Marsh Preservation Act of 1977. By state statute, the commission develops and implements the federal Coastal Zone Management Act's program for the bay and exercises authority over federal activities otherwise not subject to state control. The commission leads the ongoing multi-agency regional effort to address the impacts of sea level rise and climate change on the bay and its environs. Funding for these efforts to address climate change is derived mainly from federal grants and other agreements, contracts, and reimbursements.

The Governor's budget proposes $7.8 million in total expenditures for the commission in the budget year. The primary funding source for the commission is the General Fund - $5.6 million is proposed from the General Fund in the budget year.

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2980	Bay Conservation and Development	40.9	39.8	39.8	$6,334	$8,122	$7,783
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**40.9**	**39.8**	**39.8**	**$6,334**	**$8,122**	**$7,783**

The San Francisco Bay Conservation and Development Commission has jurisdiction over fill and new development along the San Francisco Bay shoreline out to 1,000 feet under the McAteer-Petris Act; the Coastal Commission has jurisdiction over development activities along the rest of the coast and state waters, exclusive of the San Francisco Bay.

Issue 1 – Oversight – Climate Adaptation/Sea Level Rise

Background. According to state research, in the past century, the global mean sea level has increased by seven to eight inches and it is extremely likely that human influence has been the dominant cause of observed atmospheric and oceanic warming. Given current trends in greenhouse gas emissions and increasing global temperatures, sea level rise is expected to accelerate in the coming decades, with scientists projecting as much as a 66-inch increase in sea level along segments of California's coast by the year 2100. While over the next few decades, the most damaging events are likely to be dominated by large El Niño - driven storm events in combination with high tides and large waves, impacts will generally become more frequent and more severe in the latter half of this century.

As the California Natural Resource Agency's (CNRA) Safeguarding California Implementation Plan - Oceans and Coastal Resources and Ecosystems Sector Plan notes, California's coastal agencies have a long history of successfully protecting, maintaining, and enhancing the health of coastal and ocean areas by addressing issues such as pollution, unsustainable resource use, and rapid urban development. This work is crucial considering that California's ocean and coast contribute $39.1 billion annually to the state's GDP (National Ocean Economics Program (NOEP) 2014). Climate change stressors, including but not limited to, sea-level rise and changing ocean conditions, are likely to escalate longstanding challenges such as unsustainable resource use, which present new governance and management challenges. The obstacles do not come from a single stressor, but the cumulative impacts. For example, it is not only sea-level rise that causes concern, but it is the long-term sea-level rise coupled with extreme storms, high tides, and seasonal fluctuations (e.g. El Niño Southern Oscillation, Pacific Decadal Oscillation, etc.).

The CNRA report points out that sea-level rise can increase flood risks in low-lying coastal areas and areas bordering rivers. A five foot increase in water levels due to sea-level rise, storms, and tides is estimated to affect 499,822 people, 644,143 acres, 209,737 homes, and $105.2 billion of property value in coastal California areas (Climate Central 2014). More specific concerns cited in the report include:

- The impacts on sea- and airports in particular will have important economic implications. For instance, the San Francisco Airport accounted for $5.4 billion in business and 33,580 jobs in 2012.

Inclusion of off-site activities that rely on air service (e.g. cargo deliveries, customer visits) increase the airport's economic contribution to $31.2 billion and 153,000 jobs (Bay Area Council Economic Institute 2015). The San Francisco Airport is already vulnerable to floods; sea-level rise is anticipated to exacerbate future floods, placing the airport at greater risk.

- California's beaches and recreational resources provide tremendous benefits to the state, including recreation and tourism revenues, habitat for commercial fish species, enhanced water quality, and increased quality of life. The tourism and recreation of California's ocean and coast has been calculated at roughly $16.9 billion annually (NOEP 2014). Sea-level rise is expected to exacerbate the erosion of sea cliffs, bluffs, and dunes along the coast and lead to the losses of public beaches and recreational resources.

- State coastal agencies have undertaken important steps to address vulnerabilities and impacts and to implement the four categories of ocean and coastal recommendations identified in Safeguarding California: 1) improve management practices for coastal and ocean ecosystems and resources, and increase capacity to withstand and recover from climate impacts; 2) better understand evolving trends that may impact ocean and coastal ecosystems and resources; 3) better understand climate impacts on ocean and coastal ecosystems and resources; and 4) share information and educate.

The CNRA report notes that coastal agencies have identified ways to reduce coastal and ocean climate change vulnerabilities and impacts using available capacity and resources and leveraging existing programs, projects, and forums. However, making further progress on adaptation requires a commitment to:

- Allocate adequate funding and capacity to improve the understanding of climate change vulnerabilities and impacts and to formulate, implement, and monitor adaptation measures that support the overarching goal of coastal and ocean health.

- Coordinate and align efforts across agencies, levels, and sectors to achieve a shared vision of coastal and ocean health.

- Learn continuously to inform the development and adjustment of flexible adaptation approaches that effectively and efficiently respond to changing conditions.

- Leverage existing legal, policy, and institutional structures to govern and manage coastal and ocean areas and resources for short and long-term health.

While state coastal agencies have demonstrated their commitment to collaborating on climate change adaptation, transformational change will also require continued support from the Governor's office and the Legislature, commitments by local and regional entities, and efforts by other state agencies. This is especially true when it comes to fully implementing adaptation policies to address risks from sea-level rise, particularly in relation to infrastructure planning and investment and water quality management.

California Coastal Commission. On August 12, 2015, the California Coastal Commission unanimously adopted its Sea Level Rise Policy Guidance: Interpretive Guidelines for Addressing Sea Level Rise in Local Coastal Programs and Coastal Development Permits. The document provides recommendations for local governments, applicants, and others for how to address sea level rise in Local Coastal Programs (LCPs) and Coastal Development Permits (CDPs). It also provides a background of the best available science on sea level rise, and describes the importance of avoiding hazards and protecting coastal habitats and other coastal resources as sea level rises.

According to the commission's Sea Level Rise Policy Guide, the potential environmental, economic, and social impacts of sea level rise in California underscore the importance of addressing the issue in land use planning and regulatory work. Many aspects of the coastal economy, as well as California's broader economy, are at risk from sea level rise, including coastal-related tourism, beach and ocean recreational activities, transfer of goods and services through ports and transportation networks, coastal agriculture, and commercial fishing and aquaculture facilities.

Sea level rise also poses environmental and social justice challenges. This is particularly true for communities that may be dependent upon at-risk industries, are already suffering from economic hardship, or which have limited capacity to adapt, including lower-income, linguistically isolated, elderly, and other vulnerable populations.

Local Coastal Plans (LCPs), in combination with Coastal Development Permits (CDPs), provide the implementing mechanisms for addressing many aspects of climate change within coastal communities at the local level. The goal of updating or developing a new LCP to prepare for sea level rise is to ensure that adaptation occurs in a way that protects both coastal resources and public safety and allows for sustainable economic growth. This process includes identifying how and where to apply different adaptation mechanisms based on Coastal Act requirements, other relevant laws and policies, acceptable levels of risk, and community priorities. LCP and Coastal Act policies are also reflected in CDPs, which implement sea level rise management measures and adaptation strategies through individual development decisions. By planning ahead, communities can reduce the risk of costly damage from coastal hazards, can ensure the coastal economy continues to thrive, and can protect coastal habitats, public access and recreation, and other coastal resources for current and future generations.

In addition to continuing the ongoing coordination of the LCP Grant Program, and other outreach, training, and coordination efforts, the commission has several ongoing grant-funded projects related to sea level rise adaptation planning.

San Francisco Bay Conservation and Development Commission (BCDC). In 2010, BCDC and NOAA's Office for Coastal Management brought together local, regional, state and federal agencies and organizations, as well as non-profit and private associations for a collaborative planning project along the Alameda County shoreline – the Adapting to Rising Tides (ART) Subregional Project – to identify how current and future flooding will affect communities, infrastructure, ecosystems and economy.

Since then, the ART program has continued to both lead and support multi-sector, cross-jurisdictional projects that build local and regional capacity in the San Francisco Bay Area to plan for and implement adaptation responses. These efforts have enabled the ART program to test and refine adaptation planning methods (ART Approach) to integrate sustainability and transparent decision-making from start to finish, and foster robust collaborations that lead to action on adaptation.

Experience with a variety of adaptation planning efforts that range from broad to focused scales, single to multi-sector, has led the ART Program to emphasize three factors for success in this approach.

1. **Collaborative by design.** Climate change, similar to hazard planning, requires planning across jurisdictions, geographies, sectors, and time frames to address complex, cross-cutting issues. ART emphasizes convening and closely collaborating throughout a planning process with a stakeholder working group representing the diverse values, viewpoints and responsibilities relevant to the project, to build relationships that lead to future collaborations.

2. **A transparent process.** To build a strong, actionable case for adaptation, the ART approach adheres to transparent decision-making throughout the planning process. ART Design Your Project guidance and supplies help maintain transparency and support clear communication to stakeholders about decisions and project outcomes, including resilience goals developed and agreed upon by the working group, and evaluation criteria that clearly reflect priorities and objectives.

3. **Sustainability from start to finish.** A core aspect of ART is consideration of the relevance and implications of all aspects of sustainability in each step of the planning process, from who is included in the initial working group list to what evaluation criteria are selected to evaluate adaptation responses. ART uses four sustainability frames:

The ART program is working with local, state, regional and federal agencies and organizations to gather, develop and analyze the data needed to understand the impacts of a changing climate on Bay Area communities, infrastructure, services, and natural resources. Each ART program project has a rich repository of data, maps and analysis about the many assets, asset categories and sectors evaluated.

Staff Comment. There have been various recent efforts to drive and support state climate adaptation strategies, including efforts specifically targeting seal level rise. Examples include, Governor Brown's April 2015 executive order addressing climate change and sea level rise adaptation, which states that state agencies shall take climate change into consideration in their planning and investment decisions, AB 2516 (Gordon) Chapter 522, Statutes of 2014, which established a planning for sea level rise data base, and a measure by the chair that created an Integrated Climate Adaptation and Resiliency Program. This is an opportunity to get an update from two of our state entities that are leading efforts to combat sea level rise and explore options to enhance these efforts.

Staff Recommendation. Informational item, no action necessary.

3790 Department of Parks and Recreation

The mission of the California Department of Parks and Recreation (DPR) is to provide for the health, inspiration, and education of the people of California by helping to preserve the state's extraordinary biological diversity, protecting its most valued natural, cultural and historical resources, and creating opportunities for high-quality outdoor recreation for current and future generations to enjoy. With increased urbanization, the establishment of park units and recreation areas accessible to the major population centers of the state has become particularly important. Specific activities include stewardship of natural resources, historic, cultural and archeological sites, artifacts and structures, provision of interpretive services for park visitors, construction and maintenance of campsites, trails, visitor centers, museums, and infrastructure such as roads and water systems, and creation of recreational opportunities such as hiking, bicycling, fishing, swimming, horseback riding, jogging, camping, picnicking, and off-highway vehicle recreation. In addition, the Division of Boating and Waterways funds, plans, and develops boating facilities on waterways throughout California and ensures safe boating for the public by providing financial aid and training to local law enforcement agencies.

The Governor's budget proposes $675.6 million in total expenditures for the department in the budget year. The primary funding sources for DPR are the State Parks and Recreation Fund (SPRF), the General Fund and the Off-Highway Vehicle Trust Fund (OHVTF) - $180.5 million, $138.8 million, and $92.9 million, respectively, is proposed from these sources in the budget year. The decrease in funding for the department from 2016-17 to 2017-18 is primarily due to a one-time appropriation of $60 million in the current year for deferred maintenance projects.

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2840	Support of the Department of Parks and Recreation	3,496.7	3,486.6	3,494.1	$422,226	$534,376	$462,448
2850	Division of Boating and Waterways	56.2	60.8	60.8	24,356	28,447	29,295
2855	Local Assistance Grants	-	-	-	84,106	168,419	183,876
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**3,552.9**	**3,547.4**	**3,554.9**	**$530,688**	**$731,242**	**$675,619**

Dollars in thousands

Issue 1 – Base Funding – Maintain Operations

Governor's Proposal. The Governor's budget proposes $12.6 million from the SPRF and $4 million from the California Environmental License Plate Fund (ELPF), on a one-time basis, to maintain existing service levels throughout the state parks system. This proposal is intended to allow the department to complete implementation of operational efficiency initiatives, enhance revenue generation opportunities, and explore additional partnerships, including an outside support organization as specified by SB 111 (Pavley) Chapter 540, Statutes of 2016. The proposal sustains the current level of service at parks, while acknowledging the need to solve the long-term structural shortfall.

Background. The state park system, administered by DPR, contains almost 280 parks and serves about 75 million visitors per year. State parks vary widely by type and features, including state beaches, museums, historical sites, and rare ecological reserves. The size of each of park also varies, ranging from less than one acre to 600,000 acres. In addition, parks offer a wide range of amenities including campsites, golf courses, ski runs, visitor information centers, tours, trails, fishing and boating opportunities, restaurants, and stores. Parks also vary in the types of infrastructure they maintain, including buildings, roads, power generation facilities, and water and wastewater systems.

Over the past several years, the department has relied on one-time augmentations to sustain core operation service levels. In 2014-15 and 2015-16, the department received one-time augmentations from its SPRF fund balance; however, in 2016-17 a one-time transfer of fuel tax revenue, initially slated to go to the Off-Highway Vehicle Trust Fund (OHVTF), was needed to both sustain operations and keep SPRF solvent.

Service-Based Budgeting (SBB)
The Parks Forward Commission (PFC) was appointed in July of 2013 to recommend improvements for ensuring the state park system's long-term sustainability. The commission's primary purpose was to look beyond the immediate crisis and toward a broader vision for California parks - a vision of a focused and modernized department positioned to lead a park system that:

- Values and protects the state's iconic landscapes, natural resources, and cultural heritage;
- Remains relevant and accessible to all Californians and welcomes visitors from around the world;
- Engages and inspires younger generations; and
- Promotes healthy and active lifestyles and communities that are quintessentially Californian.

In anticipation of the PFC report, the California Natural Resources Agency and the department's director commenced a state parks transformation process by retaining an advisor with extensive state and local government organizational development experience to identify a series of initiatives that will result in many positive changes in the department's organization. To accomplish these changes, the department has assembled a transformation team that has taken on several important transformative initiatives, including Service-Based Budgeting (SBB). SBB was established to improve allocation of resources, increase service consistency across parks, monitor spending across programmatic areas, and understand under-met programmatic needs.

In May 2016, the department completed the data collection effort for SBB that documents all functions, across each district and park to enable analysis of the resource requirements for each task the department needs to perform to achieve its mission (optimum service level). This process also revealed which tasks are currently performed and to what extent (current service level). This data is captured in hours by classification and can be converted to cost using current salary, benefit, and operating equipment and expense information. The department has been able to analyze this information through high-level analytics, and for the first time can articulate through a qualitative analysis the service levels it currently provides and how it allocates its resources. The department has begun the process of setting service level standards that align to the department's mission and goals.

Maintaining Existing Service Levels
According to the department, any decrease in funding would mean reductions to core operations and could ultimately impact visitor services, natural and cultural stewardship, community engagement, or park infrastructure. Over the past two years $80 million has been invested in addressing state parks infrastructure. It is critical that support functions be maintained and preserved as well. While SBB will inform the allocation of existing resources, resources in many areas are already stretched thin to address critical health and safety, infrastructure, and revenue generation mandates. To the extent that funding to maintain existing services is depleted, the department will lose flexibility to reallocate internally to either fill service gaps or promote revenue generating activities.

Revenue Generation Projects
The department's request includes $477,000 in SPRF to support four revenue-generating projects at Hearst Castle within Hearst San Simeon State Historical Monument (Hearst Castle), Morro Strand State Beach (SB) and South Carlsbad SB. The department is mandated to engage in revenue-generating projects throughout the state parks system in order to obtain sustainability and sufficiency. These four projects are vital to adhere to the Legislative mandate and create revenue for the Department as part of its Transformation Team efforts and are self-supporting from the revenue they generate.

Legislative Analyst's Office (LAO). The LAO's overview of this proposal included the following addition background related to funding for the department:

- **Major Funding Sources for State Park Operations.** Park operations are ongoing activities necessary to run the park system, including staffing, management, maintenance, fee collection, and administration. Other activities performed by the department, such as capital outlay projects and grants provided to local governments, are not considered part of park operations. The state park system receives funding from many sources to support its operations. The major sources for funding include:

    - **SPRF.** In recent years, the department's largest fund source for operations has been SPRF, which has provided about 40 percent of the department's operations funding. The fund is supported primarily by revenues collected from fees charged to park users. Parks frequently charge user fees, including for parking, park entrance, and specific recreational activities (such as the use of overnight campsites). The fund also receives revenue from contracts with state park concessionaires that provide certain services, as well as some revenue from the Highway Users Tax Account and the Motor Vehicle Fuel Account for constructing and maintaining public roads in state park units.
    - **General Fund.** With a few exceptions, state parks cost more to operate and maintain than they currently generate in revenue. For this reason, state park operations are partly funded from the state General Fund. The amount of General Fund support for the parks has declined since 2006-07.
    - **Off-Highway Vehicle (OHV) Trust Fund.** The department receives roughly $60 million annually from the OHV Trust Fund for operations of the Off-Highway Motor Vehicle Recreation Division of DPR. Revenue for the OHV Trust Fund primarily comes from 1) fuel taxes that are attributable to the recreational use of vehicles off highway, 2) OHV registration fees, and 3) fees collected at State Vehicular Recreation Areas (SVRAs). This fund primarily is spent to operate and expand the state's eight SVRAs, to acquire land for new SVRAs, and make grants to agencies for OHV trails on other public lands.
    - **Other Special Funds.** State parks receive support from various special funds, including revenue from the state boating gas tax, federal highway dollars for trails, and various state revenue sources earmarked for natural resource habitat protection. Historically, DPR has also received funding from ELPF, which collects revenue from specialty license plate sales. However, this funding was eliminated as part of a solution to ELPF's structural deficit in 2015-16.

- **Recent SPRF Shortfalls.** Changes to DPR's budget since 2011-12 have resulted in a SPRF operating deficit and depletion of the SPRF fund balance. During the recent recession, the 2011-12 and 2012-13 budgets reduced baseline General Fund support for the department by a total of $22 million to achieve General Fund savings. In response to the reduction, the Legislature provided additional SPRF funding on a temporary basis rather than close state parks. The Legislature also took other actions to encourage parks to become more self-sufficient through increased revenue generation. This also increased expenditures and transfers from SPRF to provide funding for new projects and activities intended to generate revenue.

These changes, coupled with other one-time and ongoing spending, caused expenditures from SPRF and its subaccounts to increase by more than $66 million between 2011-12 and the projected 2017-18 level. Revenues and transfers to the fund did not increase at the same rate over that period. These trends resulted in a structural deficit and the virtual depletion of the SPRF fund balance.

- **Legislature Created Revenue Generation Program.** State parks have historically relied on park-generated revenue to help support operations. In recent years, the Legislature has directed DPR to improve its revenue generation. Specifically, SB 1018, (Committee on Budget and Fiscal Review), Chapter 39 of 2012 directed DPR to maximize revenue generation activities (consistent with the mission of the department).

  The District Incentive Program sets annual revenue targets for each district based on how much revenue that district earned in the previous three years. If both the state as a whole and an individual district exceed revenue targets, half of the district's revenue earned above its target is allocated back to that district. The remainder stays in SPRF—in the Revenue Incentive Subaccount—to be used for specified purposes, including new fee collection equipment and projects to improve the experiences of visitors. A district that does not exceed its target does not receive an allocation under the program. Chapter 39 also created and transferred bond funds to the State Park Enterprise Fund to be used for infrastructure and facility improvement projects designed to increase revenue.

The LAO found that the Governor's budget proposal is a reasonable way to address the shortfall on a one-time basis. The Governor's budget projects that SPRF will have a year-end fund balance of only $4.6 million (three percent of revenues and transfers) at the end of the budget year. In addition, while ELPF is projected to have a fund balance of $10.8 million at the end of 2017-18, it could not sustain the proposed funding for parks on an ongoing basis without putting that fund into a structural deficit. In fact, the ELPF had its own structural deficit until a series of budget actions was taken last year that included eliminating ELPF support for DPR. One reason ELPF could support this expenditure in the budget year is because of a proposed one-time transfer of $6.3 million from the Motor Vehicle Account into ELPF. This transfer is related to past overcharges to the ELPF discovered in a 2013 audit by the California State Auditor. The LAO noted that using ELPF to support DPR in the budget year delays rebuilding the fund's balance and reduces the amount available for other ELPF-supported activities.

Staff Comments. The current transportation funding proposal, SB 1 (Beall), beginning November 1, 2017, would transfer the gasoline excise tax revenues attributable to boats and off-highway vehicles from a new $0.12 per gallon increase, and future inflation adjustments from that increase, to the SPRF, to be used for state parks, off-highway vehicle programs, and boating programs. This is projected to result in approximately $45 million in the first year growing to $60 million, annually, of new annual revenue for the department. This new revenue should significantly impact the funds ongoing structural issue and raises the question of whether a portion of the Governor's budget proposal, one-time funds from the ELPF, is still necessary.

Further, the Legislature may wish to inquire about how the department is planning to utilize SB 1 revenues to the extent that they exceed the level required to maintain current operations. For instance, one of the PFC's recommendations was for the department to expand park access for California's underserved communities and urban populations and engage California's younger generations. The PFC's report noted that, while growing the overall number of park visitors is important, equally important is ensuring park visitors reflect California's demographic makeup. To accomplish this, the PFC recommended that the department set a goal to have park visitation mirror California's demographic makeup in 10 years and develop and implement a rigorous marketing strategy that drives toward this goal. The Legislature may wish to have the department provide an update on its effort in this regard and how new revenue can be used to supplement this effort.

Since SB 1 was just recently passed by the Legislature, the Governor's budget does not currently contemplate how to expend these newly anticipated funds. Staff assumes the Administration will come in with proposals for expenditure of these funds at the May Revise. However, in the meantime, it may make sense for the subcommittee to adopt an action in order to communicate its priorities to the Administration in anticipation of later budgetary actions.

Staff Recommendation. Staff recommends that the subcommittee adopt the following action:

Approve $15 million of the funds received by the Department of Parks and Recreation as follows:

1. $5 million for the department to acquire, rehabilitate, restore, protect and expand wildlife corridors including projects to improve connectivity and reduce barriers between habitat areas with a priority in urban areas of the state. The department may acquire property directly and may also provide grants to other public agencies and non-profit organizations to achieve wildlife corridor connectivity.

2. $5 million for the department to establish a grant program for eligible community-based organizations to provide community access services to park-poor communities to state park and beach facilities. Grants shall be distributed to address all parts of the state but with priority to reach/impact the greatest number of community members (meaning number of people impacted by the program). Funds may also be used to help match funds such as those adopted under Measure A in LA, for community-based organizations that leverage local matching funds.

3. $5 million for park maintenance and repair specifically to ensure that public-use facilities, such as restrooms, are in working order.

Issue 2 – Americans with Disabilities Act Program Appropriation shift to General Fund

Governor's Proposal. The Governor's budget proposes $4.1 million General Fund, and an equal reduction of Proposition 12 funds for 2017-18, growing to an ongoing shift of $12.3 million beginning in 2018-19, to support the Americans with Disabilities Act (ADA) Program. This proposal reflects the end of the life of the bond.

Additionally, this proposal includes $1 million General Fund and five positions beginning 2018-19 for the maintenance of completed ADA improvement projects.

Background. DPR is subject to a 1990s federal consent decree (Tucker Consent Decree) that requires the department to complete a list of barrier removal projects for ADA compliance. The most recent transition plan for project completion includes deadlines that range from 2016 to 2028. The department has completed 1,089 of 3,064 listed items and has an additional 431 in progress. The department is required to complete these projects within a specific timeline, and this funding request will allow them to proceed largely on schedule.

The Tucker Consent Decree prioritizes the work in the transition plan by park level based on public attendance, geographic location, and variety and uniqueness of park activities. Level 1 parks are the highest priority, while Level 4 are the lowest. In Level 1 parks, the department agreed to make all activities and supporting facilities physically and programmatically accessible. In Level 2 and 3 parks, the department agreed to make the major activities and supporting facilities physically and programmatically accessible.

The ADA Program has three types of projects:

- **Accessibility Construction Unit (ACU):** Projects that are completed by the ADA program's own four-eight person construction crews. These are smaller projects that do not require full design and engineering documents because the ACU crews are highly experienced in accessibility codes and requirements and are able to complete work with conceptual designs only. ACU projects average $200,000 each.

- **Trail:** Trail projects designed by the ADA program's landscape architects and completed either by departmental trail crews or with labor from the California Conservation Corps. Trail work is labor-intensive and completed by hand. While trail layouts are designed in-house before construction, topographical challenges require much flexibility in the final design and layout. Regardless of labor source, all trail projects are supervised by the department's trail experts. Trail projects average $400,000 each.

- **Contracted:** Large projects that require full design and engineering documents. The department designs, engineers, monitors, and inspects the projects, while the construction work itself is contracted to private companies through the public contracting process. Contracted projects average $1,000,000 each.

ADA projects related to the consent decree were previously funded by Proposition 12 but the resource need for these projects is greater than the amount of Proposition 12 available funding, so the balance will be funded by General Fund. The latest ADA barrier-removal cost estimate, completed by the department's Acquisition and Development Division, estimates that $175 million will be needed to address the presently identified ADA barrier-removal projects.

Staff Recommendation: Approve as budgeted.

Issue 3 – Hazardous Mine Remediation

Governor's Proposal. The Governor's budget proposes $14.5 million General Fund for environmental remediation at Empire Mine State Historic Park, Malakoff Diggins State Historic Park, and Mount Diablo State Park. All three parks are currently under cleanup and abatement orders and these funds allow DPR to comply with the orders. Additionally, this proposal includes $2 million General Fund ongoing for Empire Mine monitoring and maintenance requirements and future clean-up costs.

Background. These state parks bring their own respective uniqueness to the State Parks System. Mount Diablo is located in Contra Costa County at the eastern fringe of the San Francisco Bay Region, is a unique 19,600-plus acre "Island Mountain" girdled by suburban development. Rising 3,849 feet above the neighboring lowlands, Mount Diablo offers 360 degree views that, on clear days, can take in 35 counties and 200 miles. In 1851, the mountaintop was selected as the starting point for a survey of the public domain and is used to this day in official land surveys. This proposal is a one-time request to remove the contaminated materials from the park to an appropriate disposal facility. It will include bringing a consultant on board to assist with the implementation.

Malakoff Diggins is a Historic Park Unit and is subject to Public Resources Code (PRC) 5024. PRC 5024 requires state agencies to take a number of actions to ensure preservation of state-owned historical resources under their jurisdiction. Malakoff Diggins is also listed on the National Register of Historic Places and subject to Secretary of the Interior's standards for historic preservation. The North Bloomfield Historic District at Malakoff Diggins is a national historic landmark and, by direct association, the Diggins pit itself could be considered a significant contributing historic feature. Proposed remedial solutions may impact protected cultural resources and risk delisting. In light of this, the department has completed a park-wide cultural resources inventory which is the first step in obtaining a better understanding of the vast resources at the park and provides a baseline to assist in determining impacts. Tasks in this proposal will build from the previous appropriation and initiate consultation with permitting agencies, control agencies, continuing the water monitoring and sampling and implement approved remedial alternatives.

Located in Grass Valley, Empire Mine is the site of one of the oldest, largest, deepest, longest, and richest gold mines in California. In operation for more than 100 years, the mine produced 5.6 million ounces of gold before it closed in 1956. The park consists of 856 acres, including forested backcountry and 14 miles of trails. Additionally, the park contains many of the mine's original buildings, the mine owner's home with restored gardens, and the main shaft entrance to 367 miles of abandoned and flooded mine shafts. Attendance at the park exceeds 110,000 visitors each year. Recreational opportunities at the park include picnicking, hiking, biking, horseback riding, and guided tours. The requested funds for Empire Mine is the department's estimate of what will be needed each year to fund continued evaluation, analysis, design, and maintenance of remedial action projects required. This proposal excludes the construction costs of future remediation projects because the timing and cost of these projects cannot be meaningfully anticipated at this time.

As a result of historic mining activities and operations, there are environmental hazards which are violating the Clean Water Act at these parks. The regional board has issued Waste Discharge Requirements to Malakoff Diggins and Empire Mine; and also issued a cleanup and abatement order for Mount Diablo and Empire Mine.

This funding will fully meet the orders for Mount Diablo, meet the interim measures at Malakoff Diggins, and satisfy the multiple orders at Empire Mine, which, like Malakoff Diggins, will have ongoing monitoring and maintenance requirements and potential future clean-up costs.

Staff Recommendation: Approve as budgeted.

Issue 4 – Local Assistance Program – Various Grant Funding

Governor's Proposal. The Governor's budget proposes $32.4 million on a one-time basis, and $119.2 million ongoing, from special and federal funds for various local assistance programs. Additionally, the budget includes $300,000, annually, for four years from the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 for local assistance program compliance.

This request also includes trailer bill language that removes the requirement that the department submit any project, for which it recommends any loan or grant be made, for inclusion in the budget.

Funding includes:

- $300,000 Proposition 12 annually for four years.
- $30 million Off-Highway Vehicle Trust Fund (one-time).
- $32.2 million Recreational Trail Fund ongoing ($7.1 million for OHV grants and $25.1 million for Recreational grants.)
- $53.7 million Federal Trust Fund ongoing ($12 million for boating and waterways grants, $40 million for recreational grants, and $1.7 million for historic preservation grants).
- $30.5 million Harbors and Watercraft Revolving Fund ongoing ($20 million for boating facilities, $11.5 million for boating operations safety and enforcement).
- $1.75 million Abandoned Watercraft Abatement Fund ongoing.
- $2.4 million Public Beach Restoration Fund (one time).

Background. The mission of local assistance programs is to address California's diverse recreational, cultural and historical resource needs by developing grant programs, administering funds, offering technical assistance, building partnerships and providing leadership through quality customer service. These programs partner with local, state, federal, tribal agencies, non-profit organizations, and the general public to help ensure cultural resources are appreciated and maintained as a matter of public interest and community pride. These are typically ongoing grant programs.

Staff Recommendation: Approve as budgeted.

Issue 5 – Oceano Dunes Environmental Compliance

Governor's Proposal. The Governor's budget proposes $880,000 in 2017-18, and $815,000 ongoing from the Off Highway Vehicle Trust Fund (OHVTF) and eight positions for staffing, equipment, and ongoing support of environmental conservation programs and regulatory compliance at Oceano Dunes State Vehicular Recreation Area (SVRA).

Background. Oceano Dunes SVRA Is located in southern San Luis Obispo County near the community of Oceano. The Oceano Dunes District manages five and a half miles of shoreline which attracts visitors from throughout the United States and abroad. This is the only California State Park that provides opportunities to drive vehicles along the shoreline and into the sand dunes. The district also manages two miles of beach open for pedestrian use only. There are 1.7 million annual visitors to Oceano Dunes SVRA each year. It is one of the most popular camping destinations in all of the state park system, representing approximately 18 percent of all the coastal camping spots within the system.

The department has been the subject of specific regulatory actions and lawsuits focused on endangered species management and air pollution at Oceano Dunes SVRA. This SVRA is an active Off-Highway Vehicle (OHV) recreation park, but it is also home to extremely sensitive resources like the state and federally listed endangered California Least Tern and the federally listed threatened Western Snowy Plover. As recently as 2004, the department settled a lawsuit over its endangered species management program. The department is also pursuing a Habitat Conservation Plan (HCP) to formally cover park activities under the Federal Endangered Species Act. The California Coastal Commission has encouraged the department to complete the HCP in a timely manner during the annual reviews of park operations. In February and March of 2016, the department found three dead Western Snowy Plovers in or near vehicle tracks. These discoveries prompted a formal letter from the U.S. Fish and Wildlife Service and an increased level of scrutiny of park management by their law enforcement agents. This proposal will provide additional staff to monitor bird activity and implement necessary protection activities to allow continued OHV activity in the park while providing adequate protection for these ground-nesting species, consistent with the State and Federal Endangered Species Acts.

Staff Recommendation. Approve as budgeted.

Issue 6 – General Plans Program

Governor's Proposal. The Governor's budget proposes $2 million from Proposition 84 and $120,000 from the OHVTF to fund existing and future planning projects under the general plan program. Funding from the OHVTF will continue in the out-years.

Background. General plans are used by the department to guide the management and improvements of each state park. Of 280 units, over 75 have no general plan or general planning document and others have plans older than 30 years old. Without these plans, park improvements may be disorganized, less efficient, and have no overarching guiding plan.

The department is requesting OHVTF funds to develop a general plan and EIR for a new OHV park, Onyx Ranch. Statute requires the department to develop a general plan for OHV parks before it can develop OHV recreational opportunities at that park.

The Off-Highway Motor Vehicle Recreation (OHMVR) division is responsible for developing general plans for SVRAs. When approved by the OHMVR Commission, general plans define proposed land uses, facilities, and operations; identify environmental impacts and management of resources; and guide future development and visitor services.

Eastern Kern County, Onyx Ranch SVRA became the newest SVRA in the California State Park System in December 2014. The 25,000-acre acquisition is largely interspersed with U.S. Bureau of Land Management (BLM) parcels or lands under other private or public ownership. Visitors have long enjoyed OHV recreation, camping, hunting, target shooting, hiking, wildlife viewing and other recreational activities on adjacent public and private lands. OHV recreation in the new SVRA currently occurs in conjunction with BLM designated open areas, roads and trails. There are no developed facilities or visitor services on the SVRA lands. The general plan would provide the direction for the OHMVR division to expand OHV recreation and access to non-motorized recreation; coordinate land management and recreational opportunities with adjacent public and private landowners; provide safety education and interpretive services; protect sensitive natural and cultural resources; and restore and rehabilitate habitat.

Staff Recommendation. Approve as budgeted.

Issue 7 – Capital Outlay Proposals

Governor's Proposal. The Governor's budget proposes $24.7 million for the department's capital outlay program, including: $10 million for continuing major projects currently in progress, $8.5 million for new acquisitions, $5.4 million for new major projects, and $800,000 for minor programs.

Additionally, An April 1st Finance Letter proposes a technical adjustment to one of the Governor's budget proposals, Candlestick Point SRA: Yosemite Slough (North) – Public Use Improvements, a reappropriation and supplemental appropriation of $1.3 million for one project, and the reappropriation of $54.6 million related to 24 existing projects.

Details of the department's capital outlay proposals are as follows:

1. **Border Field SP: Renovation for Public Use**
   Governor's Proposal. The Governor's budget includes $228,000 from the SPRF for the working drawing phase of this project. This existing mitigation project will resolve the seasonal flooding of the park entrance road and develop the outdoor educational plaza at Monument Mesa. The project will be funded using settlement funds from the federal government for impacts to Border Field State Park resulting from the recent Federal Border Infrastructure Project.

2. **Calaveras Big Trees SP: Campsite Relocation**
   Governor's Proposal. The Governor's budget proposes $138,000 in reimbursement authority for preliminary plans to relocate approximately five existing campsites to a new location within the park which will include leach field replacement, as needed.

3. **Candlestick Point SRA: Yosemite Slough (North) – Public Use Improvements**
   Governor's Proposal. An April 1st Finance Letter requests an adjustment to the fund source for this proposal. The Governor's budget included $4.1 million in reimbursement authority; however the funds are to be donated to the department and thus need to be authorized under SPRF. This request is technical in nature and only applies to fund source; the cost remains and purpose is still for preliminary plans, working drawings, and construction phases of this fully-reimbursable project to develop public access, parking, restrooms, and interpretive facilities, including an education center, to support public day use adjacent to a newly-restored wetland restoration project at Yosemite Slough (north side) in Candlestick Point State Recreation Area (CPSRA) on the San Francisco Bay. This project is part of the updated CPSRA General Plan approved in 2013.

   The California State Parks Foundation has agreed to donate the design specifications for this project, subject to state review and approvals, and will provide funding to the department to pay all state costs for design review, project management and construction.

4. **El Capitan SB: Entrance Improvements**
   Governor's Proposal. The Governor's budget proposes $378,000 in Proposition 84 bond funds for the working drawings 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.

5. **Fort Ord Dunes SP: New Campground and Beach Access**
   Governor's Proposal. The Governor's budget proposes $3.2 million Proposition 84 bond funds to develop public facilities, including camping and day use beach access, at the Fort Ord Dunes State Park in Monterey County. In an effort to control costs and limit the need for additional funds, the department also proposes to eliminate a number of non-essential project features. The additional funds are needed to cover increased construction costs based on an updated design estimate and escalation costs caused by extensive delays. The majority of the delays can be attributed to difficulties in obtaining a coastal development permit and additional tasks required by the Coastal Commission.

6. **Hollister Hills SVRA: Martin Ranch Acquisition**
   Governor's Proposal. The Governor's budget proposes $5 million from the OHVTF to acquire a 1,800 acre in-holding at the Hollister Hills SVRA, as specifically identified in Public Resources Code 5006.4. The property separates the upper and lower portions of Hollister Hills SVRA. The upper ranch portion of Hollister Hills SVRA is approximately 810 acres in size, while the lower ranch portion of the park is approximately 4,300 acres. Failure to enter into an agreement for purchase of the property would prove to be disastrous if the property were purchased by developers who chose to put in houses or other development which would conflict with the park use. Construction of housing could negate millions of dollars of funding already invested into the existing park.

7. **Hungry Valley SVRA: 4x4 Obstacle Course Improvements**
   Governor's Proposal. The Governor's budget proposes $74,000 from the OHVTF for preliminary plans to upgrade and enhance an existing four-by-four obstacle course at Hungry Valley SVRA. Improvements to the facility will broaden the relevance of the park and will provide a variety of experiences and challenges to meet the growing demand of the Off-Highway Vehicle community. The existing facility is very old and dated making it increasingly difficult to maintain with existing resources. An enhanced facility will encourage OHV enthusiasts to use the obstacle course instead of searching for more challenging terrain, possibly off limits to OHV use resulting in excessive resource damage.

8. **Lake Del Valle SRA: Boat Ramp Replacement**
   Governor's Proposal. The Governor's budget proposes $132,000 from the Harbors and Watercraft Revolving Fund for the preliminary plans phase to replace a boat ramp at Lake Del Valle State Recreation Area. The existing boat ramp is over 40 years old and is deteriorating to a state where it poses a public safety risk. The surface is extremely slippery year-round and visitors could easily slip and fall or have their vehicles and trailers slide out of control. To improve safety and convenience for users, this project would completely reconstruct the failing boat launching ramp at this location.

9. Lake Oroville SRA: Gold Flat Campground
Governor's Proposal. The Governor's budget proposes $216,000 in Proposition 84 bond funds for preliminary plans to upgrade Gold Flat Campground's old and failing infrastructure. This project will replace the outdated electrical and water distribution systems, install data conduit for future use, and overlay campground roads and campsite spurs at this popular campground. In compliance with the Americans with Disabilities Act (ADA), up to three accessible campsites will be created, along with accessible paths of travel and accessibility upgrades to the existing combination building.

10. McArthur-Burney Falls Memorial SP: Group Camp Development
Governor's Proposal. The Governor's budget proposes $868,000 in reimbursement authority for the construction phase to develop two adjoining group camps at McArthur-Burney Falls Memorial State Park as identified in the June 1997 General Plan. 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.

11. McGrath SB: Campground Relocation and Wetland Restoration
Governor's Proposal. The Governor's budget proposes $1.3 million from Proposition 40 bond funds for working drawings to relocate the existing McGrath State Beach campground, relocate the 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 the department in avoiding significant costs for ongoing clean-up and repair of deteriorating facilities due to regular flood damage.

12. Mendocino Headlands SP: Big River Boat Launch
Governor's Proposal. The Governor's budget proposes $205,000 from the Harbors and Watercraft Revolving Fund for preliminary plans to improve the existing beach launch at this location by constructing a concrete boat ramp, paving the dirt boat launch parking lot, repaving the park road connecting the highway with the boat launch parking lot, constructing parking spaces for persons with disabilities, and adding required signage and pavement markings.

13. Oceano Dunes SVRA: Grand Avenue Lifeguard Tower
Governor's Proposal. The Governor's budget proposes $91,000 from the Off-Highway Vehicle Trust Fund for preliminary plans to develop a lifeguard tower headquarters at Oceano Dunes. The project would provide a full time, permanent observation tower throughout the year. The tower would be used to provide preventative and responsive aquatic public safety response, provide medical and first aid to park visitors, an information center for visitors, an office location for lifeguards to perform administrative functions and to satisfy mandatory training functions and activities required of the classification.

14. Ocotillo Wells SVRA: Holly Corporation Acquisition
Governor's Proposal. The Governor's budget proposes $3.5 million from the Off-Highway Vehicle Trust Fund for the acquisition and related costs of acquiring 18 parcels of land adjacent to Ocotillo Wells SVRA near Salton City totaling 1,900 acres. The objective of the project is to acquire immediate possession of the property. This acquisition will: 1) reduce illegal off-

road activity; 2) protect natural and cultural resources; and 3) cultivate cooperative relationships with adjacent land managers.

15. Ocotillo Wells SVRA: Holmes Camp Water System Upgrade

Governor's Proposal. The Governor's budget proposes $107,000 from the Off-Highway Vehicle Trust Fund for preliminary plans to provide for the construction of a new water treatment and distribution system to meet current demand and health department standards, comply with the California DHS-DWFOB Check List of Security Measures for Water Utilities, and provide storage and protection from the desert environment.

16. Pismo SB: Entrance Kiosk Replacement

Governor's Proposal. The Governor's budget proposes $124,000 from the OHVTF for the preliminary plans to replace an entrance station kiosk in the North Beach Campground at Pismo State Beach. This project aims to reduce deferred maintenance by removing and replacing an entrance kiosk that is rapidly deteriorating and causing an undue burden on maintenance staff due to seasonal flooding. The entrance kiosk will be relocated to a higher elevation to prevent flooding damage and ensure continued operation.

17. San Luis Reservoir SRA: San Luis Creek Replacement and Parking Improvements

Governor's Proposal. The Governor's budget proposes $142,000 from the Harbors and Watercraft Revolving Fund for preliminary plans to improve visitor throughput at this facility by widening the existing two-lane boat ramp by two lanes, adding a third boarding float, and reconfiguring the parking lot. The project will also upgrade outdated fish cleaning and parking lot lighting systems.

18. South Yuba River SP: Historic Covered Bridge

Governor's Proposal. The Governor's budget proposes $2.8 million in Proposition 84 bond funds to supplement construction funds to restore and rehabilitate the world's longest single span historic covered bridge located at South Yuba River State Park. This bridge has spanned the South Yuba River in Nevada County for over 150 years. The project will require temporary protection of the river corridor beneath, and, downstream of the bridge; exterior and interior shoring; removal and replacement of damaged or compromised iron and wood structural components, and the removal or replacement of damaged siding and roofing. During the development of preliminary plans additional studies were conducted and revealed significant structural issues prompting the increase to construction costs.

19. Statewide: DBW Minor Capital Outlay Program

Governor's Proposal. The Governor's budget proposes $676,000 from Harbors and Watercraft Revolving Fund for the Division of Boating and Waterways (DBW) minor capital outlay program. This request is for the following minor projects for boating and waterway enhancements or improvements to address critical issues that include park operations, public recreation/access, and resource protection/restoration. The projects are intended to enable or enhance program delivery.

- **Picacho SRA: Paddlewheeler and Upper Dock Restrooms** - $332,000 - This project will install a single-unit prefabricated concrete vault restroom at the Paddlewheeler Boat-In Campground and two single-unit prefabricated concrete vault restrooms at the upper dock boat ramp.

- **Salton Sea SRA: Salt Creek Kayak Camp Restroom and Showers** - $344,000 - This project will replace the existing portable chemical toilet and existing wood shower stall building with a prefabricated concrete vault restroom and prefabricated concrete shower building.

20. Statewide: VEP Minor Capital Outlay Program

Governor's Proposal. The Governor's budget proposes $124,000 in Proposition 84 bond funds the Volunteer Enhancement Program Minor Program. The following projects will be funded and will provide for enhancements or improvements to address critical issues that include park operations, public recreation/access, energy efficiency, and resource protection/restoration.

- **Kenneth Hahn SRA: Baldwin Hills Subunit Greenhouse Renovations** - $50,000 - This project will renovate existing greenhouse by adding photovoltaic panel/system, porous apron and shade structure. This will increase native plant cultivation capacity by volunteers and students.

- **Mt. Diablo SP: Upgrade Camp Host Sites** - $74,000 - This project will make needed improvements to the Camp Host sites at the Juniper campground and Mitchell Canyon. These improvements will assist in attracting volunteer camp hosts to maintain and monitor the campgrounds for these locations.

21. Topanga SP: Rehabilitate Trippet Ranch Parking Lot

Governor's Proposal. The Governor's budget proposes $219,000 in Proposition 84 bond funds for working drawings to rehabilitate the Trippet Ranch parking lot and surrounding area. This project will rehabilitate the parking lot and surrounding area damaged by erosion and storm water in order to reduce the safety risk to the public, reduce maintenance costs and better support interpretive uses of the historic zone.

22. Torrey Pines SNR: Sewer and Utility Modernization

Governor's Proposal. An April 1st Finance Letter proposes a reappropriation of existing working drawings and construction appropriations and requests a supplemental appropriation of $1.3 million for working drawings and construction from available Proposition 84 bond funds to connect the park to the local sewer system and upgrade the aging water and utility infrastructure to address significant public health and safety concerns, to avoid sensitive habitat degradation, and to reduce deferred maintenance and ongoing repair cost.

Upon completion of initial investigations and studies, the project, as currently authorized, requires the "taking" of rare and endangered plants (Dudleya brevifolia), impacts to an identified archeological site, and/or the demolition and restoration of a national historic road. Additional funds are needed to ensure minimal impact to these resources and to fund possible restoration activities.

23. Reappropriations: Capital Outlay Program

Governor's Proposal. An April 1st Finance Letter proposes the reappropriation of $54.6 million ($3.6 million General Fund and $51 million in special funds or bond funds) in existing capital outlay appropriations to allow for the completion of 24 projects that are currently in progress. Reasons for delays include: State Fire Marshall and/or ADA requirements, finalizing approvals and permits, extended construction timelines, modified working drawings or design changes, delays in the acquisition process.

Staff Recommendation. Approve as budgeted.

3480 Department of Conservation

The Department of Conservation (DOC) administers programs to preserve agricultural and open space lands, evaluate geology and seismology, and regulate mineral, oil, and gas development activities.

The Governor's budget proposes $128.8 million in total expenditures for the department in the budget year. The primary funding source for DOC is the Oil, Gas, and Geothermal Administrative Fund - $80.8 million is proposed from this source in the budget year. The decrease in funding for the department from 2016-17 to 2017-18 is primarily due to $39.9 million from the Greenhouse Gas Reduction Fund that was appropriated to the DOC in 2016-17.

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2420	Geologic Hazards and Mineral Resources Conservation	98.3	110.0	110.0	$22,155	$27,590	$27,561
2425	Oil, Gas, and Geothermal Resources	200.5	236.9	246.9	53,673	70,899	82,001
2430	Land Resource Protection	24.0	23.9	26.9	8,145	56,046	9,094
2435	Division of Mine Reclamation	32.7	35.5	35.5	7,307	8,684	8,694
2440	State Mining and Geology Board	4.1	4.0	4.0	932	1,274	1,474
9900100	Administration	114.2	112.6	112.6	16,239	19,379	20,759
9900200	Administration - Distributed	-	-	-	-16,239	-19,379	-20,759
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**473.8**	**522.9**	**535.9**	**$92,212**	**$164,493**	**$128,824**

Dollars in thousands

Issue 1 – TBL – CA AG Lands Planning Grant Programs – Grant Limits

Governor's Proposal. The Governor's budget proposes trailer bill language to revises the purpose of the Agricultural Protection Planning Grant Program to incorporate climate change goals. The trailer bill also includes language to increase the grant limits from $500,000 to $750,000.

Background. The DOC's Division of Land Resource operates several programs to conserve farmland and open space resources. One such program is the Sustainable Communities Agricultural Land Conservation (SALC) Program, which funds agricultural land conservation with revenue from California's Greenhouse Gas Reduction Fund (GGRF).

The SALC Program is part of California Climate Investments, a statewide program that seeks to reduce greenhouse gas emissions (GHG), strengthen the economy and improve public health and the environment. SALC complements investments made in urban areas with the purchase of agricultural conservation easements and development of agricultural land strategy plans that result in GHG reductions and a more resilient agricultural sector.

While the SALC program includes funding for planning grants to support cities and counties with developing local and regional land use policies and strategies that protect critical agricultural land, the department has had difficulty actually encumbering the funding.

For 2015-16, the Strategic Growth Council delegated $2.5 million in GGRF to the department for expenditure on planning grants under the SALC program. However, the department may only award grants to reimburse local governments after they have undertaken the planning work and demonstrated reductions in emissions. Further, this requires a significant initial investment from local governments that they may be unwilling or unable to make.

During the last round of grants, only two local governments applied for the planning grants by the established deadline. Their combined request totaled $335,000, representing just 13.4 percent of total funding available. After review, the department could only award one of the grants.

Due to the restrictions placed on GGRF, SALC has not been successful in supporting local planning. The department is suggesting trailer bill language to include greenhouse gas reduction goals in the Agricultural Protection Planning Grant (APPGP) in order to complement the efforts of the SALC program.

APPGP, which was created by AB 52 (Wiggins) Ch. 983, Statutes of 2002, provides local governments with planning grants to improve the protection of agricultural lands and grazing lands, including oak woodlands and grasslands. This program provides the department the greatest flexibility to develop a targeted agricultural land protection planning grant program.

Staff Recommendation. Approve as budgeted.

Issue 2 – AB 2729 Implementation, Idle Well Testing

Governor's Proposal. The Governor's budget proposes $1.5 million ($2.5 million ongoing) from the Oil, Gas and Geothermal Administrative Fund and 15 permanent positions to develop the new Idle Well Management Program.

Background. California has approximately 20,000 idle oil and gas wells. Of these wells, approximately half have been idle for more than 10 years and almost one quarter has been idle for 25 years or more. As they degrade, aging idle wells pose a risk to underground sources of drinking water by leaking.

Unlike wells in production, where operators will likely see changes in production levels if a leak or damage occurs, leaks or damage to idle wells may go unnoticed for many years. Testing for wells that are not producing or injecting is not required until the well officially becomes idle—after five years. Testing and risk assessment needs to be done more frequently in order to adequately protect groundwater.

Additionally, the longer a well remains idle, the more likely it is to be deserted by the operator. This can threaten public health and the environment, and lead to significant costs for the state to properly plug wells and remediate any environmental damage. Further, low idle well fees and relatively inexpensive bonding requirements create a significant financial incentive for operators to idle low performing wells, rather than to properly plug wells. As a result, thousands of wells remain idle for decades.

The large inventory of idle wells is of special concern when oil prices are low. As operators struggle to remain profitable in a worldwide market, there is an increased possibility that more of them will become insolvent or otherwise financially incapable of plugging potentially problematic wells. As domestic production continues to decline, private funding for plugging wells may become increasingly scarce, potentially leaving the State responsible for plugging and remediation efforts.

AB 2729 (Williams and Thurmond) Chapter 272, Statutes of 2016, enacted substantive changes to the management of idle wells. AB 2729 ensures that funding is available to cap idle wells and creates disincentives for operators to maintain large numbers of idle wells. Specifically, AB 2729 does the following:

- Redefines "idle well" and "long-term idle well" to ensure that the testing and monitoring necessary to ensure public safety and environmental protection occurs.

- Increases idle well fees and provides an alternative to paying idle well fees for operators who develop and implement a plan to aggressively reduce their long-term idle well inventory.

- Eliminates exemptions and requires that all idle wells and long-term idle wells are subject to either idle well fees or an approved idle well management plan. Requires the Division of Oil, Gas, and Geothermal Resources to update idle well testing and monitoring requirements to detect risks to public health and the environment.

Under the new definitions of idle and long-term idle wells, DOGGR estimates there to be 29,565 idle wells in California. Pursuant to AB 2729, DOGGR would need to perform additional testing of idle wells, review test results for anomalies, ensure testing is done according to a prescribed schedule. DOGGR would also need to issue notices of violation when it is not, review and approve idle well management plans, and evaluate risks posed to underground sources of drinking water, and require additional testing based on identified risks or proximity to ground water. It is a fairly extensive undertaking that represents a substantial overhaul of how idle well are dealt with in the state.

Staff Recommendation. Approve as budgeted.

Issue 3 – Well Statewide Tracking and Reporting (WellSTAR)

Governor's Proposal. The Governor's budget proposes $21.1 million in 2017-18, $15.0 million in 2018-19, $5.5 million in 2019-20, $2.5 million in 2020-21, and $1.3 million ongoing from the Oil, Gas, and Geothermal Administrative Fund; and two permanent positions, and 12 three-year limited-term positions to further develop and implement the Well Statewide Tracking and Reporting (WellSTAR), a centralized database system to help run operations and meet the requirements of recent legislation.

Background. DOGGR has faced many challenges in recent years. Most notably, the US EPA audit in 2011 that revealed serious problems with the way DOGGR managed its UIC Class II Program. DOGGR has acknowledged that that nearly 2,500 wells have been permitted to inject oil and gas waste into protected aquifers, a clear violation of the Safe Drinking Water Act. DOGGR admitted that poor communication, inadequate record-keeping, inconsistent information, and general confusion among the agencies responsible for overseeing the injection well program led to permits being issued that allowed drinking water supplies to potentially be poisoned by dangerous byproducts of oil and gas production.

SB 855 (Committee on Budget and Fiscal Review) Chapter 718, Statutes of 2010, required DOGGR to give the Legislature an annual report each January until 2015 on various features of the division's Class II Underground Injection Control (UIC) Program. DOGGR only submitted two of the four reports, in 2011 and in 2015. The report submitted in 2015 found systematic problems that have existed within DOGGR for many years, including poor recordkeeping, lack of modern data tools and systems, inconsistent and undersized program leadership, insufficient breadth and depth of technical talent, insufficient coordination among fields districts and Sacramento, and lack of consistent, regular, high-quality technical training.

New programs place additional pressure and scrutiny on DOGGR to increase performance and transparency. SB 4 (Pavley) Chapter 313, Statutes of 2013, requires DOGGR to collect data on oil and gas wells in order to provide greater transparency and accountability to the public regarding well stimulation treatments, its impacts on the environment and the disposal of well stimulation wastes. SB 1281 (Pavley) Chapter 561, Statutes of 2013, requires reporting of specific data regarding water produced during oil and natural gas drilling operations in order to evaluate how industry practices affect groundwater.

The Legislature approved $10 million in 2015‑16 and another $10 million in 2016‑17 for an oil and gas data management system, WellSTAR. WellSTAR is designed to give DOGGR, other state agencies, industry, and the public an integrated information system that provides the information on oil and gas production operations that is required by recent legislation and U.S. EPA. DOGGR entered into an agreement with the California Department of Technology (CDT) to complete a “Stage/Gate” process with assistance and direction of staff from the CDT Consulting and Planning Division. This process consists of providing legal and technical evidence of the project’s vitality, sustainability, and cost‑effectiveness.

The initial stages of the project revealed the complex nature of the task to identify all of the system requirements necessary to meet legislative and U.S. EPA requirements. Notably, during one of the initial stages, 473 requirements were identified. However, a later in‑depth analysis revealed the initial analysis was incomplete, and a total of 1,384 requirements were documented and confirmed by DOGGR. The division states that because of the rigorous process that was followed to gather, document, and reconfirm requirements, it is confident in the final requirements for the new system.

Legislative Analyst’s Office (LAO). The LAO recommend that the Legislature approve the request for $21.1 million in 2017‑18, to fund only the first year of development of the WellSTAR database system. The LAO further recommends the Legislature fund the remainder of the request on a year‑to‑year basis. This approach will require the Administration to return with additional funding requests in the future, thereby ensuring that the Legislature has additional opportunities to exercise oversight over this complex information technology project.

Staff Recommendation. Adopt the LAO’s recommendation to approve only the funding requested for the 2017-18 fiscal year. This will allow the Legislature the opportunity to review progress prior to appropriating future funding for this project.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, April 20, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 113

Consultant: Joe Stephenshaw

OUTCOMES

Vote Only Calendar

Vote Only Calendar – Continued

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—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, April 27, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Joe Stephenshaw

Vote Only Calendar

<u>Vote Only Calendar – Continued</u>

<u>Issues for Discussion</u>

Public Comment

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Vote-Only Calendar

0555 Environmental Protection Agency (CalEPA)

Issue 1 – Water-Energy Nexus Registry (SB 1425)

Governor's Proposal. An April 1st Finance Letter proposes $500,000, annually, for three years from the Cost of Implementation Account for the creation of a water-energy nexus registry pursuant to SB 1425 (Pavley), Chapter 596, Statutes of 2016. The registry would record and register voluntary information on greenhouse gas (GHG) emission reductions resulting from water systems.

Background. SB 1425 requires CalEPA to oversee the development of a water-energy nexus registry in support of GHG reduction efforts. Current resources are insufficient for CalEPA to develop the registry and complete the public stakeholder review process, as required by statute.

Issue 2 – Rural County Certified Unified Program Agency Support

Governor's Proposal. An April 1st Finance Letter proposes $1.1 million, one-time, from the Rural Certified Unified Program Agencies (CUPA) Reimbursement Account to expand the rural county Certified Unified Program Agency support program from the existing 13 Certified Unified Program Agencies to 24. This proposal also requests to shift $835,000 in CUPA Account from state operations to local assistance.

Background. Certified Unified Program Agencies are local agencies that are certified by CalEPA and are responsible for implementing and regulating the Unified Program, which is a consolidation of six state environmental programs into one program. The six programs are:

- Aboveground Petroleum Storage Act Program
- California Accidental Release Prevention Program
- Hazardous Materials Business Plan Program
- Hazardous Materials Management and Inventory Program
- Hazardous Waste and Hazardous Waste Treatment Program
- Underground Storage Tank Program

Over the past 12 years, each of the 24 rural county CUPA programs has been evaluated four times by CalEPA to determine if the programs are being adequately implemented. Overall, those rural county CUPAs not receiving financial assistance through the reimbursement account have had an unsatisfactory evaluation rate of 34 percent. They are failing to adequately implement the program, endangering human health and safety and the environment. The rural county CUPAs that receive financial assistance from the reimbursement account have had an unsatisfactory evaluation rate of just four percent over this same timeframe. This is a clear indication over an extended period of time that a modest level of financial support to rural county CUPAs can create a far more compliant program.

3900 Air Resources Board (ARB)

Issue 1 – Carl Moyer Program Fund Alignment

Governor's Proposal. The Governor's budget proposes to shift of $318,000 within the Air Pollution Control Fund (APCF) from local assistance to state operations for two positions to continue implementation of the Carl Moyer Memorial Air Quality Standards Attainment program in light of commitments outlined in California's State Implementation Plan Mobile Source Strategy, Sustainable Freight Action Plan, and Climate Change Scoping Plan.

Background. Initiated in 1998, the Carl Moyer Program is a grant program that funds the incremental cost of cleaner engines and equipment used in a variety of applications. The legislative authorization for the Moyer Program is $69 million annually, funded by smog abatement fees and the California tire fees that are deposited in the APCF. SB 513 (Beall) Chapter 610, Statutes of 2015, allows for the percentage of Carl Moyer Program funds that can be spent on administrative and outreach costs to be increased. Funding for the requested staff, one Air Pollution Specialist and one Air Resources Engineer, will be funded from the newly allowed increase in the administrative allowance, requiring no additional appropriation of funds.

Issue 2 – Environmental Justice Unit

Governor's Proposal. The Governor's budget proposes $857,000 (including $210,000 in contract funds) from various special funds and four positions for environmental justice efforts. These positions will support and expand the board's effort to institutionalize environmental justice considerations into its program planning, development, and implementation decisions.

Background. These resources are needed to implement the legislative intent of AB 1288 (Atkins), Chapter 586, Statutes of 2015, and in response to feedback received from extensive outreach to the environmental justice community; formal recommendations from the Environmental Justice Advisory Committee established pursuant to AB 32 to provide specific recommendations to the board on the Greenhouse Gas Target Scoping Plan; and public input at public hearings including a series of legislative inquiries, workshops, and meetings on the need to institutionalize environmental justice considerations into all aspects of climate change and air quality control/public health protection programs.

Issue 3 – Greenhouse Gas Scoping Plan Updates (AB 197)

Governor's Proposal. The Governor's budget proposes $1.5 million (including $750,000 in contract funding in 2017-18 and $375,000 annually thereafter, and $100,000 in one-time construction costs) and four positions to meet the statutory requirements set forth in AB 197 (Eduardo Garcia), Chapter 250, Statutes of 2016. Of the $1.5 million, $1.4 million will be funded from the Cost of Implementation Account, and $100,000 will be funded from distributed administration.

Background. AB 197 requirements include considering the social costs of the emissions of greenhouse gas (GHG) in developing emission reduction measures and integrating the tracking of GHG, criteria pollutant, and air toxic contaminant emissions. These tasks will support the inclusion of improved ranges of GHG and air pollutant reduction projections in future Scoping Plan updates, and the prioritization of GHG reduction measures that obtain direct emission reductions.

AB 197 also requires ARB to make available on its website and annually update, the emissions of GHG, criteria pollutants, and toxic air contaminants over time for each facility that reports to ARB under the Mandatory Reporting Regulation. These provisions will increase the data transparency of ARB's programs.

Issue 4 – Revised Fund Source for the Near-Zero Clean Truck and Bus Program and the Advanced Clean Car Program

Governor's Proposal. The Governor's budget proposes $1.3 million (including $488,000 from the Motor Vehicle Account and $798,000 from the Cost of Implementation Account) for the Near-Zero Clean Truck and Bus and Advanced Clean Car programs.

Background. In 2016-17, these activities were approved on a permanent basis with the first year of funding from the Air Pollution Control Fund, and ARB was directed to identify alternate fund sources for these permanent programs in future years. This proposal identifies the Motor Vehicle Account and Cost of Implementation Account as appropriate ongoing fund sources for these permanent programs.

The Near-Zero Clean Truck and Bus Program is intended to help achieve the Governor's GHG reduction goals and to help meet emission reduction requirements, especially NOx, in the State Implementation Plans. The Advanced Clean Car Program is needed to achieve the required GHG as well as criteria pollutant emissions reductions from passenger cars and light-duty vehicles to meet the AB 32 GHG emission reduction requirements and the Clean Air Act ozone requirements. In order to support and successfully complete the program objectives above, a permanent fund source is needed.

Issue 5 – Short-Lived Climate Pollutants (SB 1383)

Governor's Proposal. The Governor's budget proposes $826,000 from the Cost of Implementation Account and five positions to investigate, research, develop, enforce, and implement a strategy consisting of several measures that will reduce emissions of short-lived climate pollutants in the state to levels set forth in SB 1383 (Lara), Chapter 395, Statutes of 2016.

Background. Measured against a 2013 baseline, SB 1383 calls for a 40 percent reduction in methane emissions; a 40 percent reduction in hydrofluorocarbon emissions; and a 50 percent reduction in emissions of black carbon; by 2030. In developing measures to achieve the emissions-reduction goals ARB is required to follow specific procedures, reach specified sets of findings, provide guidance to the regulated community, create supporting funding mechanisms, assist in the development of pilot projects, avoid impacts to disadvantaged communities, provide updates to the public and the legislature, and assist other agencies in the development of related programs.

Issue 6 – Continued Implementation and Program Oversight for Proposition 1B

Governor's Proposal. An April 1st Finance Letter proposes: 1) to revert the remaining unencumbered balance of $20 million of Proposition 1B: Goods Movement Emission Reduction Program funds; 2) a new appropriation of $826,000 for a total appropriation of $1.2 million to support program administration costs; and 3) a new $1.2 million local assistance one-time appropriation to spend funds that have reverted.

Background. Proposition 1B, passed by voters in 2006, provided almost $20 billion in funding for California's transportation infrastructure, with over $2 billion dedicated to the improvement of the state's freight network and $1 billion for this program to be administered by ARB to fund cleaner freight vehicles and equipment. The program bond monies are leveraging substantial match funding from private, local, and federal sources - more than one match dollar for every program dollar invested.

Of the $1 billion ARB was authorized to spend under Proposition 1B, $20 million remains unencumbered for administrative costs, as well as any residual allocations that will be released back to the Proposition IB fund. ARB requests to revert the remaining unencumbered balance and provide a new appropriation of $826,000 annually for state operations for administrative costs associated with Proposition 1B activities.

The Budget Act of 2008 authorized approximately $250 million in funding to carry out projects funded by Proposition 1B. Initial challenges with implementing projects resulted in a balance of $1.2 million in funds that were not disbursed and ultimately reverted to the fund balance. Therefore, ARB is also requesting a new appropriation of the $1.2 million for local assistance projects.

3930 Department of Pesticide Regulation (DPR)

Issue 1 – Federal Trust Fund Authority Increase

Governor's Proposal. The Governor's budget proposes $350,000 in federal fund authority to bring the authority in line with the federal grants the department receives.

Background. DPR receives grant funding from the US Department of Food and Agriculture and the US Environmental Protection Agency to regulate pesticides and to supplement state projects. Federal grants available to DPR over the last three years have exceeded DPR's trust fund authority by $250,000 to $350,000. This request will help reduce the number of budget revision requests DPR will have to process in future fiscal years, and bring the department's federal fund authority in line with the federal grant awards the department receives.

3960 Department of Toxic Substances Control

Issue 1 – STF- Stringfellow Pretreatment Plant Site

Governor's Proposal. An April 1st Finance Letter proposes a one year extension of the liquidation period for the construction of the Stringfellow Pretreatment Plant site.

Background. Construction of the facility is complete. Due to the facility's complex control system programming, however, programming and commissioning is taking longer than anticipated. This might delay payments to parties involved in the project. This reappropriation will extend the liquidation period for one year, and thus will prevent existing funds from reverting and ensure that all commitments and obligations will be funded.

3970 Department of Resources Recycling and Recovery (CalRecycle)

Issue 1 – Single-Use Carryout Bags

Governor's Proposal. The Governor's budget proposes $298,000 from the Integrated Waste Management Account in 2017-18, $292,000 in 2018-19, and $197,000 in 2019-20, to implement Senate Bill 270 (Padilla), Chapter 850, Statutes of 2014.

Background. This request was originally included in the 2015-16 Governor's budget, but was suspended pending the referendum on SB 270. On November 8, 2016, California voters approved Proposition 67, the statewide Single-Use Carryout Bag Ban.

Workload associated with implementing SB 270 includes emergency regulations to clarify the reusable bag certification and associated fee collection process, establishing and maintaining a system to receive proofs of certification and test results for reusable bags, developing and maintaining a webpage to pose the certifications, developing a fee schedule, and reporting to the Legislature. The fees, which will be established, collected, and deposited by CalRecycle, will provide long-term funding.

Issue 2 – Solid Waste Enforcement Implementation and Evaluation Program

Governor's Proposal. The Governor's budget proposes $130,000 from the Integrated Waste Management Account and one permanent Senior Environmental Scientist position to meet the increased oversight of the waste industry and long-term facility compliance issues.

Background. AB 341 (Chesbro), Chapter 476, Statutes of 2011, and AB 901 (Gordon), Chapter 746, Statutes of 2015, expanded the reporting requirements and increased evaluation, inspection, and enforcement efforts for waste diversion activities.

CalRecycle currently has eight environmental scientists inspecting 555 solid waste facilities statewide. CalRecycle also conducts inspections to determine if the Local Enforcement Agencies are conducting inspections consistent with state requirements in the jurisdictions for which they are responsible (there are approximately 1,000 waste diversion facilities total).

Issue 3 – Tire Enforcement Agency Program Evaluation

Governor's Proposal. The Governor's budget proposes to shift expenditure authority of $168,000 from local assistance to state operations in the Tire Recycling Management Fund and requests two Environmental Scientist positions.

Background. CalRecycle is responsible for the inspection of 31,000 waste tire-handling businesses. CalRecycle works with Waste Tire Enforcement (TEA) grantees to perform the majority of the 31,000 inspections. Nine TEA grantees (out of 45) recently withdrew from the program.

The requested resources will be used to implement a new program that will evaluate TEA grantee performance, and to perform inspections of 2,500 covered waste tire facilities that are no longer addressed by TEA grantees.

Issue 4 – Reimbursement Authority Request - Ibank

Governor's Proposal. The Governor's budget proposes $104,000 in reimbursement authority in the Integrated Waste Management Account to provide information technology (IT) support services to the California Infrastructure and Economic Development Bank (IBank).

Background. CalRecycle performed IT services for the IBank until 2014, when the IBank moved out of the CalEPA building. In April 2015, with the concurrence of the Governor's office, IBank requested that CalRecycle resume IT services and both parties entered into an interagency agreement. The requested authority would allow CalRecycle to continue providing these services.

Issue 5 – Audio and Video Support

Governor's Proposal. The Governor's budget proposes $227,000 in reimbursement authority from the Integrated Waste Management Account and two permanent positions to deliver audio-visual services for CalEPA's boards, departments, and offices within the California EPA headquarters.

Background. CalRecycle took over the function of providing audio-visual services to all of CalEPA in 2014 using state staff with the intent of being reimbursed based on the $250,000 paid annually for the previously contracted audio and video services and maintenance. These positions were established on a temporary basis. This proposal reflects will allow these positions to provide the services on a permanent basis.

Issue 6 – Establishing Permanent Positions for the Waste and Used Tire Manifest System Program

Governor's Proposal. The Governor's budget proposes to convert seven temporary positions to permanent positions for the Tire Hauler Registration process and the Uniform Waste and Used Tire Manifest System.

Background. CalRecycle oversees the storage and transportation of waste and used tires within California. Workload includes tracking the generation, transport and disposal of waste and used tires, auditing the manifest system, registering waste and used tire haulers, and assuring haulers have a surety bond. The current temporary help positions do not provide secure resources for this essential, full-time and ongoing work.

Issue 7 – Used Oil Certified Collection Center Unit - Additional Staff for Claim Processing and Fraud Prevention

Governor's Proposal. The Governor's budget requests $77,000 from the California Used Oil Recycling Fund and one position to implement new fraud prevention procedures for used oil incentive claims, and identify and include additional entities subject to but not currently paying the oil fee.

Background. CalRecycle administers the California Oil Recycling Enhancement Act, which is designed to discourage the illegal disposal of used oil. The law requires oil manufacturers to pay CalRecycle $0.24 per gallon of lubricating oil sold in California. When oil is recycled, registered industrial generators, curbside collection programs, and certified collection centers are eligible to receive an incentive payment from CalRecycle, including $0.16 per gallon used of oil generated on-site, and $0.40 per gallon of used oil collected from do-it-yourselfers. Findings in a Department of Finance audit in 2014 led CalRecycle to implement additional fraud prevention procedures to prevent ineligible payments.

Issue 8 – Special Environmental Project - Compostable Plastics Research

Governor's Proposal. An April 1st Finance Letter proposes $50,000, one-time, from the Integrated Waste Management Account to expend recently awarded settlement fees between Napa County (and others) against Walmart Stores and Jet.com.

Background. In a settlement agreement filed on January 31, 2017, in the Napa County Superior Court, Walmart Stores, Inc., a Delaware Corporation; Wal-Mart.com, USA, LLC, a California Limited Liability Company; and Jet.com, a Delaware Corporation, agreed to pay the State of California more than $900,000 to resolve allegations related to improperly offering plastic products for sale labeled as "biodegradable," "compostable," and otherwise making misleading environmental marketing claims prohibited by law. As part of the judgment, defendants were ordered to pay $50,000 toward compostable plastics research and policy development. The Wal-Mart and Jet.com settlement stipulates funds shall be provided to CalRecycle for use in compostable plastics research. The requested authority will allow CalRecycle to conduct compostable plastics research and policy development consistent with the terms of the settlement.

Issue 9 – Organic Wastes

Governor's Proposal. The Governor's budget proposes $650,000 from the Cost of Implementation Account, Air Pollution Control Fund, and $508,000 from the Integrated Waste Management Account and six positions to implement SB 1383 (Lara), Chapter 395, Statutes of 2016.

Background. Organic wastes do not contain methane. However, as they decompose in an anaerobic environment (landfills are buried), methane is produced. Organic materials make up one-third of the waste stream. Recycling organic waste through composting and other organics processing technologies, including anaerobic digestion, reduces such emissions. While most modern landfills have systems in place to capture methane, significant amounts continue to escape into the atmosphere. According to ARB's Greenhouse Gas inventory, nearly 8.28 million metric tons of CO_2 equivalent are released annually by landfills in California.

In 2016, the Legislature passed Senate Bill 1383, which directed CalRecycle to reduce the state's annual organic waste disposal by at least 50 percent by 2020 and 75 percent by 2025. This new requirement requires CalRecycle to develop regulations and perform oversight directed at reducing organic waste in landfills.

In addition to funding for these duties, CalRecycle requests a one-time expenditure authority of $508,000 to conduct a waste characterization study. CalRecycle asserts that a waste characterization study would enable them to comply with waste sector evaluation requirements, by providing them with updated and scientifically informed information in the areas of waste disposal and recycling. CalRecycle has historically hired a professional solid waste sorting firm to conduct these studies, due to the very specific expertise needed for efficient and accurate data collection.

Issue 10 – TBL – State Agencies to Retain Recycling Revenue

Governor's Proposal. The Governor's budget proposes trailer bill language to allow state agencies to contract for recycling services and retain revenue received.

Background. AB 4 (Eastin), Chapter 1094, Statutes of 1989, created the state's in-house recycling program. Known as Project Recycle, the law was designed to reduce agency-generated solid waste and recoup value from discards when possible.

At the time of passage, recycling services were not widespread and few agencies had experience in setting up recycling programs. Project Recycle was an effort in bringing these services to state agencies by tasking CalRecycle (the Integrated Waste Management Board at the time) with negotiating and managing commodity recycling contracts for agencies.

In the following 27 years, private and public recycling services have become abundant and state agencies now have access to and awareness of, these services. Today all agencies have recycling coordinators who manage recycling programs and contracts. The number of recycling contracts managed by CalRecycle has been reduced to three.

Despite having agency recycling coordinators, the law still requires state agencies to first receive approval from CalRecycle prior to establishing or entering into an agreement for recycling services.

Further, the revenue generated from the recycling programs that exceed $2,000 annually is remitted to CalRecycle. Agencies may request approval from CalRecycle to retain up to $2,000 in revenue annually from recycling contracts. To retain more than $2,000 in annual revenue, agencies must receive approval from the Legislature through the budget process. Current statute restricts such revenue to be used to offset recycling program costs.

3980 Office of Environmental Health Hazard Assessment (OEHHA)

Issue 1 – Litigation Costs (Prop 65)

Governor's Proposal. The Governor's budget proposes $574,000, annually, for two years from the Safe Drinking Water and Toxic Enforcement Fund to pay for defense of civil lawsuits brought against OEHHA for actions taken as lead agency for purposes of Proposition 65 (Safe Drinking Water and Toxic Enforcement Act of 1986).

Background. OEHHA has been party to several lawsuits relating to its decisions in listing chemicals or establishing safe harbor levels for chemicals already listed. OEHHA anticipates additional legal challenges related to its recently completed regulatory process to update the regulations concerning businesses' responsibilities for providing warnings for chemicals listed under Proposition 65.

Issue 2 – Compliance Assistance

Governor's Proposal. The Governor's budget proposes $304,000, annually, for two years from the Safe Drinking Water and Toxic Enforcement Fund to provide advice and consultation on when

Proposition 65 warnings are required for specific products or facilities and to conduct the assessments needed to make such determinations.

Background. OEHHA is receiving an increasing number of requests from businesses, the Department of Justice (DOJ), and other state entities for guidance concerning the level of exposure to Proposition 65 chemicals that Californians incur, and whether these levels trigger the Proposition 65 warning requirement. OEHHA cannot respond to these requests as quickly as it should because of limited resources, including a limited number of staff with expertise in exposure science. The delayed responses may be prompting businesses to provide Proposition 65 warnings that are not required, or could be resulting in litigation over whether such warnings are required. The resources are requested in anticipation of the workload associated with increasing requests from businesses and trade organizations for this kind of compliance assistance, and from the DOJ and other governmental entities that are enforcing Proposition 65.

Issue 3 – Site Risk Assessment Review

Governor's Proposal. The Governor's budget proposes one position to provide technical assistance to the Regional Water Quality Control Boards and to local governments on human health risk assessments on contaminated sites. The position will be funded by reimbursements from an existing interagency agreement with the State Water Resources Control Board.

Background. The State and regional boards regulate and oversee the investigation and cleanup of sites where unauthorized releases of pollutants to the environment have impacted groundwater. At sites where the contamination may result in human exposures, a human health risk assessment is performed to characterize the hazards and risks associated with such exposures. The risk assessment is usually performed by a consultant on behalf of the party responsible for the site. The assessment informs risk management decisions regarding actions needed to clean up the contamination or mitigate exposures. Since regional boards generally do not have in-house toxicological expertise, they rely on OEHHA to provide technical consultation on the scientific validity of the risk assessment and its adherence to regulatory guidance.

Issue 4 – Indicators of Climate Change in California

Governor's Proposal. The Governor's budget proposes one position to prepare periodic reports presenting indicators of climate change and its impacts on California. The position will be funded through an interagency agreement between OEHHA and CalEPA.

Background. Current law designates OEHHA as the lead agency for the development of environmental indicators on behalf of CalEPA. Since 2007, a series of interagency agreements has provided funding for the equivalent of one position to partially handle the workload involved in developing climate change indicators. The workload has required a total of 2.7 positions to complete the work. OEHHA has redirected staff, hired a retired annuitant, and used contracted services to accomplish the work. This request will enable OEHHA to hire and dedicate a staff scientist on an ongoing basis to tracking the environmental impacts that climate change is having on California.

Issue 5 – Well Stimulation Treatment Health and Environmental Risks

Governor's Proposal. The Governor's budget proposes $366,000, annually, for three years (including $50,000 in contract funding), from the Oil, Gas and Geothermal Administrative Fund, to evaluate chemicals used in oil and gas well stimulation treatments in California.

Background. Oil and gas well operations using well stimulation treatments occur in a variety of locations in California, including the San Joaquin Valley (and frequently in areas close to low-income communities), the densely populated areas of Los Angeles County, and areas along the Central Coast. SB 4 (Pavley), Chapter 313, Statutes of 2013; required the California Natural Resources Agency to sponsor an independent study on hazards and risks posed by well stimulation treatments, including hydraulic fracturing. The study was carried out by the California Council on Science and Technology. SB 4 also required OEHHA to participate in the study. One of its highest-profile findings - that little is known about the toxicity and risk posed by the many chemicals used in well stimulation treatments - was based to a significant extent on information provided by OEHHA. The report recommended that chemicals used in well stimulation treatments activities be limited to those with hazards that are known and acceptable.

The requested resources would enable OEHHA to develop an inventory of chemicals used in well stimulation treatments, evaluate the health and environmental hazards they pose, identify and fill gaps in scientific information on these chemicals, and identify and evaluate potential alternatives to the high-hazard chemicals.

Staff Recommendation. Approve vote only items as budgeted.

Issues for Discussion

3930 Department of Pesticide Regulation (DPR)

DPR protects public health and the environment by regulating pesticide sales and use and fostering reduced-risk pest management. The department ensures compliance with pesticide laws and regulations through its oversight of County Agricultural Commissioners, who enforce pesticide laws and regulations at the local level.

The Governor's budget proposed $96.4 million for DPR in 2017-18. DPR's primary source of funds is the Department of Pesticide Regulation Fund, $92.9 million is proposed from this source in the budget year.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
3540	Pesticide Programs	284.7	294.9	294.9	$91,877	$99,419	$96,353
9900100	Administration	76.7	78.3	78.3	11,496	11,748	11,748
9900200	Administration - Distributed	-	-	-	-11,496	-11,748	-11,748
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		361.4	373.2	373.2	$91,877	$99,419	$96,353

Dollars in Thousands

Issue 1 – Pest Management Research Grants

Governor's Proposal. The Governor's budget proposes $600,000, annually, for two years from the Department of Pesticide Regulation Fund to continue funding pest management research grants at $1.1 million per year. This request would extend a three-year legislative augmentation that appropriated an additional $600,000 to the program.

DPR is also requesting budget bill language to allow funding for both of its pest management grants (research and alliance) be available for encumbrance for two years (instead of one), in recognition of the long-term nature of research and alliance grant projects and to accommodate terms of the model contract language, between the state and the University of California, that require grant recipients to submit final invoices up to 90 days after the end of projects.

Background. One of DPR's primary purposes is "to encourage the development and implementation of pest management systems, stressing application of biological and cultural pest control techniques with selective pesticides when necessary to achieve acceptable levels of control with the least possible harm to non-target organisms and the environment." To do so, DPR encourages the development and use of environmentally sound pest management systems, known as integrated pest management. Pest Management Research grants develop practices that contribute to an integrated pest management system to reduce use of high-risk pesticides and their unanticipated impacts on public health and the environment.

Staff Recommendation. Approve as budgeted.

Issue 2 – Pesticide Registration Database Management System Funding Realignment

Governor's Proposal. An April 1st Finance Letter proposes to revert and reappropriate $3.4 million, to and from, the Department of Pesticide Regulation Fund and allow for a four-year encumbrance period to use the funds for the Pesticide Registration Data Management System (PRDMS).

Background. The Pesticide Registration Branch (PRB) currently maintains registration for approximately 13,000 pesticide products containing 1,000 different active ingredients and seven devices. PRB receives and processes approximately 5,000 registration submissions each year, as well as managing license renewals and product label and data storage for existing products. In addition to responsibility for the evaluation and registration of pesticides and certain devices, PRB also processes exemptions from registration; tracks adverse effects submissions regarding pesticide products; issues research authorizations for the testing of new products; coordinates reevaluations of registered pesticide products, and is responsible for tracking the status and providing communication with the regulated community regarding human health risk assessment and mitigation programs. Currently, PRB completes these tasks manually, with some information technology (IT) support.

In 2015-16, DPR was appropriated resources to procure an external system integrator vendor to develop and implement the PRDMS in order to take the PRB manual process of registration to an integrated electronic system. Since then, there have been several changes in the project approval lifecycle of the IT project. These project delays have led to the timeline for final project implementation being pushed back from June 2017 to December 2019.

Staff Recommendation. Approve as budgeted.

3960 Department of Toxic Substances Control (DTSC)

The DTSC protects the people of California and the environment from the harmful effects of toxic substances by restoring contaminated resources, enforcing hazardous waste laws, reducing hazardous waste generation, and encouraging the manufacture of chemically-safer products.

The Governor's budget proposed $285.8 million for DTSC in 2017-18. DTSC's primary sources of funds are the Toxic Substances Control Account, Hazardous Waste Control Account, and the General Fund, $121.4 million, $62.3 million, and $32.1 million, respectively, are proposed from these sources in the budget year.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
3620	Site Mitigation and Brownfields Reuse	286.7	280.2	285.2	$130,007	$135,187	$123,776
3625	Hazardous Waste Management	371.2	389.2	389.7	80,599	83,720	78,659
3630	Safer Consumer Products	61.0	61.8	61.8	14,960	15,611	13,417
3635	State Certified Unified Program Agency	9.3	9.7	9.7	2,876	2,781	2,784
3645	Exide Technologies Facility Contamination Cleanup	-	-	-	4,790	24,393	67,191
9900100	Administration	174.9	176.9	176.9	33,964	34,580	34,477
9900200	Administration - Distributed	-	-	-	-33,964	-34,580	-34,477
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**903.1**	**917.8**	**923.3**	**$233,232**	**$261,692**	**$285,827**

Dollars in Thousands

Issue 1 – Department of Toxic Substances Control – Performance Review

As mentioned above, the Department of Toxic Substances Control (DTSC) is charged with protecting the people of California and the environment from the harmful effects of toxic substances by restoring contaminated resources, enforcing hazardous waste laws, reducing hazardous waste generation, and encouraging the manufacture of chemically-safer products. In addition to administration, the budget includes the following five programs for DTSC:

1. **Site Mitigation and Brownfields Reuse –** The program implements the state's laws regarding site cleanup and the federal Superfund program. The program currently oversees approximately 1,170 hazardous substance release site investigations and cleanups, and monitors long-term operations and maintenance activities at more than 470 sites where the cleanup process is complete. Additionally, the program is responsible for ensuring compliance with the terms of approximately 820 land-use restrictions in place on properties throughout the state.

2. **Hazardous Waste Management** – The program regulates the generation, storage, transportation, treatment, and disposal of hazardous waste to minimize risks to public health and the environment. The program oversees permitting and compliance at approximately 120 facilities that manage hazardous waste, approximately 900 registered businesses that transport hazardous waste, and approximately 300 facilities/generators that are subject to corrective actions.

3. **Safer Consumer Products –** The Safe Consumer Products (SCP) program strives to get manufacturers to reduce human and environmental exposure to toxic chemicals. SCP calls for industry to develop safer consumer products and use pollution prevention best practices. The

program implements the SCP regulations. SCP also collects information on the presence of toxic chemicals in products in order to identify priority products for possible regulation; provides support and guidance to priority product manufacturers for the analysis of safer alternatives; and issues regulatory responses to proposed alternatives. Lastly, the program encourages the adoption of "green chemistry" practices.

4. **State as Certified Unified Program Agency** – The California Environmental Protection Agency designated the Department of Toxic Substances Control as the Certified Unified Program Agency (CUPA) in Trinity and Imperial counties. As the CUPA, the department is responsible for implementing the six elements of the unified program: hazardous waste generator and onsite treatment activities; spill prevention control and countermeasure plans for owners of above-ground petroleum storage tanks; underground storage tank program; hazardous material release response plans and inventories; California Accidental Release Prevention program; and certain Uniform Fire Code.

5. **Exide Technologies Facility Contamination Clean Up Program –** The program oversees the removal and remedial actions in the communities surrounding the Exide Technologies facility in the City of Vernon.

As mentioned above, the Governor's budget proposes $285.8 million and 923.3 positions for DTSC in 2017-18. DTSC is funded from multiple sources, including; the General Fund, special funds, and federal funds. Following are some of the departments more significant funding sources as outlined in the Governor's budget:

DTSC – Significant Funding Sources Dollars in Thousands			
Funding Source	**2015-16**	**2016-17**	**2017-18**
General Fund	$27,379	$44,090	$32,087
Toxic Substances Control Account	70,441	81,970	121,426
Hazardous Waste Control Account	63,512	65,892	62,302
Federal Funds	32,499	33,414	33,144
Reimbursements	13,075	13,525	13,531
Site Remediation Account	11,047	9,626	6,626
Removal and Remedial Action Account	3,346	3,185	3,185

Legislative Oversight. Over the last five years, the Legislature has conducted numerous hearings on DTSC's internal controls, business practices, and statutory obligations. In those hearings, the budget and policy committees have evaluated four main areas: 1) reviewing and monitoring the department's strategic plan and reorganization; 2) auditing cost recovery; 3) providing staffing to improve the ability to address permit backlogs and business operations; and, 4) improving enforcement at the department.

This effort has been spurred by incidents across California that have exposed glaring issues in DTSC's operations. In particular, issues with hazardous waste facility permitting and enforcement at the Exide and Quemetco battery recycling facilities; shortcomings in cost-recovery efforts for cleanups leading to an accumulation of 1,661 projects totaling approximately $194 million in uncollected cleanup costs; a growing backlog of applications to renew hazardous waste permits; delayed site remediation; lack of public participation and transparency activities; and personnel issues, have all contributed to the need for increased scrutiny by the Legislature.

Independent Review Panel. 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. The IRP will end on January 1, 2018, unless the Legislature extends its mandate.

Legislative Analyst's Office (LAO). On April 4, 2017, the LAO released a post regarding DTSC's performance improvement initiatives. In it, the LAO discusses the department's progress to date in addressing deficiencies, focusing on those programs that have received additional funding and personnel resources. These programs include 1) Hazardous Waste Management Program, 2) Exide Facilities Contamination Cleanup Program, 3) Site Mitigation and Brownfields Reuse Program, and 4) Office of Strategic Planning and Development. Specifically, for each of these programs, the LAO: 1) provides a brief program description; 2) summarizes the resources that were approved by the Legislature to address identified deficiencies; 3) includes data on outcomes achieved to date, where available, and projected future outcomes; and 4) provides questions for legislators to ask DTSC in future budget and policy hearings to determine the degree to which the department is improving program performance. The LAO also provides a brief description of the IRP, which was established by the Legislature to provide oversight over many of the same programs for which additional resources have been provided.

Staff Comment. The LAO's report notes that DTSC's own projections show that for some programs it will be years before deficiencies are fully remedied. To ensure that progress continues to be made, the Legislature should consider whether additional measures are necessary to review and assess DTSC programs upon the IRP's sunset. Options could range from additional oversight hearings to the continuation of the IRP or the establishment of a new body tasked with overseeing implementation of deficiency remedies.

Staff Recommendation. Informational item, no action.

Issue 2 – Lead-Acid Battery Recycling Act of 2016 (AB 2153, Chapter 666, Statutes of 2016)

Governor's Proposal. The Governor's budget proposes $610,000 from the Lead-acid Battery Cleanup Fund and five positions to implement the Lead-acid Battery Recycling Act of 2016.

Background. Lead is a toxic metal that does not break down in the environment and accumulates in the human body. Exposures to lead can lead to a number of health problems, including behavioral problems, learning disabilities, joint and muscle weakness, anemia, organ failure, and even death.

A number of studies over the past 30 years have thoroughly documented the serious and cumulative impacts associated with lead exposure. According to the Centers for Disease Control and Prevention, there is no identified safe blood lead level in children.

Lead is a leading environmental threat to children's health. When children are exposed to lead it has lifelong adverse effects, including lower IQ scores, learning and hearing disabilities, behavioral problems, difficulty paying attention, hyperactivity and disrupted postnatal growth.

Lead-acid batteries constitute a significant contributor to lead in the environment. In 2013, Exide Technologies, a battery recycler in the City of Vernon, permanently suspended operations. The facility closed in 2015, after DTSC notified Exide that its application for a new permit would be denied. Exide was found to have discharged harmful quantities of lead for years and posed an unacceptable risk to human health and the environment. DTSC conducted soil tests and found lead contamination could have affected as many as 10,000 homes up to 1.7 miles away. A General Fund loan of $176.6 million has been given to DTSC to expedite and expand the testing area and to cleanup properties with the highest levels of lead and greatest risk of exposure. The state intends to seek reimbursement from Exide for this loan to DTSC.

AB 2153 (Garcia) Chapter 666, Statutes of 2016, establishes the Lead-Acid Battery Recycling Act of 2016, which imposes new fees on manufacturers and consumers of lead-acid batteries to fund lead contamination cleanup. Among other things, this act requires DTSC to identify, investigate and cleanup areas reasonably suspected to have been contaminated by the operation of lead-acid battery recycling facilities.

According to DTSC, in addition to the Exide site, it has identified 14 former lead smelting facilities in California that may fall under AB 2153's definition of a lead-acid battery recycling facility. These types of facilities have been in operation in California since at least the 1920s. There could potentially be additional lead-acid battery recycling sites identified in coming years.

Legislative Analyst's Office. The LAO recommends approving this request. In addition, the LAO recommends that the Legislature adopt budget bill language requiring DTSC to provide a report summarizing its progress implementing the act. Given the uncertainty about the amount of contamination that may have been caused by lead-acid battery recycling facilities in some areas of the state, the LAO suggests that the report would serve to update the Legislature on the department's progress towards addressing this issue and inform the Legislature on future resource needs for this program.

Staff Comment. DTSC plays a critical role in implementing AB 2153, which, if properly implemented, will go a long way in mitigating a serious environmental concern. However, as the LAO points out, there is still a lot of work to be done in assessing the scope of contamination caused by lead-acid battery recycling facilities. In addition, the department was unable to identify a need for resources as AB 2153 moved through the legislative process. As such, it is important that the Legislature closely monitor and assess implementation to ensure that the program is carried out as intended.

Staff Recommendation. 1) Approve the request on a two-year limited-term basis; 2) As recommended by the LAO, adopt budget bill language requiring DTSC to provide a report, by March 1, 2018, summarizing its progress implementing the act.

Issue 3 – Stringfellow Superfund Removal and Remediation Action

Governor's Proposal. The Governor's budget proposes $2.5 million General Fund in 2017-18, $3 million in 2018-19, and $2.6 million in 2019-20, for removal and remedial action at the Stringfellow Hazardous Waste Site.

Background. The Stringfellow site, located in Riverside County in Pyrite Canyon, was originally a rock quarry operated by the Stringfellow Quarry Company. In 1956, the Stringfellow Quarry Company opened the site for dumping toxic waste. The hazardous waste disposal facility operated from 1956 until 1972. In its 16 years of operation, more than 35 million gallons of liquid industrial waste were disposed in unlined ponds. The waste included spent acids and caustics, metals, solvents, and pesticide byproducts from metal finishing, electroplating, and pesticide production.

California became the primary responsible party in 2002 and the US Environmental Protection Agency assumed the role of lead regulatory agency for the site. DTSC, on behalf of California, has been remediating, operating, maintaining, and monitoring the site. Failure to perform these duties could subject the state to regulatory enforcement action by the US EPA.

The funding requested in this proposal will enable DTSC to collect environmental data to support the selection of a protective, technically viable, and efficient final remedy for the site which addresses all contaminants including emerging contaminants such as hexavalent chromium and perchlorate for all areas of the plume. The absence of adequate resources for DTSC as the agent for the state to complete the characterization may result in violation of the state's agreement with US EPA.

Staff Recommendation. Approved as budgeted.

3970 Department of Resources Recycling and Recovery (CalRecycle)

CalRecycle protects public health, safety, and the environment by regulating solid waste facilities, including landfills, and promoting recycling of a variety of materials, including organics, beverage containers, electronic waste, waste tires, used oil, carpet, paint, mattresses, and other materials. CalRecycle also promotes the following waste management and recycling practices: 1) source reduction, 2) recycling and composting, and 3) reuse. Additional departmental activities include research, permitting, inspection, enforcement, public awareness, education, market development to promote recycling industries, and technical assistance to local agencies. Lastly, CalRecycle administers the Education and the Environment Initiative, a statewide effort promoting environmental education in California.

The Governor's budget proposed $1.6 billion for CalRecycle in 2017-18. CalRecycle's primary sources of funds are the California Beverage Container Recycling Fund and the Electronic Waste Recovery and Recycling Account - Integrated Waste Management Fund, $1.2 billion and $102.3 million, respectively, are proposed from these sources in the budget year.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
3700	Waste Reduction and Management	328.6	327.3	349.8	$360,942	$265,714	$234,893
3705	Loan Repayments	-	-	-	-2,909	-2,193	-2,505
3710	Education and Environment Initiative	10.5	10.1	10.1	2,372	4,084	2,621
3715	Beverage Container Recycling and Litter Reduction	276.7	221.4	199.4	1,332,527	1,341,206	1,331,973
9900100	Administration	101.0	102.0	110.0	13,023	15,183	16,110
9900200	Administration - Distributed	-	-	-	-13,023	-15,183	-16,110
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**716.8**	**660.8**	**669.3**	**$1,692,932**	**$1,608,811**	**$1,566,982**

Dollars in Thousands

Issue 1 – Administrative Support Workload

Governor's Proposal. The Governor's budget proposes $929,000 in distributed administration and eight positions for increased fiscal activity, information technology services, and departmental operations.

Background. CalRecycle administers and provides oversight for all of California's state-managed waste handling and recycling programs. Known mostly for overseeing beverage container and electronic-waste recycling, CalRecycle is also responsible for organics management, used tires, used motor oil, carpet, paint, mattresses, rigid plastic containers, plastic film wrap, newsprint, construction and demolition debris, medical sharps waste, household hazardous waste, and food-scrap composting. CalRecycle collaborates with many stakeholders - local jurisdictions, state agencies. Recycling Market Development Zones, non-profit organizations, business associations, individual businesses, manufacturers, school districts, and many others - to identify barriers and opportunities, and solve problems. Success depends on our ability to act both locally and regionally, forge links and coalitions with key stakeholders, and use our financial resources to assist our stakeholders.

Over the last several years, CalRecyle has experienced an increase in reporting needs and information technology needs. In part due to new programs created by legislation (Carpet and Paint Program), migration of programs from other departments (Office of Education and the Environment from CalEPA to CalRecycle), implementation of new funds, grants, and loan program relating to greenhouse gas emission goals, and general increase in the complexity of various functions requiring additional attention and detail.

The department reports that there has been a marked increase in the amount of workload associated with reporting and analysis of cash flows, as well as the ongoing integration of data from various programmatic systems throughout the department. In response to a finding and adverse audit opinion in the most recent Financial Integrity and State Manager's Accountability Act and individual Beverage Container Recycling Fund audits, the department has had to devote significant resources to properly handle accounts receivable transactions for revenues. Both the number of external audits and detail being requested has increased significantly. Financial information systems have gotten more granular in response to increased statewide, programmatic, audit, and reporting needs. As CalRecycle has become more complex, there are more unexpected and immediate projects such as wildfire response, legislative inquiries, special payments and levy offsets, and other critical projects that cause other projects to stop.

In addition to overtime, staff has been redirected from other ongoing tasks to respond to immediate needs. According to the department, even with these efforts, backlog of basic processes continues to be excessive; for example, there are several fiscal months of expenditures which require review and clean-up, approval of purchase orders which delays payments to grantees, and an accumulation of contract approvals.

Staff Recommendation. Approved as budgeted.

Issue 2 – Bonzi Sanitary Landfill Closure Funding

Governor's Proposal. The Governor's budget proposes $4.2 million, one-time, from the Integrated Waste Management Account (IWMA) to fund the closure of the inactive Bonzi Sanitary Landfill. The budget also requests that the annual transfer from the IWMA to the Solid Waste Disposal Site Cleanup Trust Fund be reduced from $5 million to $800,000 for 2017-18 to provide funds for this proposal.

Background. The Bonzi Sanitary Landfill, located in Modesto, was a solid waste disposal facility that stopped accepting waste in November 2009. The site has a history of groundwater contamination and landfill gas migration violations. There have been numerous enforcement actions against the operator-owner, starting in 1984, addressing inadequate financial assurances, groundwater contamination, violations of state minimum standards, and failure to comply with permit conditions.

Although Bonzi ceased operations in 2009, it did not properly close pursuant to state regulations. After a landfill stops receiving waste, it must begin preparing for post closure maintenance according to an approved plan. An approved closure plan is a prerequisite of a facility's operating permit. The post closure maintenance plan identifies steps needed to ensure the integrity of containment features and how to monitor compliance with applicable performance standards.

The Bonzi Landfill is also registered as a superfund site by the US EPA, which means this site poses potential risk to human health and/or environment due to contamination by one or more hazardous waste.

Since the facility ceased accepting waste in 2009, the State and Regional Water Quality Control Board, the Central Valley Regional Water Quality Control Board, and CalRecycle have been working together to compel the current owner, the Bonzi Trust, to fully fund the closure and post closure maintenance trust fund and to bring the facility into regulatory compliance. The California Attorney General's office placed an injunction on the Bonzi Trust and its Trustees in 2009, to collect on the remaining and available assets to address financial assurance deficiencies. In March 2010, the Bonzi Trustees notified CalRecycle and the Regional Water Quality Control Board that they were financially unable to continue critical operations and maintenance activities at the site.

In 2012, CalRecycle, in consultation with the State and Regional Water Quality Control Board, as well as the Bonzi Trust, determined that to reduce the ongoing environmental and health and safety impacts associated with the site, CalRecycle would fund one-time remedial actions at the site by spending $1.9 million from the Solid Waste Disposal Site Cleanup Trust Fund. These actions included consolidation of waste, constructing an intermediate cover, improving site drainage, and making improvements to the landfill gas collection system. These actions also had the effect of reducing the expanse of actions required to close the site.

The California Attorney General's office has determined, for now and the foreseeable future, all enforcement options to access funds to cover the cost associated with closing the site have been exhausted. Moreover, all Trust assets have been identified and no additional financial resources are available.

In short, the Trust's assets can support approximately $7 million in site-related costs. However, projected combined costs for closure and post-closure maintenance are estimated between $11.2 million and $14.2 million.

CalRecycle believes that the sooner the site is closed there is more potential to keep the post-closure costs down. Any post-closure maintenance costs not covered by the Trust would fall to the state. Therefore, funding site closure via this proposal will minimize the state's long-term obligation and risk.

Staff Recommendation. Approve as budgeted.

3900 Air Resources Board (ARB)

The ARB has primary responsibility for protecting air quality in California. This responsibility includes establishing ambient air quality standards for specific pollutants, maintaining a statewide ambient air-monitoring network in conjunction with local air districts, administering air pollution research studies, evaluating standards adopted by the U.S. Environmental Protection Agency, and developing and implementing plans to attain and maintain these standards. These plans include emission limitations for vehicular and other mobile sources and industrial sources established by the board and local air pollution control districts. The ARB also has the responsibility, in coordination with the Secretary for Environmental Protection, to develop measures to reduce greenhouse gas emissions to 1990 levels by 2020 and at least 40 percent below 1990 levels by 2030, pursuant to AB 32 (Nunez), Chapter 488, Statutes of 2006, and SB 32 (Pavley), Chapter 249, Statutes of 2016.

The Governor's budget proposed $410.1 million for the ARB in 2017-18. The ARB's primary sources of funds are the Motor Vehicle Account and the Air Pollution Control Fund, $137.5 million and $125.2 million, respectively, are proposed from these sources in the budget year. The large reduction in funding from 2016-17 to 2017-18 is mainly due to a large Greenhouse Gas Reduction Fund appropriation in 2016-17.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
3500	Mobile Source	676.6	659.9	680.9	$402,035	$247,136	$224,149
3505	Stationary Source	262.2	271.3	271.3	35,716	40,295	39,440
3510	Climate Change	177.7	186.4	195.4	180,971	486,133	67,766
3515	Subvention	-	-	-	75,887	79,111	78,793
9900100	Administration	260.2	244.8	248.8	16,000	50,285	51,311
9900200	Administration - Distributed	-	-	-	-16,000	-50,285	-51,311
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**1,376.7**	**1,362.4**	**1,396.4**	**$694,609**	**$852,675**	**$410,148**

Dollars in Thousands

Issue 1 – ARB Southern California Consolidation Project

Governor's Proposal. The Governor's budget proposes $413.1 million in lease-revenue bond authority for the construction phase to consolidate and relocate ARB's existing motor vehicle and engine emissions testing and research facilities that are currently located in Southern California.

In addition, an April 1st Finance Letter proposes a fund shift in the amount of $82.6 million from the lease revenue bond funds proposed in the Governor's budget to the Air Pollution Control Fund (APCF). This request reflects a partial shift of debt financing to cash funding for the construction phase of this project.

Background. This project will be located on land in Riverside County near the University of California Riverside (UCR). The existing ARB facilities no longer meet ARB's programmatic requirements, nor do they allow ARB the space necessary to perform the testing required to meet current air quality and climate change mandates. The total project cost is estimated to be $419.5 million.

The existing southern California Haagen-Smit Laboratory (HSL) facilities and infrastructure are insufficient to meet existing and future equipment, fuel, and emissions testing needs. In addition, the HSL facilities are not energy efficient and the HSL property is too small to modify and consolidate testing operations. California will not be able to meet existing and future air quality State Implementation Plan (SIP) and climate change emission reduction mandates unless the existing emissions testing and research capabilities are increased.

For fiscal year 2015-16, the ARB requested and received $6.4 million for this project. The funding was dedicated to assessing the suitability of proposed new sites ($0.2 million), developing performance criteria ($5.7 million) for this project, and evaluating the feasibility of achieving zero net energy (ZNE) for the project ($0.5 million).

In March 2016, ARB completed the site selection review process and the board recommended a site near the intersection of University Avenue and Iowa Avenue in Riverside. The site is located near the UCR on property owned by UCR. The Regents of the University of California (UC) have agreed to transfer the property to the state at no cost. On November 14, 2016, the State Public Works Board approved the transfer of the property. ARB is working with the Department of General Services (DGS) and UC Office of the President to complete the transfer of property to the state. ARB is also working closely with DGS on the development of the performance criteria and evaluation of ZNE. ARB expects to complete these tasks in 2016-17.

HSL was originally designed to support 40 staff and encompassed about 54,000 square feet. HSL now encompasses all or part of five leased buildings adjacent to the original HSL, with approximately 400 staff. In addition, ARB also operates a small heavy-duty testing facility located at the Los Angeles County Metropolitan Transit Authority (MTA) facility about 10 miles away in Los Angeles. ARB operates that facility under a memorandum of understanding (MOU) with MTA. Given the limited size of HSL, ARB currently conducts the testing of heavy-duty diesel engines and trucks at the MTA facility. This location does not meet existing and future heavy-duty testing needs that are so critical to the continued reduction of diesel particulate matter and support of the Sustainable Freight Initiative.

ARB will not be able to effectively meet current and future federal air quality mandates under the Clean Air Act and statutory climate change requirements without additional emissions testing and research capabilities. These capabilities are needed for support of new fuels and vehicles in development and various stages of commercialization to transform the state's transportation system. Over the next twenty years, California will need to build upon its successful efforts to meet these critical climate and air quality goals, including:

- Climate Goals:
    - By 2020, the Global Solutions Warming Act of 2006 requires California to reduce its GHG emissions to 1990 levels. This is a reduction of approximately 15 percent below emissions expected under a "business as usual" scenario.
    - By 2030, SB 32 (Pavley), Chapter 249, Statutes of 2016, now requires California to reduce its GHG emissions to 40 percent below 1990 levels.
    - By 2050, California has set a goal of reducing GHG emissions to 80 percent below 1990 levels.

- Air Quality Goals:
    - By 2023, California must achieve the federal 8-hour ozone air quality standard of 80 parts per billion (ppb) in all regions of California.

- By 2025, California must achieve the federal annual PM2 s air quality standard of 12 micrograms per cubic meter (|jg/m3) in all regions of California.
- By 2031, California must achieve the more stringent federal 8-hour ozone standard of 75 ppb in all regions of California.
- By 2037, California must achieve the more stringent federal 8-hour ozone standard of 70 ppb in all regions of California.

Planning for a new facility began in 2006 with an initial study of the needs, size, and requirements of a new facility. This study was expanded and released in January 2015 to include a broad range of changes and new regulatory and other workload requirements, including the added mission to develop and implement climate change mitigation strategies." In May 2016, DGS entered into a contract with Harley Ellis Devereaux (HED) to be the master architect for the project. Since then, ARB has been working with DGS and HED to develop the detailed performance criteria and establish revised cost estimates for the project.

As part of a court settlement with Volkswagen (VW), the ARB will receive approximately $154 million in civil penalties that will be deposited into the APCF. Of this amount, $82.6 million is proposed for this project. By reducing the amount financed for this project, the state will reduce total debt service costs by an estimated $66 million.

Legislative Analyst's Office (LAO). The LAO recommends the Legislature consider the following modifications to the ARB proposal to shift $83 million in construction funding for the new lab (out of total construction costs of $413 million) from lease revenue bonds to VW civil penalties deposited in the APCF:

- **Allocate Additional VW Civil Penalties to Construction Costs.** The Administration proposes to use $83 million of the expected $154 million in VW civil penalty revenue to reduce the amount of lease-revenue bonds. The LAO recommends the Legislature consider using all of the VW civil penalties to reduce the amount of lease-revenue bonds issued to finance the project. Under the LAO's approach, less VW penalty revenue would be available to fund some of ARB's anticipated regulatory activities over the next several years. However, even without the VW penalties available in future years, the LAO points out that the APCF is projected to have a slight operating surplus and a large fund balance (over $150 million in 2018-19).

- **Consider Using VW Penalties to Offset Motor Vehicle Account (MVA) Costs.** The Administration's January budget planned to make annual debt service payments from three funds—MVA (65 percent), APCF (20 percent), and the Vehicle Inspection Repair Fund (15 percent). The Administration proposes to use the VW penalty revenue to eliminate only the APCF portion of debt service payments. As discussed above, the APCF is projected to be balanced over the long term and have a large fund balance. The LAO recommends that the Legislature consider using the penalty revenues to offset costs for the other two funds. In particular, the Legislature might want to use the penalty revenues to offset costs from the MVA, which is barely balanced over the next few years and could face a modest operational shortfall in certain years.

Staff Recommendation. Hold open.

Issue 2 – Implementation of the Volkswagen Consent Decree

Governor's Proposal. The Governor's budget proposes $2.3 million (including contract funding of $125,000, annually, for five years) and 14 positions to administer and implement the provisions of the Volkswagen Consent Decree entered by the court on October 25, 2016. Of the $2.3 million, $1.8 million and 11 positions will be funded from the Air Pollution Control Fund, to be repaid by state penalty fees from Volkswagen, and $490,000 and three positions will be funded by reimbursements from Volkswagen's Environmental Mitigation Trust Fund pursuant to Appendix D of the consent decree.

Additionally, an April 1st Finance Letter proposes $25 million in local assistance from the Air Pollution Control Fund, which the ARB will receive as part of the Second Partial Consent Decree with Volkswagen filed in the United States District Court for the Northern District of California on December 20, 2016. Under the terms of this consent decree, Volkswagen is required to make a payment of $25 million to the ARB by July 1, 2017 to support the zero-emission vehicle related aspects of the Enhanced Fleet Modernization Program Plus-Up program or the zero-emission vehicle-related aspects of similar vehicle replacement programs in California.

Background. The Governor's budget proposal would enable ARB to fulfill its obligations under the consent decree. Appendix B of the consent decree requires implementation of vehicle recalls requiring evaluation and testing of reengineered engine and emission controls as well as ongoing monitoring of recall implementation. Appendix C of the consent decree requires ARB review and approval of VW's ZEV Investment Plans as well as coordination and review of investments throughout implementation. Appendix D of the consent decree requires the Lead Agency, acting on behalf of the State (Beneficiary), to develop and administer projects funded by the Environmental Mitigation Trust that deploy zero- and near zero emission heavy-duty vehicles and equipment to reduce Nitrogen Oxide (NOx) emissions. ARB expects that the Governor will identify California's Lead Agency to implement Appendix D. Since ARB is the probable choice as Lead Agency, this proposal would enable ARB to fulfill its obligations in implementing Appendix D. Should ARB not be designated as the Lead Agency, this portion of the request would be revised.

On December 20, 2016, a Second Partial Consent Decree between the State of California and Volkswagen was filed in the United States District Court for the Northern District of California for violations of the Clean Air Act caused by a "defeat device" in 3-liter diesel passenger cars sold by Volkswagen, Audi and Porsche. One of the provisions of the consent decree requires Volkswagen to pay $25 million to ARB to support ZEV-related programs. Specifically, provision 12 of the consent decree states:

> "Volkswagen shall further contribute to the availability of Zero Emission Vehicles in California by making a payment of $25,000,000 to ARB no later than July 1, 2017. Such payment shall be used, in the discretion of ARB, to support the ZEV-related aspects of the EFMP Plus Up program, or the ZEV-related aspects of similar vehicle replacement programs, in California in FY 2017-2018 or later years."

The consent decree funding will support and expand vehicle retirement and replacement programs such as EFMP and EFMP Plus-up, which ARB has funded since FY 2014-15 with Cap-and-Trade auction proceeds from the Greenhouse Gas Reduction Fund (GGRF). This proposal will provide ARB the authority to expend this new funding from Volkswagen.

Legislative Analyst's Office. The LOA recommends that the Legislature approve a portion of the ARB's proposal to administer and implement the VW Consent Decree request—ten positions and $1.6 million—related to testing and monitoring VW's vehicle modifications. The LAO recommends the Legislature withhold action on the remaining four positions related to overseeing ZEV investment plans and administering programs funded from the Mitigation Trust, pending additional information on the Legislature's role in directing these funds and how the funds will fit into the state's broader ZEV and air quality strategies. After the Legislature has had an opportunity to evaluate this information and determine the extent to which ARB's plans are consistent with the authority and direction provided to ARB by the courts and the Legislature, it could act on the Governor's proposal accordingly. The LAO also recommends reducing the ARB's budget by $1.2 million from the Air Pollution Control Fund and two positions because the ARB no longer has workload associated with litigating VW civil penalties.

Staff Comment. On March 22 Electrify America released the CA ZEV Cycle 1 Investment Plan. Although some concerns have been raised, the Legislature does now have more information regarding the ZEV investment plan than at the time of the LAO's analysis.

Staff Recommendation. Hold open.

Issue 3 – Implementation of Oil and Gas Methane Regulation

Governor's Proposal. An April 1st Finance Letter proposes $2.6 million, in 2017-18, and $1.8 million ongoing thereafter, to support implementation of ARB's Oil and Gas Methane Regulation (Greenhouse Gas Standards for Crude Oil and Natural Gas Facilities). This request includes two positions and $2.3 million (including $2 million in contract funds) in 2017-18, and $1.8 million (including $1.5 million in contract funds) ongoing, from the Cost of Implementation Account. In addition, this proposal requests onetime equipment costs of $285,000 from the Oil, Gas, and Geothermal Administrative Fund.

Background. This proposal addresses several mandates for ARB, including its overall mission to protect public health and reduce greenhouse gases. In addition, the activities funded by this proposal will enable enforcement of the Oil and Gas Methane Regulation, thereby fulfilling the commitment in the initial AB 32 (Nunez) Chapter 488, Statutes of 2006 Scoping Plan and its first update to adopt an "Oil and Gas Extraction GHG Emissions Reduction" measure.

The oil and gas regulation was first envisioned in the 2008 climate change Scoping Plan, and was given added importance after the massive natural gas leak at the Aliso Canyon storage facility. Recent research has identified methane "super emitters" as significant contributors to emissions from the oil and gas sector. Similarly, research shows that a large fraction of emissions is produced by a small fraction of sources. These emissions are unpredictable; therefore regular ground-based inspections are essential to identify and limit emissions. ARB proposed a regulation to the board in July 2016 to reduce methane from oil and gas operations, and the board voted to adopt the regulation at the March 2017 board meeting. The anticipated reductions in methane (a climate super-pollutant), and the co-benefits of reducing volatile organic compounds and toxics, are important for meeting California's climate and air quality goals.

This proposal will provide resources to assist districts to implement the regulation. ARB anticipates entering into contracts with air districts for a variety of activities, including setting up registration and permitting programs, training, equipment, designing and creating reporting databases, and other costs to establish the program. ARB staff assumes most local air districts will choose to take the lead in implementing and enforcing the regulation, with ARB playing a backstop role, as they are more familiar with operators, conduct inspections nearby or at the same sites and in many instances have been regulating such sources for decades. However, even if districts decide to implement and enforce this regulation, there is an annual cost for ARB to manage the reporting and inspection requirements in the regulation. In addition, ARB will purchase equipment that will be shared among the districts.

Progress and outcomes will be measured by the number of inspections conducted, emissions avoided, equipment turnover, and compliance percentages. The proposal is also expected to result in increased knowledge of emissions and impacts and inform any further necessary actions to reduce emissions.

Legislative Analyst's Office. The LAO recommends the Legislature reduce ARB's request for Cost of Implementation Account funds from $2.3 million to $1.9 million in 2017-18 and from $1.8 million to $1.6 million ongoing. The LAO suggests that this action would make the budget allocation for contracts with local air districts more consistent with available cost estimates. ARB estimated costs for the major component of the request—contracts with local air districts—were $1.6 million in 2017-18 and $1.3 million in 2018-19. These estimates were based on the estimated number of equipment components and idle wells that will be subject to the regulation and the cost of monitoring each. However, the ARB rounded the estimated costs up to $2 million in 2017-18 and $1.5 million ongoing to account for uncertainty in the estimates. Although the LAO acknowledges that implementation costs are uncertain, if the actual costs are found to be higher than estimated once the air districts begin implementing the regulation, the ARB can submit a request for additional resources at that time.

Staff Recommendation. Approve as budgeted.

Issue 4 – Mobile Source Heavy-Duty In-Use Program Improvements

Governor's Proposal. The Governor's budget proposes $2.2 million (including $500,000 in ongoing contract funding, and $1 million in one-time local assistance) and five positions from the Motor Vehicle Account. The $500,000 contract funding will be used to procure heavy-duty vehicles and remove engines to facilitate testing, and the $1 million in local assistance funding will be used to fund a pilot heavy-duty diesel engine repair program for low-income truck owners with high emitting trucks operating in disadvantaged communities.

Background. Inspection programs, such as the light duty smog check, are critical components to establish clean vehicles in the field. Since 2007, heavy-duty diesel engines (HDDE) come equipped with on-board diagnostics, which includes a malfunction indicator light that notifies the driver when the engine or emission control system is in need of repair. The current heavy-duty vehicle inspection program is not robust enough to enforce timely repair of broken or malfunctioning components. Even if the malfunction indicator light is illuminated, truckers may not take their vehicles out of service for a repair unless it is causing extreme drivability problems.

In 2014, ARB conducted a large-scale field investigation and documented the HDDE data review in the Evaluation of Particulate Matter Filters in On-Road Heavy-Duty Diesel Vehicle Applications (May 2015). In this report, ARB found that HDDEs' had high warranty rates, durability issues, and defective parts in the field. ARB also committed to several areas of program improvement that included holding engine manufacturers accountable by enacting new in-use measures to better enforce engine certification standards, enhancing certification programs, and developing stronger vehicle inspection programs.

It is critical that ARB fulfill its commitment to improve the HDDE program since key planning documents such as the California Sustainable Freight Action Plan, Greenhouse Gas Scoping Plan and State Implementation Plan rely on transforming the entire heavy-duty fleet to newer cleaner technologies. Additional resources are needed to make the HDDE in-use program more robust. Currently, there is no heavy-duty compliance testing being conducted by ARB. Therefore, the number of heavy-duty recalls is minimal. As a comparison, in-use compliance for light-duty vehicles has resulted in recalls affecting over three million cars and trucks to fix such things as defective components and software updates.

Staff Recommendation. Approve as budgeted.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, April 27, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: Joe Stephenshaw

OUTCOMES

Vote Only Calendar

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—Holly Mitchell, Chair

JOINT HEARING Agenda

Senate Budget Subcommittee No. 2 on Resources, Environmental Protection, Energy and Transportation, No. 3 on Health and Human Services, and No. 4 on State Administration and General Government

Wieckowski, Pan and Roth, Chairs

Thursday, May 4, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 4203

Consultants: Renita Polk, Joe Stephenshaw, Scott Ogus and Mark Ibele

Cannabis Regulatory Implementation

PROPOSED FOR DISCUSSION AND VOTE

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.

ITEMS PROPOSED FOR DISCUSSION AND VOTE

0860 State Board of Equalization (BOE)
1111 Department of Consumer affairs (DCA) – Bureau of Marijuana Control
4265 Department of Public Health (DPH)
8570 California Department of Food and Agriculture (CDFA)

Issue 1: Implementation of Cannabis Regulation (BCPs)

Budget. The Governor's budget includes a total of $51.4 million (Marijuana Control Fund) and 190 positions for cannabis implementation across four departments in the 2017-18 fiscal year. The budget also includes a General Fund loan to the Marijuana Control Fund for $62.7 million.

- The Governor's budget includes $5.4 million for BOE in 2017-18 to administer the new excise taxes. Specifically, the proposal includes:
  - In 2016-17: 1.9 positions and $1.1 million
  - In 2017-18: 22 positions and $5.4 million
  - In 2018-19: 21.3 positions and $2.7 million
  - In 2019-20: 17.4 positions and $2.1 million
  - In 2020-21 and ongoing: 16.9 positions and $2 million
- **Comments on BOE Proposal.** Subsequent to the submission of the budget proposal, BOE and the Department of Finance have worked to reconcile the resources required with existing BOE staffing. Consequently, the request will be adjusted to reflect this downward adjustment in required positions, as well as required resource. Notwithstanding this additional change, the BOE proposal is reasonable based on the revisions, and may be slightly understaffed given the significant undertaking with respect to a new universe of tax payers. BOE must, in its activities, pay particular attention to the statewide nature of the policy and ensure that outreach efforts, tax administration and collection of the tax are uniform across board member districts.
- The Governor's budget contains a total of $22.5 million for DCA in 2017-18. Specifically, the proposal includes:
  - In 2017-18: 82 positions and $12 million for licensing and enforcement; 38 positions and $5.4 million to address workload increase in DCA's Division of Investigation (DOI) and administrative staff to support the bureau; and $5.1 million for the

implementation of an information technology (IT) solution that would provide licensing and enforcement functions.

- In 2018-19: 68 positions and $21 million for licensing and enforcement; $6.2 million to address workload increase in DOI and administrative staff to support the bureau; and $3.6 million in 2018-19 and ongoing for IT implementation.

- In 2019-20: 17 positions and $21.8 million in 2019-20 and ongoing for implementation of the bureau's licensing and enforcement activities; and $5 million in 2019-20 and ongoing to address the anticipated increase in investigative workload for the DOI and administrative staff to support the bureau.

- **Comments on DCA proposal.** The licensing and enforcement request includes funding for a total of 205 positions (120 positions in 2017-18), the establishment of five field offices, testing laboratory services, equipment, vehicles, and new facilities. This request also includes ongoing funding for positions established in 2016-17. It is likely that the Legislature’s decisions about aligning the Medical Cannabis Regulation and Safety Act (MCRSA) and the Adult Use of Marijuana Act (AUMA) will affect resource needs and the requests above will need to be adjusted. In addition, there is significant uncertainty regarding resource needs, and regulatory decisions will likely affect these needs.

- The Governor’s budget proposes a total of $1 million for DPH in 2017-18. Specifically, the proposal includes:

    - In 2017-18: $1.4 million for an IT application for licensing medical cannabis manufacturers. The proposal also includes the redirection of three positions and $410,000 for licensing medical cannabis testing laboratories to the Bureau of Marijuana Control.

    - In 2018-19: $494,000 to complete the IT project.

    - In 2019-20 and ongoing: $238,000 for maintenance and operation of the IT application.

- **Comments on DPH proposal.** While DPH plans to implement its IT application for licensing of medical cannabis manufacturers by the statutory deadline of January 1, 2018, the application must be able to interact with other state entities’ IT applications related to the regulation of cannabis products. The Legislature should continue to monitor the department’s progress establishing this interoperability. In addition, although responsibility for licensing medical cannabis testing laboratories was transferred to the Bureau of Marijuana Control, this proposal requests to transfer to the bureau only three of the eleven positions approved in the 2016 Budget Act to support this workload. According to DPH, its ongoing licensing workload for medical cannabis manufacturers is more extensive than originally expected and the remaining positions will instead be redirected for this purpose. Because regulation of medical cannabis manufacturers is a new workload for DPH, a measure of flexibility with allocation of staff resources is reasonable. However, the Legislature should monitor whether the bureau has received the appropriate level of resources to implement and sustain its new testing laboratory licensing program.

- The Governor's budget proposes a total of $22.4 million for CDFA in 2017-18. Specifically, the proposals include:

    - In 2017-18: $16.9 million and 13 positions for implementation of the Track and Trace IT project; 3.5 positions to enforce measurement standards; three year limited-term funding of $5.5 million and 34.3 positions for licensing and enforcement activities.

    - In 2018-19: $10.5 million for the Track and Trace IT project; an additional four positions to enforce measurement standards.

- **Comments on CDFA proposal.** In addition to licensing and regulating cannabis cultivation, CDFA's implementation of the Track and Trace system is an essential part of the regulatory structure as a whole. The system will track cannabis and cannabis products throughout the supply chain and will serve as a primary mechanism to ensure compliance as products move throughout the supply chain. As such, the Legislature should continue to closely monitor the department's progress in implementing this system.

Background. The statutorily authorized use of medical cannabis was approved in California in 1996 when voters approved Proposition 215, the Compassionate Use Act (CUA). The CUA provides certain Californians the right to obtain and use cannabis for medical purposes, as recommended by a physician; and, prohibits criminal prosecution or sanction against physicians who make medical cannabis recommendations.[1] In 2003, Senate Bill 420 (Vasconcellos), Chapter 875, Statutes of 2003, established the Medical Cannabis Program under the California Department of Public Health, and created a medical cannabis identification card and registry database to verify qualified patients and primary caregivers.

Since 2003, advocates, patients, and local governments recognized some deficiencies in the oversight of medical cannabis and called for additional safety regulations. In June 2015, Governor Brown signed the MCRSA, comprised of Assembly Bill 243 (Wood), Chapter 688, Statutes of 2015; Assembly Bill 266 (Bonta), Chapter 689, Statutes of 2015; and Senate Bill 643 (McGuire), Chapter 719, Statutes of 2015. Together, these bills established the oversight and regulatory framework for the cultivation, manufacture, transportation, storage, and distribution of medical cannabis in California. SB 837 (Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2016, was a trailer bill that furthered the intent of the MCRSA legislation.

With California having the largest economy in the U.S., many advocates called for the legalization of recreational use of cannabis, predicting an increase of hundreds of millions of dollars in state revenue. In November 2016 voters approved Proposition 64, the AUMA. AUMA legalized nonmedical, adult use of cannabis in California. Similarly to MCRSA, the act creates a

[1] Health and Safety Code §11362.5

regulatory framework for the cultivation, manufacture, transportation, storage and distribution of cannabis for nonmedical use. Below is a table listing the responsibilities of licensing and other state entities under AUMA and MCRSA.

Cannabis Regulation
Responsibilities by Department

Department	Tasks Assigned by MCRSA	Tasks Assigned by AUMA
Department of Consumer Affairs	License dispensaries, distributors, testing laboratories, and transporters.	License dispensaries, distributors, and microbusinesses.
Department of Fish and Wildlife	Expand its pilot project to address the environmental impacts of cannabis cultivation.	Expand pilot project to a statewide level and make project permanent.
State Water Resources Control Board	Authorized to address waste discharge resulting from cannabis cultivation.	Authorized to address waste discharge resulting from cannabis cultivation.
Department of Food and Agriculture	License indoor and outdoor cultivation sites. Ensure water diversion and discharge from cultivation does not affect instream flows for fish spawning, migration, or rearing. Establish a medical cannabis cultivation program, with specified criteria. Establish program that identifies a permitted medical cannabis plant by a unique identifier. Develop a separate "track-and-trace" system to report movement of commercial products through distribution.	License indoor and outdoor cultivation sites. Ensure water diversion and discharge from cultivation does not affect instream flows for fish spawning, migration, or rearing. Establish a cannabis cultivation program. Implement a unique identification program for retail cannabis and cannabis products. Expand "track-and-trace" system to include the same level of information for nonmedical products.
Department of Public Health	License cannabis manufacturers. Develop regulations for producing and labeling of cannabis products.	License cannabis manufacturers and testing sites.
Department of Pesticide Regulation	Develop cultivation regulations for pesticide use.	Develop cultivation regulations for pesticide use.

Legislative Analyst's Office (LAO). The LAO makes the following recommendations to the Legislature when looking at these proposals.

- Make policy decisions on aligning medical and nonmedical cannabis regulation before making decisions on funding and positions. Doing so could better enable the Legislature to provide funding and staffing levels consistent with the ultimate regulatory structure.

- Limit funding provided for out years. Specifically:

  - Approve IT funding requests for 2017-18 but reject proposed funding in out years.

  - Approve a portion of funding requested by DCA in 2017-18 on a two year limited term basis, making 20 percent of its licensing and support staff funding limited term. This would be consistent with the share of its enforcement staff that DCA proposes to fund on a limited-term basis.

  - Reject requests for future increases in DCA's licensing and enforcement requests. It is too early to tell what the ongoing resource needs will be.

- Once the Legislature determines its preferred level of funding for 2017-18, tailor the General Fund loan to meet those needs.

- Enact legislation to require the Administration to submit a report each year on the implementation of MCRSA and AUMA, summarizing department activities and outcomes.

- Adopt language to require departments implementing new cannabis-related IT projects to provide legislative staff with quarterly briefings on the status of these projects.

Issues to Consider. Under MCRSA, **t**he Bureau of Marijuana Control, along with other licensing entities, would be responsible for 17 different types of medical cannabis business licenses, including: cultivators, nurseries, processors, testing labs, dispensaries, and distributors. With the passage of AUMA, licensing authorities have been charged with issuing 19 other license types for recreational use. Licensing authorities must begin issuing licenses by January 1, 2018, and will need to have regulations in place prior to issuing licenses. The bureau, CDFA, and DPH issued draft regulations on April 28, 2017, and will be holding public hearings to discuss the proposed regulations in May and June. However, these regulations only relate to medicinal cannabis. Even though some of the regulatory framework for medical cannabis can be applied to nonmedical cannabis, there are significant differences that require a different regulatory approach. As such, the Administration's proposed trailer bill attempts to reconcile the majority of these differences to create a unified regulatory structure. Even with the reconciliation of the regulatory structures, January 1 is an ambitious timeline for departments to finalize regulations and set up IT systems to administer such a large and complex program.

In addition, merging these two frameworks into one may alleviate confusion, and allow more efficient regulation by state agencies. However, there may be merit in keeping distinct lines of delineation between medical and adult use businesses. As the sale and distribution of cannabis is illegal under federal law, federal prosecutors may choose to take action against cannabis operations, thus affecting the cannabis industry in California. There is some belief that, if this were to happen, federal enforcement may target adult use businesses. If there is no distinction between these two structures, then the medical cannabis industry may be affected as well.

Given the issues mentioned above, and the lack of recent precedent for establishing an oversight and regulatory scheme of this magnitude,[2] the subcommittees may wish to consider the following:

- As licensing entities must begin issuing licenses on January 1, 2018, will they be accepting applications for licenses before that date? If so, are the licensing entities currently equipped to handle intake of those applications?

- The bureau, CDFA, and CDPH are all charged with various licensing duties and may have different IT systems to handle licenses. How are these departments collaborating to ensure that their systems work with the others?

- What is the plan for hiring staff, specifically at CDFA and the bureau, where a large number of positions have been requested?

- What is the plan for accepting cash payments? Have extra security measures, specifically for the BOE and bureau, been considered?

- What will happen if state agencies are unable to meet the January 1, 2018 deadline?

- While it is important to provide adequate resources for the development and implementation of a cannabis regulatory and enforcement structure, there is a large amount of uncertainty in how this system will work. The subcommittees may wish to require the department to come back in future years and provide information on implementation and outcomes, as suggested by the LAO, to help determine future funding levels.

- The subcommittees may also wish to consider how to ensure departments can hire for positions that will be ongoing in nature – but will have limited-term funding. The goal being to ensure that there is adequate oversight and resources.

Staff Recommendation. Hold open.

[2] The last bureau to be created under DCA was the Professional Fiduciaries Bureau, established in 2007, which only licenses approximately 600 individuals.

Issue 2: Cannabis Regulation Trailer Bill Language (TBL)

In April 2017, the Administration released a draft of the cannabis regulation trailer bill language (TBL).

Background. The Administration proposes to unite components of the regulatory structures for medicinal and nonmedicinal cannabis, while preserving the integrity and separation of the two industries by maintaining the two as separate categories of license types with the same regulatory requirements for each.

There are many similarities in the regulatory structures under MCRSA and AUMA; however, there are also differences. Some of these differences are significant policy distinctions, such as MCRSA's requirement that distributors must be independent within the supply chain. While other differences are not as significant and may have been the result of timing, such as the Legislature passing the MCRSA TBL, SB 837 (Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2016, after the drafting of AUMA had been completed. For example, the Department of Consumer Affairs is responsible for licensing testing laboratories for medical cannabis, while the Department of Public Health is responsible for licensing testing laboratories for recreational use. More specifics on the laws governing the implementation of legal cannabis use are below.

Licensing and fees. Licensing authorities must establish a scale of application, licensing, and renewal fees. The licensing and renewal fees are calculated to cover the costs of regulatory activities, and are set on a scaled basis depending on the size of the business. All fees are deposited into an account specific to that licensing authority, which will be established within the Cannabis Control Fund. There are a total of 17 different types of licenses for medical cannabis businesses, while AUMA lists 19 different license types.

Local control. Cities and counties may regulate all cannabis businesses and require them to obtain local licenses. Cities and counties may ban cannabis-related businesses, but not cannabis transportation through their jurisdictions. Under AUMA, recreational cannabis businesses are not required to have a local license, but must abide by local ordinances in order to obtain a state license. Local authorities must send notice to the Bureau of Marijuana Control, or relevant licensing authority, when they revoke a cannabis license.

Penalties and Violations. State law authorizes a civil penalty of up to twice the amount of the license fee for each violation relating to the use of medical cannabis, and a civil penalty of up to three times the amount of the license fee for violations relating to commercial cannabis. The department, state, local authority, or court may also order the destruction of the cannabis associated with the violation. Statute establishes different locations for where the penalties will be deposited, depending on whether the Attorney General, district attorney or county counsel, or a city attorney or city prosecutor brings forth the action.

Taxes. AUMA instituted a new state tax on the cultivation of cannabis that enters the commercial market, as well as a new state retail excise tax. Both of these taxes would affect both medical and nonmedical cannabis. AUMA eliminated sales tax on medical cannabis, but recreational cannabis would be subject to existing state and local sales tax. Revenues from these new taxes would be deposited into a new special fund, the California Cannabis Tax Fund. The fund would first be used to reimburse state agencies for cannabis related regulatory costs, and remaining funds would be distributed as follows:

- $10 million annually until 2028-29 to evaluate effects of recreational cannabis use.
- $3 million annually until 2022-23 to develop methods to determine whether an individual is driving impaired.
- $10 million in 2018-19, with a $10 million increase annually until 2022-23, and $50 million annually afterward, for a grant program to provide services to communities most affected by past drug policies.
- $2 million annually to study hazards and values of medicinal cannabis.
- After the above allocations, remaining funds would be apportioned, as such: 60 percent for youth programs, 20 percent to mediate environmental damage from cannabis cultivation, and 20 percent for programs to reduce impaired driving and a grant program to reduce negative public health impacts.

Below is a summary of the solutions offered by the Administration's proposed TBL to address key differences between AUMA and MCRSA.

Dual state and local licensing. Under MCRSA, a local permit, license, or other authorization is a prerequisite for obtaining a state license. Under this law, the applicant is responsible for providing proof of compliance with these local requirements to state licensing authorities. Under Proposition 64, adult-use cannabis businesses must be in compliance with any local ordinance or regulation in order to obtain a license, but the burden is on the state licensing authorities to determine whether or not businesses are in fact in compliance.

- Proposed solution: With 58 counties and 482 cities, it is unrealistic to expect the licensing entities to verify that each applicant is in compliance with any local law or regulation. The proposed solution does the following:

    - Since, the state licensing authorities cannot require applicants to show proof of a local permit, new language will require the bureau to work with local jurisdictions to collect all the ordinances that govern cannabis in the state, including those that have bans. Also, local jurisdictions shall be responsible for providing the contact for their jurisdiction, so that state licensing entities know who to call when questions arise about an applicant.

    - Authorizes an applicant to voluntarily submit a copy of the permit, license, or local authorization to the state licensing entities for jurisdictions that have taken action to regulate cannabis and have completed a programmatic environmental impact report (EIR) in order to issue local permits.

    - In instances where a local jurisdiction allows cannabis business to operate, but does not issue permits, then the applicant will be responsible for submitting the

EIR for certification to the state licensing entity. This will be similar to how a land developer has to work on their own EIR before a project moves forward.

- As an incentive for locals to take on more of the environmental compliance work, a narrow CEQA streamlining is proposed for local jurisdictions that moves forward to regulate. The proposed solution maintains local autonomy of zoning and planning decisions while providing state regulators with local compliance information in a timely manner.

Vertical integration. MCRSA places restrictions on the number and type of licenses cannabis business may acquire. There are 17 license classifications and six licensure categories (cultivation, manufacturing, testing, dispensary, distributor, and transporter). Under MRCSA, licensees can hold up to two separate license categories, with the exception of testing and distribution. The restrictions seek to limit the ability of one entity to control multiple steps in the cultivation, distribution, and retail chain. AUMA does not include prohibitions against holding multiple licenses. The only exception is that a testing licensee cannot hold a license or ownership interest in any other category.

- Proposed solution: The Administration proposes to maintain AUMA's vertically integrated licensing structure for both adult use and medicinal cannabis licensees. Overly restrictive vertical integration stifles new business models and does not enhance public and consumer safety. AUMA has restrictions to protect against the over concentration of licenses in areas as well as monopolies. It also requires that testing licensees to be independent of all licensees in other categories.

Distribution. Under MCRSA, all medicinal cannabis and medicinal cannabis products are required to go through a third-party distributor. The distributor is responsible for arranging testing of the flower or cannabis product prior to it going to market. A distributor can hold a transportation license, but is precluded from holding any other license type. Under AUMA, a distribution license regulates only transportation activities and allows a distributor to hold any other license except for a testing license. Both third-party and in-house distributors owned by licensed cultivators, manufacturers, and retailers are allowed. The responsibility for testing cannabis or cannabis product falls on the licensee taking the product to market.

- Proposed solution: The Administration proposes to maintain the AUMA's open distribution model. Allowing for a business to hold multiple licenses including a distribution license will make it easier for businesses to enter the market, encourage innovation, and strengthen compliance with state law. To ensure the integrity of the testing is maintained, all distributors must arrange for an independent licensed testing laboratory to select a random sample, transport it to a laboratory, and test the product.

Ownership. The definition of an applicant varies in MCRSA and AUMA, depending on the level of ownership. MCRSA defines applicant as any person having decision making authority or an ownership or financial interest. Under MCRSA, all applicants and those having a five percent interest or more in a publicly-traded company are required to pass a background check. AUMA only requires a background check for licensees having at least a 20 percent ownership and having direct management authority.

- Proposed solution: The Administration proposes two separate definitions for applicant and owner. For ease of administration, only one designee will be required as the applicant. Owners must pass a background check under both systems. The Administration proposes to adopt the AUMA definition of owner of having at least 20 percent ownership, or any person with the power to impact management decisions. In addition, with the exception of publicly traded companies, licensees must disclose the identity of all investors to the licensing authorities.

Cultivation limits. MCRSA includes a limit on the scale of cultivation and the number of medium size (Type 3) licenses that can be issued. Most cultivation licenses authorize a maximum of one acre of cultivation. The Type 10A multiple-cultivation license allows a maximum of four acres of cultivation, although the four acre limit sunsets on January 1, 2026. AUMA added a new cultivation license type not included in MCRSA, the Type 5, which allows large size cultivation of over one acre or greater than 22,000 square feet indoors. This license type cannot be issued until January 1, 2023. AUMA does not limit the number of medium size (Type 3) licenses that can be issued.

- Proposed solution: In furtherance of the intent of Proposition 64 to prevent illegal production and avoid illegal diversion to other states, the Administration proposes to limit the number of Type 3 licenses consistent with MCRSA.

Microbusinesses. AUMA establishes a new license type called microbusiness which was not included in the MCRSA. A microbusiness is authorized to engage in activities in four market segments: cultivation, manufacturing using non-volatile solvents, distribution, and retail. Unlike other license types, a microbusiness would only require a license from the Bureau.

- Proposed solution: In order to protect the public health and safety and compliance with state environmental laws, the Department of Food and Agriculture and the Department of Public Health must also review microbusiness licensees. The Administration proposes a process whereby licensing authorities shall establish a process to ensure that a microbusiness applicant and licensee can demonstrate compliance with all the requirements under the law for the activity or activities they conduct.

Environmental protections. Senate Bill 837 (Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2016, was legislation that clarified the roles of the appropriate state environmental entities, all of which must coordinate with CDFA before a cultivation license is issued. For example, SB 837 requires that all CDFA licenses include a pending application, registration, or other water right documentation that has been filed with the State Water Resources Control Board. SB 837 clarifies that the State Water Board has enforcement authority if water is diverted or illegally used for cannabis cultivation.

- Proposed solution: Due to the timing of the passage of the above legislation, the drafters of the AUMA were unable to conform to the changes made in SB 837. The

Administration proposes to amend the AUMA to include the same environmental protection requirements as MCRSA.

Appeals panel. AUMA establishes a Marijuana Control Appeals Panel, consisting of three members appointed by the Governor and subject to confirmation by the Senate. Any applicant or licensee can appeal to the panel to review a penalty, a license issuance, denial, or other adverse action by any of the licensing authorities. This panel was not contemplated in MCRSA.

- Proposed solution: The Administration proposes to extend the review of the panel to all licensing decisions relating to cannabis. The panel will streamline the appeals process and bring needed expertise and due process to the review of any licensing decision. The language allows a party to appeal a panel decision directly to the Court of Appeals, which is similar to how the Alcoholic Beverage Control Appeals Board works.

Appellation. Appellation of origin is a legally-defined and protected geographic indication usually used for wine and certain food. Appellation of origin is typically determined by the federal government. Because the federal government will not establish appellations, MCRSA authorizes CDFA to establish appellations of origin for cannabis. The AUMA also addresses appellation of origin, but instead requires the bureau to establish standards by January 1, 2018.

- Proposed solution: In order to provide sufficient time and expertise to establish and set standards for appellations of origin, the initiative should be amended to transfer the responsibility to establish appellation of origin from the bureau to CDFA and extend the deadline to accomplish this to January 1, 2020.

State issued medicinal ID cards. SB 420 established a voluntary registry identification card system, maintained by Department of Health Services, for patients that have a recommendation from their doctor to use medicinal cannabis. The card was intended to provide some protection to the cardholder from arrest and prosecution for possession, transportation, and cultivation of marijuana for medicinal purposes. Approximately 80 percent of cannabis patients do not currently use medical cannabis identification cards, but instead use their physician recommendation to purchase medical cannabis. The identification card in its current form cannot be used to confirm the identity of any individual as it contains no identifying information other than a photo and the name of the county from which it was obtained. The photo and county name is also the only information maintained by the state.

- Proposed solution: The Administration proposes to delete the requirement for state issued medicinal ID cards and provides the county with the authority to issue local cards.

LAO. The LAO, in general, agrees with the concept of aligning MCRSA and AUMA. However, the LAO states that the Legislature will want to closely evaluate the specifics of the choices made by the Administration to ensure that it has provided clear rationales for these changes and that they are consistent with legislative priorities for the regulation of cannabis. The Legislature will also want to consider whether proposed changes to AUMA might require voter approval, as well as keep in mind that cannabis remains illegal under federal law. More specifics on the LAO assessment can be found in the handout entitled "The 2017-18 Budget: Overview of Governor's Cannabis-Related Trailer Bill Legislation," available on the LAO's website.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, May 11, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultants: Joe Stephenshaw and James Hacker

<u>Vote Only Calendar – Approve as Budgeted</u>

<u>Items for Discussion (continued)</u>

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.

Vote-Only Calendar – Approve as Budgeted

0540 Natural Resource Agency

Issue 1 – San Joaquin River Restoration Settlement

Governor's Proposal. An April 1st Finance Letter proposes $20.5 million of Proposition 84 funding for the implementation of the San Joaquin River Restoration Settlement (SJRRP). The funds will be used to reimburse interagency agreements with the California Department of Water Resources (DWR) and the California Department of Fish and Wildlife (DFW) for work related to the implementation of the San Joaquin River Restoration Project.

Background. The SJRRP was established pursuant to a settlement, in October of 2006, of litigation related to the long-term water supply contracts in the Friant Division of the Central Valley Project. Proposition 84 allocated $100 million to the Secretary of Natural Resources for the purpose of implementing the court settlement to restore flows and naturally-producing and self-sustaining populations of salmon to the San Joaquin River between Friant Dam and the Merced River. The Natural Resource Agency administers the Proposition 84 funding through an interagency agreement which reimburses DWR and DFW for work related to implementing the SJRRP.

Issue 2 – Climate Change Scoping Plan Implementation: Natural and Working Lands

Governor's Proposal. An April 1st Finance Letter proposes $675,000 from the Cost of Implementation Account to develop a baseline analysis of statewide natural and working lands carbon emissions, carbon sequestration potential, as well as management and biomass utilization activities that can be employed to meet California's target of managing these lands as a resilient net carbon sink.

Background. This proposal will help implement the Air Resources Board's 2017 Scoping Plan. California does not currently have the analytical tools available or processes in place to produce the business-as-usual carbon emission projections required by the scoping plan. The state also does not have in place a consistent analysis of the effects of various land management strategies on future carbon and emission trends.

2660 Department of Transportation

Issue 1 – Claims Payment Increase

Governor's Proposal. The budget requests a one-time operating expense increase of $5,515,000 in State Highway Account (SHA) Funds for fleet insurance costs. The Department of General Services' (DGS) Office of Risk and Insurance Management (ORIM) recently notified Caltrans that the motor vehicle insurance premium assessment cost will increase by $5.5 million during Fiscal Year 2017-18. This one-time funding increase is necessary for Caltrans to align its insurance budget to actual costs.

Issue 2 – IT Infrastructure Refresh

Governor's Proposal. The budget requests one-time funding of $12 million (State Highway Account) to replace outdated information technology infrastructure equipment that has reached its end of life. Caltrans and CDT have both indicated that this refresh is necessary to maintain basic operations in the Caltrans system, regardless of future technology upgrades or changes in system architecture. This item was heard in Subcommittee No. 2 on March 23rd.

Issue 3 – IT Enterprise Security

Governor's Proposal. The budget requests $4 million (State Highway Account) and six permanent positions to create, implement, and administer the Information Technology Cyber Security Program. CDT has reviewed the request and determined that it is both an appropriate request and is generally consistent with existing statewide cybersecurity policies. This item was heard in Subcommittee No. 2 on March 23rd.

2720 California Highway Patrol

Issue 1 – Capital Outlay: California Highway Patrol Enhanced Radio System (CHPERS)

Governor's Proposal. The budget requests $1.9 million (Motor Vehicle Account) to for the construction phase of the CHPERS project. Two CHPERS projects, Crestview Peak and Silver Peak, have experienced project delays and cost increases related to design changes required by the US Forest Service to mitigate the impact of the projects on National Forest land, and to preserve views of the peaks.

Issue 2 – Privacy and Risk Management Program

Governor's Proposal. The budget requests 12 permanent positions, two limited-term positions, and $1.8 million (MVA) to establish a Privacy and Risk Management Program to protect personally-identifiable information stored in CHP systems. The department is required to maintain the integrity of any personally identifiable information (PII) it collects to protect individuals against identity theft. Recent security assessments have identified significant gaps in CHP's cybersecurity efforts as they pertain to privacy protections and risk management, and have identified specific areas where improvement is needed.

2740 Department of Motor Vehicles

Issue 1 – Data Center Cost Increase

Governor's Proposal. The budget requests $7 million Motor Vehicle Account in FY 2017-18 and ongoing to cover increased data center costs. Since FY 2012-13, the data centers authorized expenditures has been approximately $39.6 million. This was sufficient to cover the actual data center costs through FY 2014/15. Beginning in FY 2014-15, the department's data center costs increased significantly to $46.8 million, and increased again to $51.7 million in FY 2015-16. While the department has been able to temporarily redirect funds to cover these additional expenditures the DMV is no longer in a position to continue to do so. The DMV projects a deficit of $7 million in FY 2017/18 and ongoing for its data center costs.

Issue 2 – Capital Outlay Proposals

Governor's Proposal: The Governor's budget provides about $22 million from the MVA to initiate or continue several DMV field office replacement and renovation projects. Specifically the budget includes:

1. **San Diego (Normal Street) DMV Field Office Replacement.** The budget requests $1.5 million (MVA) to continue the previously-approved 2016-17 Capital Outlay BCP to execute an on-site replacement of the San Diego Normal Street Field Office. The planning phase was approved and funded in 2016-17, with the construction phase to be funded in 2018-19. Total project cost is estimated to be $22 million.
2. **Inglewood Construction Phase.** The budget requests $15.1 million (MVA) to fund the construction phase of the Inglewood Field Office Replacement Project. The planning phase was approved and funded in 2015-16 and the working drawings phase in 2016-17. Total project cost is estimated to be $17.2 million.
3. **Oxnard Field Office Renovation.** The budget requests $418,000 (MVA) to fund the preliminary plan phase for a reconfiguration and renovation project at the department's Oxnard Field Office. The department has indicated that this work is required to address several infrastructure and code deficiencies. The department will request a further $394,000 in 2018-19 for working drawings and $5 million in 2019-20 for construction. Total project cost is estimated to be $5.8 million. Because the project will involve a lengthy closure of the Oxnard Field Office, the department will submit a future request for funding for temporary space in 2018-19.
4. **Statewide Planning and Site Identification.** The budget requests $750,000 (MVA) for statewide planning and site selection activities to identify suitable parcels for replacing two field offices, and to fund planning studies for the two replacement projects and three reconfiguration / renovation projects. It also includes a request for provisional language to allow an augmentation of up to $1 million for purchase options on the identified parcels, should such an option be necessary.
5. **Reedley DMV Field Office Replacement.** The budget requests $2.2 million (MVA) to fund the acquisition phase of the previously-approved Reedley Field Office Replacement Project. Following acquisition of the required parcel, the preliminary plan phase will be funded in 2018-19, working drawings in 2019-20, and construction in 2020-21. Total project cost is estimated to be $18.4 million.

3360 California Energy Commission

Issue 1 – One-time Authority for Unspent PIER Natural Gas Funds

Governor's Proposal. The budget requested $5.9 million in one-time expenditure authority from the PIER Natural Gas Subaccount, to be spent in a manner consistent with the Supplementary Reliability and Climate Focused Natural Gas Budget Plan submitted to the PUC earlier this year. The PUC voted to approve the submitted plan on April 27th.

Issue 2 – Technical Adjustment to PIER Proposal

Governor's Proposal. The Energy Resources Conservation and Development Commission (Energy Commission) requests a technical correction to the Public Interest Research, Development, and Demonstration (PIER) Natural Gas Subaccount appropriation in the amount of $859,000 ongoing. This correct an inadvertent reduction of $859,000 related to Pro Rata assessments.

Issue 3 – Title 20 Appliance Energy Standards Enforcement

Governor's Proposal. The Energy Resources Conservation and Development Commission (Energy Commission) requests three permanent positions and $411,000 from the Appliance Efficiency Enforcement Subaccount (AEES) to support the Title 20 Appliance Efficiency Standards Compliance Assistance and Enforcement Program. SB 454 (Pavely), Chapter 591, Statutes of 2011 authorized the Energy Commission to establish an administrative enforcement program for violations of the Energy Commission's appliance efficiency standards, with penalties up to $2,500 per violation. The requested staff resources will conduct manufacturer test laboratory audits, provide compliance assistance and education to the regulated industries on how to comply with the Energy Commission's regulations, and support the growing program infrastructure. The CEC estimates that these positions will generate an uncertain, but potentially significant, level of additional revenue in the form of additional fines levied on non-compliant appliance manufacturers.

Issue 4 – ERPA Expenditure Realignment

Governor's Proposal. The budget requests a reduction of $15.4 million from the Energy Resources Programs Account (ERPA), offset by increases to a number of other funds, to better balance ERPA expenditures and align funding with program activities. The proposed budget changes take important steps towards ensuring its long-term financial stability. However, the proposed budget still results in a structural deficit of roughly $8 million per year. At the current rate, the ERPA is projected to have a negative fund balance by 2019-20. As such, smaller budget fixes are no longer sufficient to ensure the long-term viability of the fund. Staff will work to develop reporting language asking CEC to produce a plan to bring the ERPA into balance in time for consideration as part of the 2018-19 budget.

3540 Department of Forestry and Fire Protection

Issue 1 – Mount Bullion Conservation Camp: Emergency Sewer Replacement – Reappropriation

Governor's Proposal. An April 1st Finance Letter proposes the reappropriation of funding for the preliminary plans, working drawings, and construction phases of the Mount Bullion Conservation Camp Emergency Sewer System Replacement Project.

Background. This project will replace the sewage disposal system at Mount Bullion Conservation Camp in Mariposa County. The project is delayed due to the length of time it took for the Regional Water Quality Control Board's review of the preliminary plans. The 2016 budget act appropriated $833,000 for the three phases of the project identified in this request.

Issue 2 – Badger Forest Fire Station: Replace Facility

Governor's Proposal. An April 1st Finance Letter requests the reinstatement of provisional language that was omitted in the Governor's budget to align the encumbrance expiration date of the project with the project's other chaptered schedules and adds standard provisions related to the issuance of lease-revenue bond funds for state projects.

3720 California Coastal Commission

Issue 1 – Protect Our Coast & Oceans Program

Governor's Proposal. The Governor's budget proposed a one-time appropriation of $271,000 from the Protect Our Coast and Oceans Fund for local assistance to support the Whale Tail Grant Program ($206,000) and to promote the Protect Our Coast and Oceans Fund ($65,000).

Background. The Coastal Commission's Public Education Program has been operating the Whale Tail Grants Program since 1998. Types of projects that have been funded by Whale Tail grants include school programs emphasizing stewardship of the coast and ocean, marine science summer camps, community and student-led coastal habitat restoration, trips to the beach for children from inland and underserved communities, coastal and waterway cleanups, ocean-related museum exhibits, water pollution prevention programs, and beach wheelchair purchases.

The Protect our Coast and Oceans check box on the California state tax return form was created pursuant to AB 754 (Muratsuchi), Chapter 323, Statutes of 2013. Besides administrative expenses, money from the Protect our Coast and Oceans goes to the California Coastal Commission to support eligible programs awarded grants under the selection criteria established by the California Coastal Commission for the Whale Tail Grants Program. Statute requires that the check box funds on the state tax return obtain contributions exceeding $250,000 per year (adjusted annually for inflation) in order to continue to exist. The consequence of not investing in outreach and marketing is not only the lost opportunity for additional contributions, but the potential loss of this fund altogether.

3780 Native American Heritage Commission

Issue 1 – Sacred Lands File Research and Consultation

Governor's Proposal. An April 1st Finance Letter proposes $254,000 General Fund and three positions in 2017-18, and $485,000 ongoing, to address increased work load of Sacred Lands File (SLF) research and consultation, and trailer bill language to authorize the Native America Heritage Commission (NAHC) to establish fee to recover the costs of providing services.

Background. AB 52 (Gatto), Chapter 532, Statutes of 2014, amended the California Environmental Quality Act (CEQA) to create a separate category of cultural resources, tribal cultural resources, to be considered when determining environmental impacts of CEQA projects on resources. As a result of AB 52, the NAHC has seen a drastic increase in requests for assistance, particularly requests for searches of the SLF and for tribal consultation contact lists. Between 2014-15 and 2015-16, the NAHC experienced an increase of over 67 percent in SLF searches. Additionally the implementation of AB 52 has elevated the profile and importance of the NAHC in the CEQA process, which has only served to accent both the need for the adoptions of formal regulations for the SLF as well as the NAHC's workload challenges in the corresponding areas of compliance and non SLF regulation development.

The trailer bill language would allow the NAHC to establish a fee to offset the costs of the program, which it has determined would begin at $150 per SLF. The NAHC projects annual revenues to be approximately $862,000.

3860 Department of Water Resources

Issue 1 – Reappropriations, Extension of Liquidation Periods, and Technical Adjustment

Governor's Proposal. An April 1st Finance Letter proposes the reappropriation of previous appropriations from the Greenhouse Gas Reduction Fund, Proposition 13, Proposition 84, and Proposition 1. Reappropriations of the funds are critical for completion of various studies and projects with funding that cannot be completely committed by June 30, 2017. Allowing additional time for commitment will ensure that the progress made and investment to date of will not be lost.

The proposal also request for extension of the liquidation period of a couple of previously appropriated General Fund, Environmental License Plate Fund, Prop 13, Prop 50, and Prop 84 dollars. For these, the agreements are already in place, but more time is needed for recipients to complete work, submit invoices, have those processed by the state, and then to have the state make payments.

The proposal also requests the reversion of unused balances from previously appropriated Proposition 13 and Proposition 50 funds.

3940 State Water Resources Control Board

Issue 1 – Funding for Fish Consumption Advisories

Governor's Proposal. An April 1st Finance Letter proposes a funding shift of $381,000 from the State Water Quality Control Fund - Cleanup and Abatement Account to Waste Discharge Permit Fund to pay for fish consumption advisory services provided by the Office of Environmental Health Hazard Assessment.

Background. This Finance Letter corrects a technical error in a related budget change proposal included in the Governor's budget, which identified the wrong funding source for the proposed activities.

8660 California Public Utilities Commission

Issue 1 – California High-Cost Fund A

Governor's Proposal. The budget requests an increase of $6.1 million in local assistance funding for the California High Cost Fund A to provide ten small Local Exchange Carriers (LECs) with the financial support necessary to keep rural telephone service rates affordable and comparable to rates paid by customers who live in urban areas. This increase is due to greater projected support for telephone corporations related to Generate Rate Case increases due to inflation and labor costs, increased broadband investment, and increased funding requirements due to reductions in federal subsidies. This item was first heard by Subcommittee No. 2 on March 9th.

Issue 2 – California Teleconnect Fund – Compliance Oversight and Administration

Governor's Proposal. The budget requests an increase of $3.6 million from the California Teleconnect Fund Administrative Committee Fund to implement recently-adopted program reforms and to better enforce program eligibility requirements. This includes $240,000 per year for two new permanent positions and $3.4 million for consulting costs. This item was first heard by Subcommittee No. 2 on March 9th.

Issue 3 – Internal Audit Positions

Governor's Proposal. The budget requests $266,000 (Public Utilities Commission Utilities Reimbursement Account) for two permanent audit positions to augment existing staff in the PUC's Internal Audit unit. PUC has provided additional workload justification for these positions, and CDT has indicated that the proposed IT auditing workload is appropriate and a necessary complement to CDT's annual IT audits. This item was first heard by Subcommittee No. 2 on March 9th.

Issue 4 – Safety Assurance of Electric and Communication Infrastructure

Governor's Proposal. The budget requests $716,000 (Public Utilities Commission Utilities Reimbursement Account) per year for six permanent engineering positions in the PUC's Electric Safety and Reliability Branch. This item was first heard by Subcommittee 2 on March 9th.

Issue 5 – Extension of Appropriation for Energy Crisis Litigation

Governor's Proposal. The budget requests budget bill language to reappropriate funds in the Public Utilities Commission Utilities Reimbursement Account for two years to continue contracts for legal services from outside counsel to represent the PUC in ongoing Federal Energy Regulatory Commission proceedings related to the 2000 energy crisis.

Issue 6 – Federal Trust Fund FTA Grant Appropriation Increase

Governor's Proposal. The budget requests a budget year augmentation of $2.7 million in Federal Trust Fund authority to allow CPUC to utilize federal formula grant funding authorized through the Moving Ahead for Prosperity in the 21st Century (MAP-21) Act and the Federal Transit Administration (FTA). Additionally, CPUC requests an out-year baseline budget increase of $3.2 million in Federal Trust Fund authority to allow continued use of grant funding.

Issue 7 – Reimbursement Authority to Contract for Network Engineering Consultants

Governor's Proposal. The budget requests a reappropration of $500,000 (Public Utilities Commission Utilities Reimbursement Account) to obtain consulting services to assess local exchange carrier service quality, as directed by PUC Decision 13-02-023 (2013). PUC was given $500,000 for this purpose in the 2016-17 budget, but delays in the contracting process have put PUC's ability to complete the work before budget authority expires in question. PUC is requesting to reappropriate the budgeted funds to allow PUC to perform the required work by June 30, 2018.

Issue 8 – PUC Intervenor Compensation (SB 512)

Governor's Proposal. The budget requests $322,000 from the Public Utilities Commission Utilities Reimbursement Account for three permanent positions to implement SB 512 (Hill), Chapter 808, Statutes of 2016, which expands the obligation of a public utility to pay intervenor fees to an eligible local government entity and makes a variety of transparency-focused changes to PUC procedures. This item was first heard by Subcommittee No. 2 on March 9th.

Issue 9 – Cybersecurity Defense

Governor's Proposal. The budget requests $665,000 (Public Utilities Commission Utilities Reimbursement Account) for four new permanent positions to establish a Cyber Security Utility Regulatory Group at the PUC. SB 17 (Padilla), Chapter 327, Statutes of 2009 required the PUC to work with stakeholders to determine requirements for utility Smart Grid deployment plans. The deployment plan requirements included cyber security and cyber security strategy. Subsequently, SB 1476 (Padilla), Chapter 497, Statutes of 2010, provided rules to protect the privacy and security of customer data generated by advanced meters. The PUC has indicated that their existing regulatory and IT units lack the technical knowledge necessary to establish standards for utility cybersecurity and to review these requests for reasonableness and feasibility. This item was first heard by Subcommittee No. 2 on March 9th.

Issue 10 – Enterprise Risk and Compliance Office

Governor's Proposal. The budget requests $696,000 (Public Utilities Commission Utilities Reimbursement Account) for five permanent positions, including one Career Executive Assignment B (CEA-B), to establish an Enterprise Risk and Compliance Office (ERCO).

Issue 11 – Office of Ratepayer Advocate (ORA): Safe Drinking Water

Governor's Proposal. The ORA requests two positions and $230,000 (PUCORA) to evaluate the treatment of emerging water contaminants, the cost-effectiveness of new water treatment technologies, and the ratepayer impact of water utility acquisitions. State policy requires that all Californians have access to safe, clean, affordable drinking water. ORA plays an important role in ensuring that the largest water utilities in the state provide such a service.

Staff Recommendation:
Approve All Items Above as Budgeted

Vote-Only Calendar – Reject

8660 California Public Utilities Commission

Issue 1 – Office of Ratepayer Advocate: Communications Office

Governor's Proposal. The ORA requests two positions (including one CEA-B) and $299,000 (PUCORA) to establish a communications office to provide media outreach and ratepayer information services. ORA currently has no dedicated resources to provide information and assistance to the public, media and other interested stakeholders. Existing staff cover this function upon request, redirecting time away from their core responsibilities as engineers, economists, and other technical positions. While ORA has a responsibility to represent ratepayers in regulatory proceedings, they have no such statutory responsibility to attend the workshops, public hearings, and similar events that ORA has indicated the positions will attend. ORA should seek statutory authority to do so if they intend to expand their public-facing role. This item was first heard by Subcommittee No. 2 on March 9th.

Issue 2 – Website Publication of Contract and DGS Audit Information (AB 1651)

Governor's Proposal. The budget requests $107,000 per year from a variety of special funds for one permanent Associate Governmental Program Analyst position to publish contract information and audit results on the public PUC website as required by AB 1651 (Obernolte), Chapter 815, Statutes of 2016. The workload justification provided by PUC does not support an additional position. The work appears minor and can be done by existing PUC staff. This item was first heard by Subcommittee No. 2 on March 9th.

Staff Recommendation:
Reject the proposals.

Vote-Only Calendar – Modify

8660 California Public Utilities Commission

Issue 1 – LifeLine Program: Portability Freeze Rule Implementation

Governor's Proposal. The budget requests $82,000 (Public Utilities Commission Utilities Reimbursement Account) for one permanent position to process the anticipated increase in contacts from consumers due to changes made in the California LifeLine program by AB 2570 (Quirk), Chapter 577, Statutes of 2016, which requires the PUC to adopt a rule that LifeLine enrollees cannot switch telephone providers within 60 days after beginning the service, subject to certain exceptions. PUC data has indicated that the rule change is likely to generate a significant, though limited-term, workload surge. The long-term workload implications are uncertain. As such, limited-term resources are appropriate for this request. This item was first heard by Subcommittee No. 2 on March 9th.

Staff Recommendation:
Approve $82,000 per year for one two-year limited term position to implement the requirements of AB 2570.

Issue 2 – Expedited Distribution Grid Interconnection Dispute Resolution (AB 2861)

Governor's Proposal. The budget requests $796,000 (Public Utilities Commission Utilities Reimbursement Account) for three permanent positions and four limited-term consultant positions to establish and administer an expedited interconnection dispute resolution process, as required by AB 2861 (Ting), Chapter 672, Statutes of 2016. AB 2861 requires the PUC to establish a streamlined dispute resolution process that operates within timelines that are more closely aligned with existing interconnection timelines; provides more technical expertise to the PUC and gives the PUC leverage in reviewing and resolving interconnection disputes; and issues binding resolutions on a dispute after bilateral negotiations between developers and utilities have resulted in an impasse. While much of this work will be ongoing, the initial work of setting up the dispute resolution process is limited-term in nature. As such, a combination of permanent and limited-term positions is appropriate. This item was first heard by Subcommittee No. 2 on March 9th.

Staff Recommendation:
Approve $796,000 for two permanent positions and one two-year limited-term PURA V positions.

Issue 3 – Office of Ratepayer Advocate: Climate Change Initiatives

Governor's Proposal: The budget requests eight permanent positions and $890,000 (PUCORA) to perform work associated the ORA climate change efforts driven by a variety of recent legislation. The request includes: two Utilities Engineers, two Public Utilities Regulatory Analyst (PURA) V's, one PURA IV, and three PURA I's. This item was first heard in Subcommittee No. 2 on March 9th.

AB 327 (Perea), Chapter 611, Statutes of 2013, calls for the building and interconnection of 12,000 megawatts of localized electricity generation (also known as distributed energy resources, or DERs). SB 626 (Kehoe), Chapter 355, Statutes of 2009, requires implementation of infrastructure upgrades necessary for the widespread use of hybrid and plug-in electric vehicles. SB 350 (de León), Chapter 547, Statutes of 2015, expands the scope of the PUC's involvement in the state's Renewable Portfolio

Standard (RPS) by requiring renewable electricity procurement be increased from 33 percent by 2020 to 50 percent by 2030.

It is reasonable to believe that the legislation cited in this request will create new workload for ORA. ORA’s workload depends in large part on how the PUC structures its proceedings related to each piece of legislation. This creates significant uncertainty around ORA’s workload. However, the workload data provided by ORA suggests that there is potentially significant overlap in the planned tasks for several of the requested positions.

Staff Recommendation:
Approve two Utilities Engineers, two PURA V’s, and two PURA I’s, with associated funding.

0521 SECRETARY FOR THE CALIFORNIA TRANSPORTATION AGENCY

Issue 1 – Governor's Transportation Package

Governor's Proposal. The January budget incorporates a transportation funding package similar to the one the Governor proposed during the transportation special session. The budget proposes to provide new funding of $1.9 billion in 2017-18, and $4.3 billion on an annual ongoing basis. The annual funding package provides $2.1 billion from a new $65 fee on all vehicles; $1.1 billion by setting the gasoline excise tax at 21.5 cents (with future adjustments for inflation); $425 million from an 11-cent increase in the diesel excise tax; $500 million in additional cap-and-trade proceeds; and $100 million from cost-saving reforms to be implemented by Caltrans. The $1.9 billion of additional funding in 2016-17 includes $235 million from the acceleration of General Fund loan repayments over the next three years ($706 million in total repayments), rather than repaying these loans over the next 20 years.

The Legislature recently approved, and the Governor signed, SB 1 (Beall), Chapter 5, Statutes of 2017, which increases several taxes and fees to raise roughly $5.2 billion in new transportation revenues annually and makes adjustments for inflation every year. The enactment of SB 1 renders the Administration's initial proposal moot.

Staff Recommendation:
Reject the proposed transportation funding package, and associated positions, to conform to actions taken in the Assembly.

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 1 – Sustainability Program and Zero-Emission Vehicle Pilot

Governor's Proposal: The Governor's budget includes provisional language to allow Caltrans to spend up to $40 million ($20 million from the State Highway Account (SHA) and $20 million from federal funds) to construct direct current (DC) fast charging stations at seven locations in 2017-18. Specifically, the provisional language provides this funding from the State Highway Operation and Protection Program (SHOPP)—the state's program for rehabilitating and operating state highways. The seven locations would provide a total of fourteen charging stations, or an average of two charging stations at each location. The proposal is the first year of a two-year effort to build charging stations at 30 locations as stated in the Zero Emission Vehicle Action Plan. Caltrans plans to request funding for the remaining 22 locations as part of the 2018-19 budget process.

This item was heard in Subcommittee No. 2 on March 23rd.

Staff Comments: While the Governor's Zero Emission Vehicle Action Plan and its proposed activities are consistent with statewide priorities on climate and clean energy, the SHOPP is an inappropriate funding source. The SHOPP is the state's primary program for rehabilitating and operating state highways. It is not intended to be used for sustainability-related pilot projects, such as that proposed here.

However, there are a variety of other potential funding sources Caltrans could utilize. Specifically, the three largest Investor-Owned Utilities (IOUs) in the state are proposing to spend a combined $197 million over the next several years to install ZEV charging infrastructure for public use. Similar programs exist at the California Energy Commission (CEC) and Public Utilities Commission (PUC). Caltrans should pursue funding from one of these sources for the proposed electric charging stations.

Staff Recommendation: Reject the proposed provisional language and adopt language requiring Caltrans to report to the Joint Legislative Budget Committee (JLBC) on the proposed funding source for construction of the proposed electric charging stations. Proposed language is below:

> The Department of Transportation may expend up to $20 million in state funds (matched with up to $20 million federal funds) on zero emission vehicle charging infrastructure upon authorization of the Department of Finance. The Department of Finance may authorize (the expenditure of funds from the proposed sources) not less than 30 days after notification has been provided to the Joint Legislative Budget Committee, or whatever lesser time after that notification the chair of the joint committee, or his or her designee, may determine. The notification shall include an explanation of the sources of funding that were pursued to fund EV and ZEV charging infrastructure, why the proposed source was selected, and why other identified sources were not selected.

Issue 2 – Road User Charge Pilot Program

Governor's Proposal: The budget requests one-time funding of $737,000 (State Highway Account) and $750,000 (federal funds) to utilize federal funding made available under Section 6020 of the federal Fixing America's Surface Transportation (FAST) Act to further study the use of a road charge mechanism as an eventual replacement of the currently existing system of fuel taxes.

Background: SB 1077 (DeSaulnier), Chapter 835, Statutes of 2014, required the California Transportation Commission (CTC), in consultation with the California State Transportation Agency (CalSTA), to create a Road Usage Charge Technical Advisory Committee to guide the development and implementation of a road charge pilot project. SB 1077 required CalSTA to implement a Road Charge Pilot Program, guided by the Technical Advisory Committee, by January 1, 2017, and to submit a report on its findings by June 30, 2017. The Administration accelerated the pilot, and has now committed to delivering a report on pilot outcomes with the CTC's annual report by December 15, 2017.

In December 2015, the United States Congress passed the FAST Act, which included the Surface Transportation System Funding Alternatives (STSFA; Section 6020 of the FAST Act). STSFA is a five year $95 million grant program, with the initial Federal fiscal year 2016 funding availability of $15 million, followed by four years each funded at $20 million. Caltrans applied for and was awarded an STSFA grant in December of 2016 to explore the eventual demonstration of pay-at-the-pump mileage reporting technology.

Staff Comments: SB 1077 directed CalSTA, the CTC, and Caltrans to implement a road charge pilot program in 2016-17, and to report on it by December of 2017. Caltrans and the CTC have indicated that the pilot program has proceeded as planned, and that they plan to deliver the required report on pilot outcomes to the Legislature by December 15, 2017.

Caltrans has indicated that the activities they propose to fund through this request will not impact the currently-existing pilot program, nor will it be included in the pilot program report. Much of the proposed funding is directed at communication, outreach, and education efforts, rather than planning for an actual demonstration of pay-at-the-pump technology. Caltrans has already explored the public's understanding and acceptance of user fees such as the road charge in the current pilot. It is unclear what additional information further exploration would provide.

However, Caltrans has already applied for, and won, an STSFA grant from the Federal Highway Administration (FHWA) to perform the proposed pre-implementation work for an eventual demonstration of pay-at-the-pump technology. The grant requires a state match, as requested in this proposal. Reducing or eliminating the requested state match could potentially result in cancellation of the grant award.

While it was inappropriate for Caltrans to apply for the STSFA grant, knowing it would require state match, without first requesting the relevant funds from the Legislature, there is likely some value in pursuing further studies of the feasibility of implementing mileage-based user fees in California. This request is broadly in line with that approach. However, steps should be taken to prevent Caltrans from preempting the Legislature in future funding rounds.

Staff Recommendation: Approve as budgeted.

2720 California Highway Patrol (CHP)

Issue 1 – Commissioner Retirement Age

Proposal: The proposed trailer bill language would extend the sunset date exempting the California Highway Patrol Commissioner from mandatory retirement at age 60 from January 1, 2018 to April 1, 2019.

Background: California Government Code Section 21130 requires every CHP patrol member to retire at age 60. SB 215 (Beall), Chapter 778, Statutes of 2013, allowed for a one-time exception for the Commissioner of the California Highway Patrol from the age 60 mandatory retirement age. However, the provisions of the bill expire on January 1, 2018, prior to the end of Governor Brown's term.

Staff Comments: Under current law, the sitting CHP commissioner would retire prior to the end of Governor Brown's term. This would create a vacancy for the new Governor, elected in 2018, to fill upon assumption of office in January of 2019. Extending this deadline would allow the sitting CHP commissioner to stay on until replaced by the new Governor. The proposed language does not require the Governor to keep the current commissioner.

Staff Recommendation:
Approve as Proposed.

2740 DEPARTMENT OF MOTOR VEHICLES (DMV)

Issue 1 – AB 516 Implementation

Governor's Proposal: The budget requests a total of two positions and $2.4 million in FY 2017-18, three positions and $748,000 in 2018-19, and $225,000 in ongoing funding (all from the Motor Vehicle Account) to implement AB 516 (Mullin), Chapter 90, Statutes of 2016. Out-year resources will be partially offset by savings resulting from the new electronic report of sale system required by AB 516.

Background: AB 516 (Mullin), Chapter 90, Statutes of 2016 (AB 516, Mullin) requires the DMV, on or before January 1, 2019, to develop, or contract with a private industry partner, for the development of a system that allows a dealer or lessor-retailer to electronically report the sale of a vehicle and provide temporary license plates at the time of sale.

In FY 2014-15, as reported by the Metropolitan Transportation Commission, the Bay Area's eight toll bridges lost approximately $11 million in uncollected tolls from drivers who evaded tolls by driving vehicles without license plates. Additionally, the current manual report of sale (ROS) process is cumbersome and time-consuming, and has changed little over the past several years, despite huge advances in technology and software that would allow complete automation of the process. Adding an electronic ROS process will create cost-saving efficiencies for new vehicle dealers, lessor-retailers, used vehicle dealers, wholesale vehicle dealers, and the department by eliminating the paper ROS forms.

Staff Comments: As noted above, the existing ROS system is cumbersome and costly to administer. Additionally, the Metropolitan Transportation Commission has identified a lack of temporary license plates as a small but significant drag on toll revenues. The implementation of AB 516 would take important steps towards addressing both of those issues. During the consideration of AB 516, DMV provided cost estimates for the implementation of the bill that align closely with this proposal.

Beginning January 1, 2018, the department has indicated that they intend to promulgate regulations to increase the administrative service fee charged to parking authorities, bridge operators, and toll operators for the collection of unpaid fines by $1 for a period estimated not to exceed 15 months to generate revenue sufficient to cover the costs incurred by the department in FY 2018-19 and FY 2019-20, then, reduce the service fee to an amount to be determined by a departmental costing, on an ongoing basis, to generate revenue sufficient to cover any ongoing costs associated with maintaining the systems.

Staff Recommendation
Approve as budgeted.

Issue 2 – Capital Outlay: Perimeter Security Fencing

Governor's Proposal. The budget requests $3.95 million (MVA) for the design and construction of perimeter fences at nine DMV-owned facilities across the state. These facilities have had frequent issues with unauthorized after-hours access to DMV facilities, which have at times threatened the health and safety of DMV employees. DMV has identified 18 total structures with such issues, and plans to build perimeter fencing, at comparable cost, for the nine facilities not covered by this request in 2018-19. The total cost for this work is estimated to be roughly $8 million over two years (including the $3.95 million in this request).

This item was first heard by Subcommittee No. 2 on March 23rd.

Staff Comments. While unauthorized after-hours access to DMV offices is a serious and growing problem, staff believes that permanent, unwelcoming perimeter fencing is not an appropriate solution. In subsequent discussions, the department has agreed to hire overnight security guards and provide regular cleaning services at the impacted sites over the next two years, at which point the issue will be revisited.

Staff Recommendation:
Approve $3.5 million per year (Motor Vehicle Account) for two years for security and cleaning services at the impacted DMV sites.

3360 California Energy Commission

Issue 1 – SB 350 Implementation

Governor's Proposal. The budget requests eight permanent positions and $9,060,000 (Cost of Implementation Account - COIA) to support the implementation of SB 350 (de León), Chapter 547, Statutes of 2015, which requires the Commission administer the state Renewable Energy Standard, implement and enforce building energy retrofit standards, and establish consumer protection guidelines for energy efficient appliances. The requested funding includes $305,000 annually for two two-year limited-term positions and $7.6 million for 29.5 positions and associated contract funding approved as part of the 2016-17 budget.

This item was first heard in Subcommittee No. 2 on March 9th.

Staff Comments. This request includes resources for related renewable energy and energy efficiency work, including positions to implement a data system to establish a market baseline for contractor work standards on energy efficiency retrofits and track compliance with required permits. This closely parallels the requirements of SB 1414 (Wolk), Chapter 658, Statutes of 2016, that the CEC work with relevant stakeholders to develop a plan to promote compliance of building air conditioning and heat pumps with statewide Building Energy Efficiency Standards. SB 1414 was the subject of a second BCP, which was approved by this subcommittee.

The HVAC industry expressed concern with this proposal due to a misstatement in the Energy Commission's SB 350 BCP: "The [tracking] system will also promote ongoing compliance by tracking heating, ventilating, and air conditioning (HVAC) units that are acquired by contractors for sale and installation in homes." The Energy Commission has indicated that it will continue to evaluate tracking along with other strategies and alternatives as part of the SB 1414 plan. The HVAC industry was assured that the Energy Commission will not preempt the process, and it is the Energy Commission's understanding that the HVAC industry's concerns have been addressed.

Staff Recommendation:
Approve as Budgeted.

Issue 2 – Solar Equipment Listing

Governor's Proposal: The budget requests three permanent positions and $196,000 from the Renewable Resource Trust Fund (RRTF) to maintain, update, and expand the official listings of solar energy system equipment receiving ratepayer funded incentives, initially established pursuant to SB 1 (Murray), Chapter 132, Statutes of 2006.

Background: SB 1 directs the Energy Commission to establish eligibility criteria, conditions for incentives, and rating standards for projects installing solar energy systems and applying for ratepayer-funded incentives. SB 1 requires the Energy Commission to set rating standards for equipment, components, and solar energy systems for reasonable performance and to develop standards that provide that incentives support only equipment that complies with the minimum ratings. To do this, the Energy Commission has established a process under which manufacturers of photovoltaic (PV) modules, inverters, meters, and other solar equipment apply for listing of their equipment on official lists that identify their equipment as incentive-eligible. The Energy Commission solar equipment lists are used by many other state, federal, local government, and utility solar programs across the country, which rely on the list information for the installation of safe and reliable solar equipment.

Government Code Section 19130 codifies the conditions under which departments may contract with external vendors for personal services. Amongst other provisions, it allows contracting for personal services only when the required skillset is not available in the existing civil service. Due to the technical nature of the work, a majority of the original program administration, including the development and maintenance of the equipment lists, was conducted by contractors during the initial implementation of SB 1. Over time, many of this program's administrative activities have transitioned to Energy Commission staff; however, the management of the equipment lists continued to be conducted by contractors. Staff determined in late Fall 2016—after the normal budget cycle ended—that the work to maintain the equipment lists being performed under contract could not be continued through contract agreements because it could not be justified under Government Code Section 19130.

Staff Comments: Much of the initial work of implementing SB 1 required a highly technical skillset that required external contractors to perform. The contract, when executed in 2014, included a task for technical assistance that could not be performed by civil service staff, as the anticipated activities required an advanced knowledge of the solar industry and solar equipment technology that staff did not possess. Consequently, as originally envisioned, this contract met the requirements of Government Code Section 19130 (b) (3) and could be contracted out. Without this technical requirement, the services are available within civil service so a contract cannot meet the exemptions under Government Code Section 19130. As the contract progressed, it became clear that there was little to no need for activities under this task. Staff therefore removed this task while updating the scope for continued contract support. With the removal of the task, there was no longer a reason to seek consultant services as the management of the equipment lists could be conducted by civil service staff.

Staff Recommendation: Approve as Budgeted.

8660 California Public Utilities Commission (CPUC)

Issue 1 – Deputy Director for Safety and Codification of Positions

Governor's Proposal: The budget requests $191,000 (from various special funds) and one permanent CEA-B position for a dedicated Deputy Executive Director for Safety to direct the work of PUC staff in that area. This request includes trailer bill language codifying the Deputy Director for Safety and Chief Internal Auditor into the structure of the PUC's executive management.

Background: California's public utilities have experienced several serious accidents in recent years, including the 2010 San Bruno explosion, the 2015 Long Beach outage, and the 2015 Aliso Canyon gas leak. As a result, both the PUC and the Governor have acknowledged the need for increased safety oversight from the PUC. The Legislature subsequently passed several safety-related and reform bills.

In May 2016, the Governor appointed a Deputy Executive Director responsible for safety. This position is serving as the Safety Ombudsman for the PUC, and has handled several PUC employee safety concerns with regulated utilities, as well as directing the work of the various safety-focused professionals across the PUC organization. The PUC paid for this position through salary savings realized by leaving the Deputy Executive Director for Policy position open. PUC has indicated that they intend to fill the policy position by June 30, 2017.

An additional reform bill, AB 2903 (Gatto), failed to pass the Legislature. AB 2903 included language that was substantially similar to this proposal, which codified the position of Chief Internal Auditor and Deputy Executive Director for Safety as part of the PUC's executive management structure.

Staff Comments: The Legislature's passage of numerous reform bills demonstrates the Legislature's intent to improve the PUC's safety programs. The Governor's appointment of a Deputy Executive Director for Safety is clearly in line with this intent. However, the decision to pay for this position by holding the Deputy Executive Director for Policy position open has created a significant and ongoing vacancy within the Commission's management. The PUC has indicated that they are unable to continue this practice, or to administratively create the position by redirecting funds from elsewhere, without negatively impacting Commission operations.

The requested trailer bill language is substantially similar to prior legislation that failed to pass the Legislature. The budget is not the appropriate venue to make the statutory and policy changes requested here. The PUC should therefore return to the policy process to pass the requested changes.

Staff Recommendation:
Approve the requested position and $191,000 (various funds). Reject the requested trailer bill language.

Issue 2 – Solar Multifamily Funding Technical Adjustment

Proposal: This request includes trailer bill language to provide a technical correction to AB 693 (Eggman), Chapter 582, Statutes of 2015, which created the Multifamily Affordable Housing Renewables Program. This program provides financial incentives for qualified renewable energy installations at multifamily affordable housing properties funded from investor-owned utility's greenhouse gas allowances.

Background: With the passage of the Global Warming Solutions Act of 2006, the Air Resources Board (ARB) has implemented regulations to achieve the goal of reducing GHG emissions to 1990 levels by 2020. Under the cap-and-trade regulations, the ARB allocates GHG emission allowances to capped sectors, including electric IOUs. These allowances are given to IOUs to reduce the impact of the cap-and-trade regulations on ratepayers. ARB requires that the IOUs sell these allowances at the quarterly auctions and that the proceeds be used for the ratepayer benefit, subject to oversight by the PUC. Specifically, existing law (Public Utilities Code §748.5(c)) allows the CPUC to allocate up to 15 percent of the proceeds to fund clean energy and energy efficiency projects that are administered by the IOU. Any remaining proceeds must be credited directly to residential, small business, and emission-intensive trade-exposed retail IOU customers.

AB 693 intended to require the CEC to annually allocate $100 million or 10 percent of total funds from the sale of GHG allowances on behalf of ratepayers, whichever is less, for the Multifamily Affordable Housing Renewable Programs for 10 years from FY 2016-17 through FY 2025. However, a drafting error in the bill restricted the grant program to receiving 10 percent of "available funds" from revenues described in Public Utilities Code §748.5(c), which is 15 percent of allocation revenues, rather than 10 percent of total funds from IOU consignment allowances. This results in a much lower level of available funding for the program than originally intended.

Staff Comments: AB 693 intended to make a significant amount of funding available for the Multifamily Affordable Housing Renewables Program. However, the drafting error in the statute significantly undercuts this goal. The technical fixes in the proposed language have been agreed upon by the PUC and various involved stakeholders, and would close the unintentional loopholes in AB 693.

Recommendation: Approve as proposed.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Tuesday, May 16, 2017
10:00 a.m. or upon call of the Chair
State Capitol - Room 112

Consultant: James Hacker

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.

Vote-Only Calendar

2660 California Department of Transportation (Caltrans)

Issue 1 – Toll Bridge Reimbursement Authority

Governor's Proposal. The budget requests an increase of up to $24.5 million in reimbursement authority for toll bridge maintenance work on locally-operated toll bridges. Existing staff will continue to perform the maintenance work.

This item was first heard in Budget Subcommittee No. 2 on March 23rd.

Background. AB 144 (Hancock), Chapter 94, Statutes of 2005, amended the responsibility to administer and oversee all maintenance services on state-owned toll bridges to the Bay Area Toll Authority (BATA) upon completion of seismic retrofit work, including the work on the two spans of the San Francisco-Oakland Bay Bridge. Caltrans believes that all applicable retrofit work has been completed and maintenance costs, including tow costs, are now BATA's responsibility. However, any such transfer of funding responsibility would require a new Memorandum of Understanding (MOU) between Caltrans and BATA.

The request references a renegotiated MOU with BATA. Caltrans and BATA have not reached an agreement on opening up the terms of the existing cooperative agreement, and are unlikely to do so in the near future. Approving this proposal without such an agreement would be premature.

Issue 2 – Road Charge Provisional Language

Governor's Proposal. The January budget included provisional language allowing the Department of Finance to augment Caltrans' budget by up to $10 million in State Highway Account funds to provide a match for potential federal grants resulting from the Fixing America's Surface Transportation (FAST) Act, related to Road Charge demonstration projects. The Administration recently came forward with a detailed request to provide state match for a federal grant the department pursued and won. The department has indicated that they will pursue state match for future rounds of federal funding in a similar manner. As such, this provisional language is unnecessary and can be removed.

Staff Recommendation: Reject Issues 1 and 2.

Issue 3 – SB 1 Implementation: Cleanup Trailer Bill Language

Governor's Proposal. The Governor's May Revision proposes trailer bill language related to the implementation of the Road Repair and Accountability Act of 2017, SB 1 (Beall), Chapter 5, Statutes of 2017. Specifically, the language proposes a variety of technical fixes to relevant code sections to ensure that funds reach the desired programs and are available to use as directed in SB 1. The Administration has indicated that the proposed changes are technical in nature, and ensure that the relevant code sections conform to the intent of SB 1.

Staff Recommendation: Approve as Proposed.

2740 California Department of Motor Vehicles (DMV)

Issue 1 – Driver License Eligibility (AB 60)

Governor's Proposal. The budget requests $8.6 million (Motor Vehicle Account) and 91 permanent positions to continue to implement the requirements of AB 60 (Alejo), Chapter 524, Statutes of 2013.

This item was first heard in Budget Subcommittee No. 2 on March 23rd.

Background. The DMV proposal estimates roughly 2,000 applications per week; however, DMV data indicates that the department currently receives roughly 2,700 applications per week. DMV has indicated that they have sufficient capacity to absorb workload related to any applications over the estimated 2,000. Updated application data is consistent with DMV's long-term estimate of 2,000 applications per week.

Issue 2 – DMV and California Highway Patrol (CHP) Capital Outlay

The Governor's May Revision requests reductions of $300,000 and $450,000 from the CHP and DMV Statewide Planning and Site Selection appropriations, respectively. As these funds are used to determine the capital project proposals the be pursued in the future, these adjustments would result in one fewer replacement project request for both the CHP and DMV in fiscal year 2019-20. The remaining authority would be used to identify two future CHP replacement projects and to plan up to three future DMV reconfiguration projects. This request includes provisional language to align reporting requirements with this reduction in appropriation. The Administration has indicated that this request is consistent with efforts to ensure a sufficient fund balance in the Motor vehicle Account in future years.

Staff Recommendation: Approve Issues 1 and 2 as Budgeted.

Items for Discussion

2600 California Transportation Commission (CTC)

Issue 1 – Road Repair and Accountability Act of 2017 Workload

Governor's Proposal. The Governor's May Revision proposes four permanent positions and $1.1 million (funding from the State Highway Account and the Public Transportation Account) to implement the recently enacted SB 1 (Beall), Chapter 5, Statutes of 2017.

Background. SB 1 provided additional funding and increased the Commission's role in a number of existing programs, and created new programs for the Commission to oversee. SB 1 changes CTC role's in the following ways.

- Expands the Commission's oversight responsibilities for the State Highway Operation and Protection Program (SHOPP).
- Provides a role for the Commission in the apportionment and accountability of local streets and roads funding.
- Creates the Solutions for Congested Corridors Program, for which the Commission will have oversight.
- Creates the Local Partnership Program, for which the Commission will have oversight.
- Creates the Trade Corridor Enhancement Account.
- Increases funding for the Active Transportation Program, for which the Commission already has oversight.
- Stabilizes funding for the State Transportation Improvement Program (STIP), for which the Commission already has oversight.

The budget request includes four positions to engage in newly-expanded duties at the CTC, as well as $151,000 in funding for temporary and contract help. According to CTC, the temporary help funding will be used to hire retired annuitants or consultants to develop guidelines for the new programs authorized by SB 1.

As the Commission gains more experience with these new responsibilities it may request additional resources in the future.

Staff Comments. SB 1 is likely to result in a large increase in CTC workload, as it requires significant CTC involvement in newly-created programs, as well as expanded CTC participating programs in existing programs such as the SHOPP. As such, the request seems generally reasonable. However, given the increase in responsibilities for the CTC created by SB 1 it is unlikely that the additional resources proposed in the May Revision will be adequate. The Subcommittee may want to consider adopting provisional language that would allow CTC to add additional resources mid-year if necessary. The Administration has proposed a similar approach for Caltrans which is described later in this agenda.

Staff Recommendation: Approve as Budgeted.

2660 California Department of Transportation (Caltrans)

Issue 1 – SB 1 Implementation: Capital Outlay and Local Assistance

Governor's Proposal. The May Revision requests $1.5 billion in local and capital funding for projects for transportation programs under SB 1, the Road Repair and Accountability Act of 2017. Programs are funded by one of four transportation accounts: Road Maintenance and Rehabilitation Account, Trade Corridor Enhancement Account, Public Transportation Account and State Highway Account. Of the total amount requested in year one, $904.6 million consists of local assistance appropriations and $592.8 million consists of capital outlay appropriations.

The budget also proposes the amendment of various budget bill items to reflect funding available from the Road Repair and Accountability Act, as discussed later in this agenda.

Background. The Department of Finance (DOF) expects $26.5 billion in SB 1 revenue over the next ten years to be available for local agencies in the following categories: $15 billion for local street and road maintenance; $7.5 billion for transit operations and capital; $2 billion for the local partnership program; $1 billion for the Active Transportation Program (ATP); $825 million for the regional share of the State Transportation Improvement Program (STIP); and $250 million for local planning grants.
The DOF expects $25.8 billion in SB 1 revenue over the next ten years to be available for state uses in the following categories: $15 billion for state highway maintenance and rehabilitation; $4 billion for highway bridge and culvert maintenance and rehabilitation; $3 billion for high priority freight corridors; $2.5 billion for congested corridor relief; $800 million for parks programs, off-highway vehicle programs, boating programs, and agricultural programs; $275 million for the interregional share of the STIP; $250 million for Freeway Service Patrol programs; and $70 million for transportation research at the University of California and California State University.

SB 1 creates $2.8 billion in new revenues in 2017-18. The requested Caltrans resources, along with requests from other departments, would result in the following allocation of revenues created by SB 1.

Activity	Authority	Support	Capital Outlay	Local Assist.	Amount
Local Planning Grants	Budget Act	$114	0	$24,886	$25,000
Freeway Service Patrol	Budget Act	0	0	25,000	25,000
Congested Corridors Program	Budget Act	1	$125,000	124,999	250,000
Transit & Intercity Rail Capital	Budget Act	0	1	329,999	330,000
Active Transportation Program	Budget Act	1	1	99,998	100,000
SHOPP and Maintenance	S&HC 2030(h)(1)	0	200,000	0	200,000
SHOPP and Maintenance	Budget Act	477,470	167,885	0	645,355
Local Partnership Program	S&HC 2032(a)(3)	231	0	199,769	200,000
Trade Corridor Enhancement	Budget Act	1	99,916	99,916	199,833
	Caltrans Total:	$477,818	$592,803	$904,567	$1,975,188
State Transit Assistance	PUC 99312.1	0	0	$280,057	$280,057
Intercity and Commuter Rail	PUC 99312.3	0	0	25,008	25,008
Local Streets and Roads	GC 16321(c)	0	0	75,000	75,000
Local Streets and Roads	S&HC 2030(h)(2)	0	0	370,355	370,355
Dept. of Food & Agriculture	R&TC 8352.5	$17,272	0	0	17,272
Dept. of Parks & Recreation	R&TC 8352.4	54,299	0	0	54,299
State Controller's Office	Budget Act	112	0	0	112
Transportation Commission	Budget Act	216	0	0	216
California State University	Budget Act	2,000	0	0	2,000
University of California	Budget Act	5,000	0	0	5,000
Workforce Development Board	Budget Act	5,000	0	0	5,000
Department of Motor Vehicles	Budget Act	3,760	0	0	3,760
	Other Total:	$87,659	$0	$750,420	$838,079
	Grand Total:	**$565,477**	**$592,803**	**$1,654,987**	**$2,813,267**

(All dollars are in thousands)

Legislative Analyst's Office (LAO) Comments. The LAO has reviewed this request and provided the following analysis:

> We recommend the Legislature consider modifying the Governor's proposed SHOPP and maintenance allocations from SB 1. Whereas the Governor proposes to spend $350 million on SHOPP projects and $422 million on maintenance (consisting of $400 million in maintenance contracts and the remainder for new maintenance staff), we believe weighting the allocation more heavily toward maintenance has two advantages. First, Caltrans can undertake maintenance work more quickly than it can start to deliver SHOPP projects. Second, maintenance work can prevent the need for more costly rehabilitation projects in the future.

Staff Comments. While staff generally concurs with the LAO's comments regarding the timeliness and long-term benefit of increased maintenance spending, the proposals described in this request are generally consistent with the requirements of SB 1.

Staff Recommendation: Approve as Budgeted.

Issue 2 – SB 1 Implementation: Capital Outlay and Local Assistance Provisional Language

Governor's Proposal. To spend the Capital Outlay and Local Assistance funding as proposed in Issue 1 above, Caltrans requests that provisional language be added to Item 2660-001-0042 to allow for budget adjustments based on the progress of project delivery. It is further requested that provisional language be added to Items 2660-101-0046 and 2660-302-0042 and that Schedule 1(c) be added to Item 2660-102-0042 to designate new program activities.

Caltrans also requests several technical changes to the budget bill, which will add items and provisional language consistent with the new funds, such as the Road Maintenance and Rehabilitation Account, created by SB 1. To make technical changes to implement SB 1, Caltrans recommends the following changes:

- For the SHOPP and Maintenance Program, Caltrans recommends adding provisional language to state that $75 million of the fund appropriated from the State Highway Account from a General Fund loan repayment mandated by SB 1. Caltrans also requests to add language creating a new fund. In these programs, Caltrans requests a $200 million of off-budget act appropriation as mandated by SB 1 in Streets and Highways Code section 2032(h)(1).
- For the Transit and Intercity Rail Capital Program, Caltrans requests $330 million. Prior to adopting a program of projects, the California State Transportation Agency will likely update the guidelines. It is expected that the allocation process will begin as early as the second quarter of the fiscal year. Per statute, a portion of funds are set aside for the intercity and commuter rail programs. SB 1 ensures that up to $20 million may be available to local and regional agencies for climate change adaptation planning, and the provisional language Caltrans requests ensures it has statutory authority to fulfill that legal obligation.
- For the Congested Corridors Program, Caltrans requests $250 million. This is a new program that seeks to improve highly congested corridors throughout the state. Funding is split evenly between capital and local items until a program of projects can be adopted. In order to begin allocating projects, it will be necessary to create guidelines. It is expected that this program will be ready to allocate projects no sooner than the fourth quarter of fiscal year 2017-18.
- For the Trade Corridors Enhancement Program, Caltrans requests $199.8 million. Funds are to be split between capital and local expenditures until a program of projects can be adopted by the California Transportation Commission. Prior to adopting a program of projects, the California Transportation Commission must update the program guidelines. Caltrans expects the allocation process will begin in the third or fourth quarter of fiscal year 2017-18.

LAO Comments. The LAO has reviewed the proposed provisional language and provided the following analysis:

> We recommend the Legislature reject the Governor's proposed budget bill language to allow the Administration, after the enactment of the budget, to increase Capital Outlay Support (COS) positions and expenditures for SB 1 implementation. The proposed language would significantly limit legislative oversight. If the Administration determines it needs additional COS resources after the passage of the 2017-18 budget in June, it could request an amendment to the budget later this summer (or when the Legislature

reconvenes in January). This would be a more transparent process for augmenting the COS program and allow for legislative oversight.

Staff Comments. The passage of SB 1 created several new programs, and made several modifications to existing transportation funding mechanisms, which require budget bill language to implement as intended. The proposed provisional language generally appears consistent with the intent of SB 1.

However, staff does share the LAO's concern regarding the provisional language allowing augmentation of the COS program after the enactment of the budget. While it is realistic to believe that Caltrans may require additional support staff to fully implement the requirements of SB 1, the proposed language would allow augmentation of Caltrans staff and budget with minimal oversight from the Legislature. This raises significant transparency issues. The Subcommittee may want to ask why such language is necessary, and what requirements could be included to ensure that staff and budget augmentations are granted in a manner consistent with the Legislature's intent with SB 1.

Staff Recommendation: Hold open.

Issue 3 – SB 1 Implementation: Workload and Capital Outlay Support Workload Adjustment

Governor's Proposal. The Governor's May Revision requests includes $477.8 million with 243 permanent positions to support the Department's initial tasks for implementation of the Road Repair and Accountability Act of 2017 (SB 1), and a net decrease from the non-SB 1 COS budget proposed in January of $29.3 million and 283 full time equivalents (FTE) (includes 243 staff positions, the FTE of 26 positions for Architectural and Engineering Contracts, and the FTE of 14 positions for personal services/cash overtime).

Background. The 2017-18 COS request includes all non-SB 1 funded workload. The table below shows the resources requested by the type of work being performed.

Table 4: COS Program Workload Changes (Full Time Equivalents)

Workload Categories (Includes all fund sources)	Enacted Budget 2016-17	May Revise 2017-18	Change 2017-18
SHOPP	5,215	5,131	(84)
Overhead and Corporate	1,832	1,800	(32)
Partnership (Includes Measure/Locally Funded)	1,016	1,104	88
STIP	914	786	(128)
Toll Bridge Seismic Retrofit Program	158	117	(41)
Real Property Services	103	109	6
Proposition 1B Bond	98	35	(63)
Traffic Congestion Relief Program	55	32	(23)
High Speed Rail	51	51	0
Geotechnical Borehole Mitigation	33	37	4
Materials Engineering & Testing Services	27	27	0
FAST Act	10	0	(10)
Total Proposed COS Workload	**9,512**	**9,229**	**(283)**

To support the initial implementation of SB 1, the COS program will retain 112 positions and 131 positions will be transferred to the following Divisions; 75 positions to develop Project Initiation Documents (PIDs), 48 positons for the Maintenance Program, and 8 positions to perform administrative functions. In addition, the Maintenance Program will increase highway pavement project contracting by approximately $400 million to address the most urgent State Highway System maintenance issues. This increase in funding will go to repaving roads and fixing potholes and allow Caltrans to improve the conditions of 3,252 lane miles of pavement.

Below is a summary of the proposed increase in staffing related to SB 1**.**

Function	**Positions**	**FY 2017-18 Total Dollars (000's omitted)**
Capital Outlay Support	112	$38,150
Project Initiation Documents	75	$17,262
Maintenance	48	$421,366
Administration	8	$ 1,037
Grand Total (All Programs):	**243**	**$ 477,815**

As discussed in previous issues, the budget includes provisional language allowing Caltrans, after consulting with the California Transportation Commission, to develop revised workload estimates and request a mid-year resource augmentation.

Staff Comments. SB 1 will create significant new workload for Caltrans. This is balanced by declines in other legacy programs. Caltrans is proposing to meet the demands of SB 1 by redirecting positions which would otherwise be eliminated due to reduced funding for programs such as the STIP and the Seismic Retrofit Bond fund. Doing so seems generally reasonable. However, given the magnitude of additional funding provided by SB 1 in 2017-18, it is very likely that Caltrans will need significantly more staff in the budget year, including possibly hundreds more additional COS staff. Despite Caltrans having decades of experience in developing estimates of the workload associated with delivering projects, it has chosen not to provide a realistic estimate of the additional number of staff it will need in 2017-18, instead relying on budgetary flexibility provided by the provisional language described above.

Staff Recommendation: Hold Open.

Issue 4 – SB 1 Implementation: Independent Office of Audits and Investigations

Governor's Proposal. The Governor's May Revision requests to transfer 48 existing permanent positions from its audit division to the new Independent Office of Audits and Investigations and establish 10 new permanent positions within the Office, for a total of 58 positions. To fund these positions, Caltrans requests $9.5 million State Highway Account funds.

Background. The Road Repair and Accountability Act of 2017 establishes the Independent Office of Audits and Investigations within Caltrans and gives it specified powers and duties.

The Act requires the Governor to appoint the Inspector General to lead the Office for a six-year term, subject to confirmation by the Senate. This legislation also specifies the Inspector General will have full authority to exercise the duties and responsibilities of the Office with respect to the oversight of Caltrans and external entities receiving state and federal transportation funds through Caltrans. The Inspector General is required to report at least annually, or upon request, a summary of his or her findings to the Governor, Legislature, and the California Transportation Commission.

The law also requires ongoing reporting of findings and recommendations to the Secretary of Transportation, the Director, and Chief Deputy Director of Caltrans. Finally, the Inspector General is responsible for reviewing all policies, practices, and procedures, and conducting audits and investigations of activities involving all state transportation funds. To estimate the workload of the Office, Caltrans relied on historical workload from its Division of Audits and Investigations.

The Office was created to ensure:

- Caltrans and external entities that receive state and federal transportation funds are spending those funds efficiently, effectively, economically, and in compliance with applicable state and federal requirements. Those external entities include, but are not limited to, private for-profit and nonprofit organizations, local transportation agencies, and other local agencies that receive transportation funds either through a contract with agency or through an agreement or grant administered by the agency.
- Caltrans programs are functioning consistent with applicable accounting standards and practices and are administered effectively, efficiently, and economically.
- Caltrans management is accomplishing departmental priorities, developing an annual audit plan, administering an effective enterprise risk management program, and is making efficient, effective, and financially responsible transportation decisions.
- The Secretary of Transportation, the Legislature, the California Transportation Commission, and the Director of Caltrans and Chief Deputy Director of Caltrans are fully informed concerning fraud, improper activities, or other serious deficiencies relating to the expenditure of transportation funds or administration of department programs and operations.

LAO Comments. The LAO has reviewed this request, and has provided the following analysis:

> We recommend modifying the Governor's proposal by only approving three of the 10 proposed new positions. These three positions are (1) the Inspector General, (2) the Chief Deputy, and (3) the Communications Officer. We believe approving the remaining seven new positions (consisting primarily of auditors and investigators) is premature until the

> Inspector General is hired and has developed his or her vision for the office's workload. We do not believe this approach will hamper the office's ability to start its work in 2017-18, as the Governor's proposal includes redirecting 48 positions from the Division of Audits and Investigations to the new office. These positions will provide the Inspector General ample resources for work to commence in the budget year.

Staff Comments. SB1 required the creation of the Office of Independent Audits and Investigations to ensure that increased transportation revenues are being spent in an effective, efficient, and transparent manner. The Caltrans proposal, which includes folding the existing Office of Audits into the new office, would allow the department to immediately establish the office and begin performing audit work as required by SB 1. However, staff notes that the Administration has not provided information on the timeline for the appointment of an Inspector General. Delays in doing so could negatively impact the Office's ability to perform its statutorily-required work.

Staff Recommendation: Approve as Budgeted.

Issue 5 – Project Acceleration Trailer Bill Language

Governor's Proposal. The Governor's May Revision includes trailer bill language related to the implementation of SB 132 (Committee on Budget and Fiscal Review), Chapter 7, Statutes of 2017, which, among other requirements, required the Secretary of Transportation to convene a task force of state, local, and private sector experts to accelerate the schedule of delivery for these and other projects in the region, and requires that any recommendations from this task force requiring statutory changes be included in the May Revision to the 2017-18 Governor's Budget.

Background. Senate Bill 132 created the Riverside County Transportation Efficiency Corridor (RCTEC) and appropriated $427 million of current budget year resources to five projects. SB 132 assigned the CalSTA Secretary to convene a task force of state, local, and private sector stakeholders to make recommendations to expedite delivery of the five RCTEC projects and other projects in the region. SB 132 directs statutory changes recommended by the task force to expedite RCTEC and other projects to be included in the Governor's May Revision. The items below represent the statutory changes recommended by the task force that primarily benefit the RCTEC, but some authority also provides statewide benefit to expedite other SB 1 projects.

- **Section 1 - Expands pilot program for Construction Manager/General Contractor (CM/GC) on state highway system.** *(PCC 6701).* Allows Caltrans to use CM/GC on twelve (12) projects in addition to the twelve (12) projects already authorized by law. Authorizes the Riverside County Transportation Commission (RCTC) to use CM/GC for two projects on the state highway system, with priority on SB 132 projects. Increases the number of Caltrans-delivered CM/GC projects that must use Caltrans employees or consultants for engineering and design services from eight to sixteen projects. Specifies that all twenty-four CM/GC projects delivered by Caltrans must use Caltrans employees or consultants for construction inspection.
- **Section 2 - Expands pilot program for Design-Build on local streets and roads.** *(PCC 22161).* Authorizes Caltrans to select six local street and road projects to use design-build, which may include bridge replacements and rehabilitations, and railroad grade separations. Three of these projects are reserved for RCTC, with priority on SB 132 projects.
- **Section 3 - Contracting flexibility to expedite delivery of SR-91 Toll Connector to I-15 North** (*New Code).* Authorizes RCTC to determine the best project delivery method to accelerate the SR-91 Toll Connector to I-15 North and minimize disruption to the traveling public. Such methods may include design-build, CM/GC, or amendment or change to existing contracts RCTC holds. Explicitly authorizes RCTC to use low-bid *and* acceleration of delivery as the basis for contract awards for this project.
- **Section 4 - Expands authority for use of Construction Manager/General Contractor (CM/GC) off of the state highway system** *(PCC 6971).* Adds railroad grade separations and bridge replacements and rehabs in Riverside County to projects for which regional transportation agencies may use CM/GC; otherwise regional agencies may only use CM/GC on off-system expressways. Adds the County of Riverside to the definition of "regional agency."
- **Section 5 - A+B contracting authority for SB 132 lead agencies** *(new PCC 20155.10).* Authorizes agencies delivering SB 132 projects to use "cost-plus-time" bidding (also known as "A+B") whereby cost and time parameters are evaluated in public works contracts to determine best value.

- **Other – via a budget bill amendment, provides a direct appropriation of SB 132 to Riverside County Transportation Commission (RCTC)** *(new Provision 3 of FY 2016-17 Budget Item 2660-110-0042).* Clarifies that RCTC may be the recipient of appropriations for SB 132 projects.

Staff Comments. The proposed language is the result of the work of the task force called for in SB 132. The Subcommittee may want to consider the extent to which the proposed language would meet the goal of expediting projects in the Riverside County Transportation Efficiency Corridor, and the extent to which the proposed language is consistent with statewide transportation project planning and delivery mechanisms.

Staff Recommendation: Hold Open.

Issue 6 – Freight Trade Corridors Trailer Bill Language

Governor's Proposal. The Governor's May Revision includes language that would direct federal and state funds to the Trade Corridors Enhancement Account to be allocated for freight-related projects as identified in the State Freight Mobility Plan.

Background. The California Freight Mobility Plan (CFMP) is a statewide, long-range plan for California's freight transportation system. The CFMP categorizes the designated highway and freight rail networks into three tiers for each facility type, with those portions of the network having the highest truck and rail volumes being Tier 1.

The CFMP Project List yields 707 projects state wide, addressing all freight modes, with an estimated total cost of approximately $138 billion. The projects are from Regional Transportation Plans (RTPs) or were formally adopted by a governing board. Projects that meet the Freight Project definition are categorized into four basic project categories that work to align them with broad statewide strategies and goals. The CFMP Implementation and Improvement Strategy for the Project List uses prioritized corridors, focus areas, and overarching strategies and is multi-tiered to address the needs of California's full, multimodal integrated freight system, as well as to respond to each of the CFMP goals and their corresponding federal freight goals.

Staff Comments. Under the proposed trailer bill language, the California Transportation Commission would allocate 60 percent of the funds to projects nominated by local agencies and 40 percent to Caltrans projects. Priority would be given to jointly-nominated projects.

The Commission would have to update freight program guidelines to comply with the proposed language. In doing so, the Commission would have to consult the Sustainable Freight Action Plan and its authoring agencies, as well as Metropolitan Planning Organizations. The guidelines would further allocate to projects that (A) address the state's most urgent needs, (B) balance the demands of various land ports of entry, seaports, and airports, (C) provide reasonable geographic balance between the state's regions, (D) place emphasis on projects that improve trade corridor mobility and safety while reducing emissions of diesel particulates, greenhouse gases, and other pollutants and reducing other negative community impacts, especially in disadvantaged communities, and (E) make a significant contribution to the state's economy. This is in addition to the existing factors of the proposed project's velocity, throughput, reliability, and congestion reduction.

Eligible projects would include:

1) Highway, local road, and rail capital and capacity improvements, rail landside access improvements, freight access improvements to airports, seaports, and land ports.
2) Freight rail system improvements.
3) Enhance the capacity and efficiency of ports.
4) Truck corridor and capital and operational improvements, such as dedicated truck facilities or truck toll facilities.
5) Border capital and operational improvements.
6) Surface transportation and connector road capital and operational improvements to facilitate the movement of goods from ports.

Fully-automated cargo handling equipment would not be eligible for funding through the proposed program. However, other zero-emission equipment may be included.

The Subcommittee may want to consider the extent to which the proposed trailer bill language fits into the existing programs through which the state currently funds freight projects.

Staff Recommendation: Hold Open.

Issue 7 – Advance Mitigation Authority Trailer Bill Language

Governor's Proposal. The Governor's May Revision includes trailer bill language to set additional parameters for the Advance Mitigation Program, as was indicated in SB 1. This language allow Caltrans to acquire specified types of mitigation credits.

Background. In 2011, Caltrans launched the Statewide Advance Mitigation Initiative with the Department of Fish and Wildlife and federal regulatory agencies to perform pilot projects on advance mitigation work and to obtain credits to apply to future projects. The program is underway with its first and second round of projects programmed for funding in the 2016 and 2018 State Highway Operation and Protection Program cycles. The program funds stand-alone advance mitigation projects providing mitigation for one or more future transportation projects located in a similar geographic region or ecoregion and included in the 10 Year State Highway Operation and Protection Program Needs list.

Advance mitigation provides more time to do long range conservation planning; provides more time to develop more environmentally beneficial mitigation sites for a suite of projects; and tends to reduce mitigation costs because it can reduce the amount of habitat restoration required when restoration is successfully implemented before project construction. Advance mitigation allows Caltrans to acquire mitigation or property for mitigation at opportune times to lock in cost savings for future projects. With complex mitigation procured in advance, Caltrans needs less time to obtain corresponding permits from regulatory agencies, which expedites projects.

Staff Comment. SB 1 (Beall), Chapter 5, Statutes of 2017, expands on Caltrans existing efforts to a broader suite of projects, including those in the State Transportation Improvement Program, and codifies the program as the Advance Mitigation Program. During the next four fiscal years—fiscal year 2017-18 through 2020-21—this bill requires Caltrans to set aside at least $30 million dollars annually for the Advance Mitigation Program from the annual appropriations for the State Transportation Improvement Program and the State Highway Operation and Protection Program. SB 1 requires Caltrans to consult with the Department of Fish and Wildlife on all activities within this program.

The proposed language sets up a revolving account whereby Caltrans' Advance Mitigation Program is reimbursed by future transportation projects using the program's credits. This language further expands the program to any planned transportation project and allows Caltrans to sell mitigation credits to other State or local transportation agencies.

This language also makes permanent the mitigation credit program at the Department of Fish and Wildlife created under AB 2087 (Levine), Chapter 455, Statutes of 2016, and allows Caltrans to participate in that program with Caltrans Advance Mitigation Program funds.

Staff Recommendation: Hold Open.

Issue 8 – Property Tax Assessment Authority for LA Assessor for SR 710 Properties

Governor's Proposal. The Governor's May Revision proposes trailer bill language that directs the Los Angeles County Assessor to assess State Route (SR) 710 properties sold by Caltrans at an affordable or reasonable price, at those sales prices, instead of the market rate. This clarification will allow the properties to be sold as intended to low-income current tenants, where applicable, and sold without further delay.

Background. Caltrans collaborated with the Department of Housing and Community Development and the California Housing Finance Agency to design the Affordable Sales Program, which returns state-owned property to the communities of Pasadena, South Pasadena and Los Angeles and allows tenants the opportunity to become homeowners. The Affordable Sales Program provides opportunities for current tenants who will be affordable buyers to gain equity and transition from affordable housing into mainstream housing. Current tenants who do not qualify as affordable buyers will have an opportunity to purchase from a housing-related entity through a double escrow process, where applicable, rather than potentially no having an option to purchase at all.

The California Housing Finance Agency will create the Affordable Housing Trust Account to capture the state's share of any net appreciation and all of the net equity upon subsequent sale of a property at an affordable or reasonable price. The funds will be used to meet the housing needs of persons and families of low and moderate income in Pasadena, South Pasadena, Alhambra, La Canada Flintridge, and the 90032 postal ZIP code, unless otherwise restricted to a particular city in accordance with state law. These actions are consistent with the requirements of law, sometimes referred to as the "Roberti Law".

Caltrans reached out to the LA County Assessor last year to explain the Affordable Sales Program and inform him that they would be commencing sales. At that time, the Assessor's office raised concerns about their ability to assess property tax based on the affordable or reasonable price (therefore assessing at the full market price level). Caltrans attorneys provided a legal analysis, which supports assessing properties at affordable or reasonable price, but the Assessor has continued to cite the intent to assess property tax at the market rate when properties are sold at an affordable or reasonable price absent a change in law.

In April, Caltrans received 130 responses to Notices of Conditional Offers of sale for 42 properties. They are currently reviewing submittals for eligibility. Given the response to the conditional offers to sell, the ability to complete sales contracts for some of the 42 properties may be as early as June 2017. With the Assessor still indicating intent to assess at the full market price, the department has only the following alternatives to sell the properties at an affordable or reasonable sale price:

- Delay sales for the approval of a stand-alone policy bill, frustrating tenants and housing- related entities already in the sales process;
- Assume the state's legal analysis that property tax will be assessed at the affordable price, risking that the actual tax would be assessed at the market price and pricing tenants out of the homes they just purchased.
- Defer to the Assessor and assume property tax to be assessed at the market price, significantly reducing the state's affordable or reasonable sales price to accommodate the high property tax assessment while keeping the transaction affordable or reasonable for the buyer assuming that

the transaction can even be completed. In certain instances, tenants who would otherwise be eligible to purchase the property at an affordable price will be unable to do so.

Staff Comments. Caltrans has experienced numerous delays in disposing of surplus properties related to the SR 710 project. The proposed language may allow the properties to be sold as intended to low-income current tenants, where applicable, in a timely manner.

Staff Recommendation: Hold Open.

2740 California Department of Motor Vehicles (DMV)

Issue 1 – SB 1 Implementation: Transportation Funding

Governor's Proposal. The Governor's May Revision requests $3.8 million in 2017-18 and $7.8 million in 2018-19 from the Road Maintenance and Rehabilitation Account for additional costs of credit card transaction fees due to the implementation of SB 1.

Background. SB 1 imposes a Transportation Improvement Fee (TIF) ranging from $25 to $175, beginning January 1, 2018, based on the value of a vehicle as part of the vehicle registration fee. The TIF is subject to annual increases based on the California Consumer Price Index (CCPI), beginning January 1, 2020. For each credit card transaction involving the TIF, DMV will pay a higher credit card transaction fee due to the higher total transaction amount.

The figure below shows the estimated TIF for each of the vehicle value ranges and the volume of transactions and corresponding fees it anticipates.

Estimated 2015 Vehicle Value Range	Mid-Range Vehicle Value	Volume*		Flat Fee per Vehicle	Percentage of Vehicle Population	Weighted Average Fee Calculation
Up to $4,999	$2,500	14,170,731		$25	46.34%	$11.59
$5,000 - $24,999.99	$15,000	12,523,633		$50	40.96%	$20.48
$25,000 - $34,999.99	$30,000	2,152,269		$100	7.04%	$7.04
$35,000 - $59,999.99	$47,500	1,419,354		$150	4.64%	$6.96
$60,000 - >	$80,000	312,600		$175	1.02%	$1.79
		30,578,587			**100.00%**	**$47.85**

DMV has indicated that a future funding request will be submitted in 2019-20 to cover the ongoing costs associated with the credit card transaction fees.

LAO Comments. The LAO has reviewed this request, and has provided the following analysis:

> The Administration proposes to provide the department with $3.8 million in 2017-18 and $7.8 million in 2018-19 for SB1 credit card transaction processing costs. This is consistent with the department's current policy of not passing on such costs to members of the public when they pay existing DMV fees (such as vehicle registration fees). We note that the department had previously charged individuals a credit card transaction charge. According to the department, it noticed an increase in online transactions when it stopped having customers directly pay the credit card transaction charge. If the

department passed on all credit card processing costs (including those requested in this proposal), the average credit card transaction charge could be several dollars. We note that other government entities pass on such costs.

Staff Comments. Staff finds this request to be both generally reasonable and in line with the requirements of SB 1.

Staff Recommendation: Approve as Budgeted.

Issue 2 – California New Motor Voter Program

Governor's Proposal. The Governor's May Revision requests $1.8 million General Fund and $5.2 million Motor Vehicle Account for 10 one-year limited-term positions for 2017-18 to implement a single-step opt-out voter registration process pursuant to AB 1461 (Gonzalez), Chapter 729, Statutes of 2015. The DMV is requesting 12 ongoing positions and two-year limited-term funding for two positions and $3.2 million in 2018-19 for the ongoing workload associated with AB 1461.

Background. The automatic voter registration process is for eligible individuals who apply for an original or renewal of a driver's license (DL) or identification card (ID), or submits a change of address (COA) to the DMV. AB 1461 requires the DMV to electronically transmit to the Secretary of State (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.

Currently, all renewal-by-mail transactions are paper-based and completed voter registration affidavits are sent to elections officials for manual entry. Additionally, although change of address information is shared with the Secretary of State's office under the current process to update voter records, AB 1461 will require all change of address transactions to include the opportunity to register to vote. Transitioning these transactions to allow for an electronic transmission will require significant work. Onetime funds of 3.7 PYs and $3.9 million was provided in FY 2016-17 to prepare for the implementation.

The DMV anticipates increased workload in three areas:

- Implementation of the electronic DL application that would fully automate and create a paperless voter registration option.
- Calls to the DMV concerning the new process.
- Headquarters processing forms including the voter registration process as part of the COA process and changes to the renewal by mail process that will result in additional processing and scanning of documents. Other cost increases include increased postage costs due to the size and number of pages of the new renewal form and increased data storage costs.

Staff Comments. AB 1461 created significant new workload at both the DMV and the Secretary of State. The administration's proposal is generally in line with previous requests approved by the Legislature.

Staff Recommendation: Approve as Budgeted.

Issue 3 – Driver License / Identification Card Federal Compliance

Governor's Proposal. The Governor's May Revision requests $23 million Motor Vehicles Account and 218 positions in 2017-18; 550 positions and $46.6 million in 2018-19; 715 positions and $57.9 million in 2019-20; 667 positions and $50.2 million in 2020-21; 345 positions and $26.2 million in 2021-22; and 228 positions and $16.7 million in 2022-23 for a total of $220.6 million over six fiscal years to implement a federal compliant driver license/identification card (DL/ID) card that will be accepted by the Transportation Security Administration (TSA) to board an airplane. This request includes trailer bill language.

Background. In response to the events of 9/11, the federal government set minimum standards for identity verification practices and security features that states must utilize if their DL/ID cards are to be accepted "for official purposes" such as accessing secure federal facilities and boarding federally-regulated commercial aircraft. These federal DL/ID card standards mandate that DL/ID card applicants establish proof of residency by presenting at least two documents of the issuing states choice that includes their name and principle residence address, including a street address.

Pursuant to federal regulations, October 1, 2020, is the final date for states to become fully compliant with the federal DL/ID standards, after which non-compliant cards will not be accepted for federal purposes. California was provided an extension by the DHS through October 10, 2017, to meet the remaining federal requirements. California has developed a federal compliant DL/ID card implementation approach that minimizes the impact to its customers and operations. Beginning January 2018, DL/ID card applicants will have the option when applying for an original DL/ID card and renewing or applying for a duplicate DL/ID card in a DMV field office to obtain a federal compliant DL/ID card or a California compliant DL/ID card.

California processes approximately 1.5 million original DL/ID card applications annually and approximately 5.5 million DL/ID card renewals a year. There are 29.5 million current card holders in California. To develop this request, DMV assumed that on average 62 percent of current and new DL/ID card applicants with choose to have a federal compliant card over a five-year period. This assumption was based on other states' experience with implementing the federal card requirements.

This proposal would also keep open the three DL processing centers in Granada Hills, Stanton, and San Jose (originally established for AB 60 implementation).

Below is an initial estimate of the new field office volumes and the proposed staff. In addition, there would be 52.0 staff per year for keeping the three DL processing centers open.

New Field Office Volumes and Positions by Task and Transaction Type

Time (min)		FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	5-Yr Cycle
Driver License/ID Card Originals:								
	Volume - DL	171,698	519,786	699,333	661,571	445,048	224,542	2,721,977
	Volume - ID	129,672	389,016	518,688	486,270	324,180	162,090	2,009,916
	Total	**301,370**	**908,802**	**1,218,021**	**1,147,841**	**769,228**	**386,632**	**4,731,893**
2	Positions - DL	**3.2**	**9.7**	**13.1**	**12.4**	**8.3**	**4.2**	**51.0**
2	Positions - ID	**2.4**	**7.3**	**9.7**	**9.1**	**6.1**	**3.0**	**37.7**
	Sub-Total	**5.6**	**17.0**	**22.8**	**21.5**	**14.4**	**7.2**	**88.7**
DL/ID Card Renewals (Alternative Channel Eligible):								
	Volume - DL	539,156	1,617,468	2,149,594	1,992,438	897,435	653,515	7,849,606
	Volume - ID	43,763	131,290	175,054	164,113	109,409	54,704	678,333
	Total	**582,920**	**1,748,759**	**2,324,647**	**2,156,551**	**1,006,843**	**708,220**	**8,527,939**
19	Positions - DL	96.0	288.1	382.8	354.9	159.8	116.4	1,398.0
18	Positions - ID	7.4	22.2	29.5	27.7	18.5	9.2	114.5
	Sub-Total PY	**103.4**	**310.2**	**412.4**	**382.5**	**178.3**	**125.6**	**1,512.5**
Field Office DL/ID Card Renewals:								
	Volume - DL	598,128	1,794,383	2,384,712	2,210,367	995,594	724,996	8,708,179
	Volume - ID	83,577	250,730	334,306	313,412	208,941	104,471	1,295,436
	Total	**681,704**	**2,045,113**	**2,719,018**	**2,523,778**	**1,204,535**	**829,466**	**10,003,615**
8	Positions - DL	44.9	134.6	178.8	165.8	74.7	54.4	653.0
8	Positions - ID	6.3	18.8	25.1	23.5	15.7	7.8	97.1
	Sub-Total PY	**51.1**	**153.4**	**203.9**	**189.3**	**90.3**	**62.2**	**750.2**
Additional Talk Time (task #5 above) - 25% of DL/ID Card Renewals:								
	Volume	316,156	948,468	1,260,916	1,170,082	552,845	384,421	4,632,889
2	**Positions**	**5.9**	**17.8**	**23.6**	**21.9**	**10.4**	**7.2**	**86.9**
Total Positions:		**166.1**	**498.4**	**662.8**	**615.3**	**293.4**	**202.3**	**2,438.3**

LAO Comments. The LAO has reviewed this proposal, and has provided the following analysis:

> We recommend the Legislature modify the Governor's proposal by providing positions and funding for two out of the requested six years—specifically 218 positions and $23 million in 2017-18 and 550 positions and $47 million in 2018-19. Providing resources for the remaining years is premature given uncertainty about the actual number of applicants who will seek new federally compliant driver licenses and identification cards. Actual workload data collected during 2017-18 and 2018-19 will help the Legislature assess the appropriate level of resources needed in remaining years.
>
> Additionally, the state currently charges fees for California compliant driver's licenses and identification cards to help offset the department's processing costs. We note that the Legislature could consider charging a higher fee from new applicants for federally compliant licenses and cards in the future given the increased processing time needed for such licenses and cards.

Staff Comments. The National Council of State Legislatures has estimated that REAL ID will cost more than $11 billion to implement nationwide. As such, DMV expects to absorb significant costs to comply with federal REAL ID requirements. However, it is difficult to determine what the actual workload at DMV will be associated with this proposal. For example, it is unknown how many Californians will choose to come into a DMV office to get this new form of ID, rather than using other federally acceptable forms of identification such as a passport. It is also unclear to what extent DMV has explored other states' methods of implementation and if some of these tasks could be automated or if there are other more efficient approaches.

Given the uncertainty about future workload, staff generally concurs with the LAO analysis to provide limited-term funding for the first two years of workload, and directing DMV to provide updated workload estimates as part of future funding requests.

Staff Recommendation: Approve 218 positions and $23 million in 2017-18 and 550 positions and $47 million in 2018-19.

Issue 4 – Front End Sustainability Project: Pre-project

Governor's Proposal. The Governor's May Revision requests provisional language to allow the Director of Finance to provide $3.4 million in funding for DMV planning activities related to the Front End Applications Sustainability Project provided that the department meets certain criteria.

Background. DMV intends to incrementally update its outdated technology and migrate functionalities from its obsolete systems to modern applications. The Front End Sustainability (FES) project for the front-end applications is a multi-phased approach to transition DMV from legacy systems written in the 1980s to a modern language. Numerous steps or phases are needed as the system is extremely complicated and there is limited documentation of the antiquated system requirements. The original developers retired decades ago and the current staff have limited knowledge of the full breadth of the system.

The Administration proposes the following provisional language:

> The Director of Finance may augment this item by $3,414,000 to provide funding for planning activities related to the Front End Applications Sustainability Project. This augmentation may not occur until the department has either gained concurrence from the Department of Technology that it has sufficient availability of program and IT staff necessary to complete the planning efforts, or has completed the following information technology projects: a) Commercial Driver License Information System, b) expansion of the automated knowledge test to accommodate additional languages, c) system updates to conform to federal requirements for issuance of driver licenses and identification cards, and d) tokenization to increase security for credit card transactions.

The department has indicated that the proposed $3.4 million would fund the following:

- A consultant to gather and manage the functional and nonfunctional requirements ($800,000).
- A consultant to assist in the completion of the project approval lifecycle and develop a request for proposal ($320,000).
- Statewide Technology Procurement Division to support procurement of IT services ($80,000).
- An EDL contractor ($900,000).
- An organizational change management contractor ($250,000).
- California Department of Technology support costs ($54,000).
- A service provider to provide Independent Verification and Validation services.
- Six staff positions at DMV for one year ($791,908) and overtime ($26,440).

LAO Comments. The LAO has reviewed this proposal and provided the following analysis:

> We recommend the Legislature modify the Governor's proposal for $3.4 million to support planning activities for the department's FES Project. Specifically, we recommend modifying the proposed provisional language to permit augmentation by the Director of Finance only after 30-day notification and review by the Legislature. This provides the Legislature with an opportunity to assess whether the department has met the specified conditions for the augmentation.

Additionally, given that this funding would likely be spent over multiple fiscal years, the Legislature could consider directing the department provide an annual status report in writing or in budget hearings until this money is fully expended. Such a report can include various components—such as the amount spent, a description of activities and accomplishments, and progress towards completing the state's IT approval process for this project.

Staff Comments. Staff generally concurs with the LAO analysis. While the proposed modular implementation plan has merit, the use of provisional language to provide the requested augmentation raises concerns around transparency and oversight.

Staff Recommendation: Hold Open.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Tuesday, May 16, 2017
10:00 a.m. or upon call of the Chair
State Capitol - Room 112

Consultant: James Hacker

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—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Wednesday, May 17, 2017
10:00 a.m.
State Capitol - Room 112

Consultant: Joe Stephenshaw

Vote Only Calendar

Discussion Calendar

Public Comment

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Vote-Only Calendar

0540 Natural Resource Agency

Issue 1 – Reappropriation

Governor's Proposal. The May Revision proposes a reappropriation of General Fund money that was originally appropriated in the 2016 budget to allow the Secretary of the Natural Resources Agency to fully disburse local assistance grants.

Background. The 2016 budget included $4.5 million in local assistance funding for the Armenian Museum, Pasadena Playhouse, Excelsior Auditorium, and Lark Music Society. This proposal will ensure that the funds are still available to be disbursed as specified in the 2016 budget.

Staff Recommendation. Approve as budgeted.

3100 California Science Center

Issue 1 – New Elevator for ADA Compliance

Governor's Proposal. The May Revision proposes $1.96 million General Fund for an elevator to necessary to meet Americans with Disabilities Act (ADA) requirements.

Background. Currently, there is only elevator within the public entrance and circulation area which has a cab capacity of 25. The annual attendance for the Science Center is 2.1 million. The department has been working with the Department of General Services since 2008 on an approach to address vertical accessibility. As a result, renovation to the one main elevator was done in 2016-17. The department updated its back-of-house service elevator in 2015-16 as an emergency option and constructed a down escalator in 2010-11. The final vertical access project that remains unfulfilled is an additional elevator.

Staff Recommendation. Approve as budgeted.

3340 California Conservation Corps (CCC)

Issue 1 – Vehicle Replacement Plan Funding Realignment

Governor's Proposal. The Governor's budget proposes to move spending authority of $812,000 (Collins Dugan Account) from 2018- 19 to 2017-18 to allow the CCC to replace 60 vehicles in 2017-18 and complete its fleet replacement by June 30, 2018. These resources were originally approved as part of the 2016-17 Vehicle Replacement Plan Budget Change Proposal.

Background. The subcommittee previously heard this proposal. This request will fund the continuation of the CCC's vehicle replacement plan, but complete it in two years instead of three. The

CCC will purchase 30 vehicles in the current year and 60 vehicles in 2017-18, at an average cost of $27,067 per vehicle, allowing the CCC to replace vehicles that have reached their useful life and/or are not in compliance with current fuel efficiency requirements.

Staff Recommendation. Approve as budgeted.

Issue 2 – Information Technology Replacement Plan

Governor's Proposal. An Aril 1 Finance Letter proposes $625,000 from Collins-Dugan in each year for 2017-18, 2018-19, and 2019-20 to fund existing positions and computer/laptop purchases to replace the current outdated equipment. The personnel resources will be responsible for the computer and laptop replacement plan for the entire department.

Staff Recommendation. Approve as budgeted.

Issue 3 – Tahoe Base Center: Equipment Storage Relocation

Governor's Proposal. An Aril 1 Finance Letter proposes $269,000 lease revenue bond funds, above what was requested in Governor's Budget. The 2017-18 Governor's budget proposal for this project assumed acquisition would occur in fiscal year 2016-17. This proposal reflects acquisition being completed in 2017-18 and an increased estimate because of the extended project timeline.

Staff Recommendation. Approve as budgeted.

3790 Department of Parks and Recreation

Issue 1 – Candlestick Point SRA: Yosemite Slough (North) – Public Use Improvements

Governor's Proposal. The May Revision proposes $1.3 million from the State Park Contingent Fund for the Candlestick SRA: Yosemite Slough (North) Public Use Improvement project.

Background. A Spring Fiscal Letter requesting reimbursement authority was heard and approved on April 20. The Spring Fiscal Letter has based the cost estimate on information gathered two years ago. The increased costs are based on updated information. The California State Parks Foundation is fully funding this project.

Staff Recommendation. Approve as budgeted.

Issue 2 – Extension of Liquidation

Proposal. This proposal is to extend the liquidation period to June 30, 2018, for one General Fund local assistance grant for the California Museum of History and to June 30, 2022, for various Proposition 84 local assistance grants.

Staff Recommendation. Approve one-year extensions with budget bill language to report on long-term plan for dealing with this issue.

3900 Air Resources Board

Issue 1 – Specialized Diesel Enforcement Section

Governor's Proposal. The May Revision proposes $1.6 million ($812,000 Vehicle Inspection and Repair Fund and $811,000 Motor Vehicle Account) and 10 positions to augment the Air Resources Board's current contract with California Highway Patrol to provide support during roadside inspections. This proposal also request a one-time appropriation of $160,000 for four specialized vehicles to be used to conduct field inspections, and $150,000 in annual contract funds.

Background. Mobile sources, including both on-road and off-road engines, are responsible for approximately 80 percent of nitrogen oxide emissions and approximately 90 percent of diesel particulate matter emissions throughout California. Most of these emission sources, such as trucks, transportation refrigeration units, forklifts, yard trucks, and other sources are concentrated around freight hubs such as warehouses and distribution centers, which are primarily located in disadvantaged communities. These types of facilities are increasing in number across the state with continued growth in the economy.

The ARB has adopted regulations designed to reduce emissions from sources at warehouses and distribution centers. The regulations require modern trucks to be equipped with emissions controls to operate in California. There are more than one million heavy-duty diesel-fueled trucks and buses operating throughout the state. The ARB estimates that around 30 percent – or 300,000 heavy-duty diesel vehicles – do not meet regulation requirements and are emitting excess diesel particulate matter and nitrogen oxide emissions. This relatively small percentage of high-emitting vehicles are responsible for more than 50 percent of all diesel particulate matter emissions. This assessment was published in 2015, and reviewed over a decade of warranty claim reports, thousands of vehicles surveyed on the roadside and fleet yards throughout California, and also extensive in-use emissions performance data.

The ARB currently devotes resources to enforcing truck and equipment rules at roadsides, ports, and through investigations of fleets operating throughout the state. Enforcement at warehouses and distribution centers has been limited given current resources. This proposal requests for resources to form a specialized team that would focus enforcement efforts in disadvantaged communities and at warehouses and distribution centers.

Staff Recommendation. Approve as budgeted.

Issue 2 – Mobile Source Audit and Compliance Program Enhancement

Governor's Proposal. The May Revision proposes $1.96 million (including $1.2 million for seven positions and three year funding of $450,000 in annual contracts from the Air Pollution Control Fund, and $304,000 for two positions from various other special funds) to help strengthen its mobile source emission oversight program.

Background. The ARB's Mobile Source Program is responsible for certifying engines for compliance with California clean air standards. Vehicles, engines and components not certified by CARB cannot be sold or legally operated in the state. Other activities of the MSP include confirmation, compliance and audit activities. Confirmation activities include testing vehicles and engines before an executive order (EO) is issued to confirm test data provided by manufacturers, on-the-road-testing using Portable Emission Measurement Systems (PEMS), and/or using special operating cycles in the lab that replicate road conditions encountered in normal driving. Compliance activities determine whether engine emissions after sale meet the limits set in the regulations. Audit activities may include inspecting manufacturer facilities and laboratories, reviewing warranty claims and testing engine emissions. In the event this confirmation, compliance or audit activities reveal anomalies or the products fail to meet requirements, CARB may deny the EO or issue a notice of violation.

According to the ARB, increasing the resources for MSP will allow for faster certification and evaluation of vehicle and engine types, and provides more staff for the enhanced testing protocol intended to identify engines operating outside of requirements or has emissions different when tested on the road.

Staff Recommendation. Approve as budgeted.

Issue 3 – Implementation of SB 1

Governor's Proposal. The May Revision proposes $165,000 from various special funds and one position to begin implementing SB 1.

Background. SB 1 (Beall, Chapter 5, Statutes of 2017) created the Road Maintenance and Rehabilitation Program and the Solutions for Congested Corridors Program. The bill acknowledges the impact of the transportation sector on California's air quality. As such, the bill requires the ARB to develop and implement new tracking, compliance, and enforcement processes so that reductions in emissions from motor vehicles are achieved, and to work in concert with other state agencies as an expert consultant for air quality and greenhouse gas related elements in the bill.

Specifically, the bill requires CARB to serve in a consultative role to the Department of Transportation and the California Transportation Commission as they administer the new programs created by SB 1 and to the University of California at Davis Institute of Transportation Studies as it reports on potential zero- and low-emission vehicle revenue mechanisms.

Further, the bill requires the DMV, starting January 1, 2020, to verify that a medium-duty or heavy-duty vehicle is compliant with or exempt from CARB's Truck and Bus Regulation before allowing registration. This will require CARB to address a substantial increase in compliance assistance and enforcement questions, and current database incapabilities that will be needed for accurate communication between CARB and DMV databases. Also, in order to minimize future impacts on the trucking industry, the bill sets a useful life period for commercial vehicles, precluding CARB from requiring, via potential future regulations, commercial vehicle fleet turnover in advance of specified deadlines. As part of this effort, the bill requires CARB to track the emissions impacts of the enhanced compliance provisions associated with implementation of the Truck and Bus Regulation, as well as evaluate the impact of the useful life provision on meeting clean air goals. Finally, the bill includes funding mechanisms to support improvements to California's transportation system and other projects that it contains. This request is consistent with SB 1 and is in furtherance of California's air quality goals.

Staff Recommendation. Approve as budgeted.

Issue 4 – ARB Southern California Consolidation Project

Governor's Proposal. The Governor's budget proposes $413.1 million in lease-revenue bond authority for the construction phase to consolidate and relocate ARB's existing motor vehicle and engine emissions testing and research facilities that are currently located in Southern California.

In addition, an April 1st Finance Letter proposes a fund shift in the amount of $82.6 million from the lease revenue bond funds proposed in the Governor's budget to the Air Pollution Control Fund (APCF). This request reflects a partial shift of debt financing to cash funding for the construction phase of this project.

Background. This project will be located on land in Riverside County near the University of California Riverside (UCR). The existing ARB facilities no longer meet ARB's programmatic requirements, nor do they allow ARB the space necessary to perform the testing required to meet current air quality and climate change mandates. The total project cost is estimated to be $419.5 million. As part of a court settlement with Volkswagen (VW), the ARB will receive approximately $154 million in civil penalties that will be deposited into the APCF. Of this amount, $82.6 million is proposed for this project. By reducing the amount financed for this project, the state will reduce total debt service costs by an estimated $66 million.

The LAO recommended the Legislature consider modifications to the ARB proposal to shift $83 million in construction funding for the new lab (out of total construction costs of $413 million) from lease revenue bonds to VW civil penalties deposited in the APCF. The subcommittee previously heard this proposal on April 27th and help open to allow additional time to consider the funding mix. On May 3rd, the Assembly Budget Subcommittee 3on Resources and Transportation took action to restructure the cost share of this proposal by allocating all VW settlement funds, to the extent practicable, to the construction cost.

Staff Recommendation. Conform to the Assembly action.

Issue 5 – Air Pollution Research Grants - TBL

Proposal. Trailer bill language has been proposed to add the California State University to entities that the ARB has to consider in awarding air pollution research grants.

Background. Statute currently requires the ARB to consider the capabilities of the University of California when awarding grants related to air pollution research. This proposal would add CSU to that requirement, as follows:

> Health and Safety Code Section 39704:
> In awarding contracts for the conduct of air pollution research, the state board shall consider the capability of the University of California ***<u>and the California State University</u>*** to mount a comprehensive program of research to seek solutions to air pollution problems and the ability of the university, through its several campuses, to mobilize a comprehensive research program for this purpose.

Staff Recommendation. Approve proposed language.

Discussion Calendar

3720 California Coastal Commission

Issue 1 – Essential Accounting and Fiscal Staff

Governor's Proposal. The May Revision proposes $244,000 ($122,000 General Fund and $122,000 Coastal Act Services Fund) and two positions to be used for activities related to implementing recommendations from the Office of State Audits and Evaluations (OSAE).

Background. The OSAE December 30, 2016 review - Evaluation of Coastal Commission Fiscal Management Related Internal Controls – included recommendations that pinpointed areas of improved fiscal management and control processes and procedures, which the Coastal Commission management staff has developed a plan to address. The two positions being requested, both Associate Government Program Analysts are essential to prompt and ongoing implementation of the OSAE recommendations.

The OSAE recommends that the Commission centralize all billing and collections in the accounting unit; develop and maintain a range of detailed written schedules and procedures; and develop and maintain an annually federally-approved indirect cost rate. The department reports that the additional workload related to the recommendations cannot be addressed without increased accounting and business services capacity with the addition of two AGPAs.

Issue 2 – Pilot Enforcement Program Expansion

Governor's Proposal. The May Revision proposes $260,000 from the State Coastal Conservancy Fund and two positions to support a three-year pilot program to expand the enforcement program to address the backlog of Coastal Act violations that impact public access. There were over 2,300 backlogged cases at the end of 2016.

Background. The commission's enforcement program enforces all aspects of the Coastal Act to ensure that violations of the Coastal Act are resolved and that the violators address all associated liabilities. Through its enforcement program, the Commission works to ensure that all development in the coastal zone complies with the Coastal Act requirements to obtain permits, and that all parties comply with provisions of their coastal development permits.

The enforcement program is led by the Chief of Enforcement, and divided into a Northern District Unit, a Southern District Unit, and headquarters unit. District staff are based in offices in San Diego, Long Beach, Ventura, Santa Cruz, San Francisco and Arcata and investigate violations and attempt to resolve the violations at an early stage. Headquarters staff work on cases that could not be resolved at the district level and bring violations before the commission to address those cases through the issuance of formal administrative cease and desist orders, restoration orders, and/or administrative penalty actions. Headquarters staff also seek to resolve violations amicably through consent orders, but may also bring proposed administrative orders to the commission unilaterally and propose that the commission impose administrative penalties. Headquarters staff also support the commission in litigation concerning Coastal Act violations.

The statewide enforcement unit currently employs three Headquarters Enforcement Analysts (Coastal Program Analyst I or II classifications) to staff the most serious violation cases in the entire state (covering approximately 1,271 miles of the state's coastline) that are elevated from the Commission's six district offices. These elevated violation cases are those that are causing the most significant resource damage (including damage to public access), will likely involve litigation, and have the most statewide importance.

Issue 3 – Stabilize Baseline Funding

Governor's Proposal. The May Revision proposes $637,000 Coastal Act Services Fund to address increased fixed costs, including costs for facilities and long-term records storage, which have increased almost 33 percent since fiscal year 2011-12.

Background. The Coastal Commission has a headquarters office in San Francisco that includes the North Central District Office, a very small office in Sacramento, and district offices in Arcata, Santa Cruz, Ventura, Long Beach and San Diego. The Coastal Commission works with the Department of General Services to lease office space for the commission's San Francisco headquarters office, the legislative office in Sacramento and district offices. Facility costs for the commission offices have increased from 2010-11 to 2016-17 by approximately $600,000. In addition, the balance of this request is to support the increased cost of DGS record center services and storage.

Legislative Analyst's Office (LAO). The LAO notes that the Governor's proposal to provide an additional $637,000 in ongoing funding from the Coastal Act Services Fund—combined with the other proposal for $122,000 to fund a new accounting analyst—would create a new $545,000 operating shortfall in the fund. The LAO therefore recommends approving this request on a one-time rather than ongoing basis and requiring the administration to come back with a more sustainable approach in its 2018-19 budget proposal. The fund's reserve can support this additional expenditure for 2017-18.

Staff Recommendation. Approve Issues 1, 2, and 3 on a two-year basis.

3100 California Science Center

Issue 1 – Trailer Bill Language – Exposition Park Clean Up

Governor's Proposal. The May Revision proposes trailer bill language intended to change the name of the Sixth Agricultural District, currently known as the California Science Center, to Exposition Park and clarify roles and responsibilities of the entities within the park.

In addition to the Governor's proposal, the Science Center Foundation has submitted a proposal for trailer bill language to the committee that would allow for funding that is currently in the Science Center's budget for lease payments to remain on their budget past 2022 in order to be used for lease payments associated with their Phase III construction project, which will house the space shuttle Endeavour.

Staff Comment. Stakeholders have raised concern that the Administration's trailer bill language is not strictly technical in nature and makes substantive changes that should be vetted more thoroughly prior to approval by the Legislature.

Staff Recommendation. 1) Adopt the Administration's trailer bill language with amendments consistent with the concerns raised by the Science Center Foundation, and 2) adopt the trailer bill language related to maintaining funding past 2022 to pay for the next phase of their construction program.

0540 Natural Resource Agency

Issue 1 – Natural Resources and Parks Preservation Fund

Governor's Proposal. The May Revision proposes to establish the Natural Resources and Parks Preservation Fund and to transfer $65 million previously appropriated General Fund into the fund the first year. This fund is intended to provide an alternative to bond funding and will allow the Administration and the Legislature to make strategic investments where they are needed each fiscal year. The amount transferred and the programs to which the funds will be directed will be determined through the annual budget process.

Background. Bond measures have been a main funding source for projects throughout the Natural Resource Agency for almost two decades. However, a reliance on bond funding has not always been the case. In fact, prior to 2000, bond funding was modest. There were only $4 billion in combined bond measures between 1976 and 1996. Then the shift to bond funding started in 2000 when there were $4 billion in bond measures in that year alone. From 2000 to 2014, California voters authorized $26.7 billion from seven bond measures. This new influx of funding shows the voters' strong support for programs that focused on water, flood, parks, habitat, land preservation, climate change and coastal issues. In fact, the average percentage of yes votes for these seven measures was 61 percent.

Bond measures have some clear advantages because they can dedicate a specific amount of funding for a subject area (water, parks, flood, etc.) or entity or location of interest (department, conservancy, etc.). In addition, bond funding allows the state to make significant investments and to spread the payments over time. It would have been difficult to make the substantial investments in land acquisitions over the last 16 years (1.2 million acres in fee title and 950,000 in easements) without having bond measures to fund them. It also would have been difficult to make any significant outlays overall due to the constant boom and bust cycle of budgets in the first decade of the 2000s. Despite these advantages, disadvantages also exist. For example:

- Bonds are approved for specific areas/subjects that may not align with the current need.
- Bonds come with limitations on how they can be spent.
- Bonds are expensive and cost the state more than double the initial amount over 30 years.
- Bond funds require more extensive tracking and reporting due to the bond statutes, GO Bond Law and Federal Tax Law.
- Bond funds require at least 2 percent of each measure for the cost of oversight, auditing, bond issuance costs, tracking and reporting.
- Debt payments can limit the amount of General Fund available for baseline natural resources programs. In fact, the shift to bond funding over the last 18 years raised the annual GO bond debt payments for the agency from $190 million in 1998 to $1.04 billion in the current year.

Given these disadvantages, the Administration is proposing to shift to a "pay as you go" system where a specific amount of funding in the budget each year is transferred from the General Fund to the

Natural Resources and Parks Preservation Fund that is dedicated for these purposes. Through a BCP each fall, the Secretary will propose the amount that would go to a category or multiple categories of programs based on current needs. Natural resources programs previously funded by bond measures generally fall into the following categories: 1) Water/Flood, 2) Parks-State and Local, 3) Forestry-Rural, Urban and Working Forests, 4) Land Preservation-Wild and Working Lands, 5) Habitat-Aquatic and On-land, Preservation and Restoration, or 6) Climate Adaptation.

In the first year $65 million of unencumbered General Fund for deferred maintenance provided to the Department of Parks and Recreation in the Budget Acts of 2015 and 2016 will be reverted back to the General Fund, which will facilitate a transfer of $65 million to the Natural Resources and Parks Preservation Fund. This proposal requests an appropriation of $65 million from this new fund to Parks to invest in deferred maintenance projects.

Staff Recommendation. Approve as budgeted.

3560 State Lands Commission

Issue 1 – Plug and Abandonment of Platform Holly and Ellwood Beach Piers

Governor's Proposal. The May Revision proposes $10 million General Fund to support staffing and operations of offshore oil and gas facilities located in Santa Barbara County. The proposal also includes provisional language to 1) to allow for an additional augmentation, if needed, for these activities until the proceeds of the surety bond on these leases is received by the State Lands Commission and 2) allow for the repayment of these expenditures from the surety bond proceeds.
Background. Venoco, LLC is the lessee for three state oil and gas leases offshore Ventura County. One of the leases is for the Ellwood Beach Pier while the other two are the oil fields serving Platform Holly.

In 1964 and 1965, the Commission issued the Platform Holly leases to Atlantic Richfield Company (ARCO), after competitive bidding. These leases, and all offshore state oil and gas leases issued after 1957, are sometimes called Cunningham-Shell leases because they were issued pursuant to the provisions of the Cunningham Shell Tidelands Act. In 1966, production from the South Ellwood Field commenced using Platform Holly, subsea pipelines, and the Ellwood Offshore Facility (EOF).

In 1993, Mobil Exploration and Producing, Inc. acquired both leases from ARCO. In 1997, Mobil sold the leases, including Platform Holly, the EOF, and other facilities (including the two Ellwood Beach Pier wells) to Venoco, which has since operated the facilities.

On May 19, 2015, the underground pipeline that transports oil produced from Platform Holly ruptured causing the Refugio oil spill. The line remains shutdown with no specific timeline identified for repairs or resuming operation. Consequently, there has been no production from Platform Holly since the oil spill.

On April 17, 2017, Venoco quitclaimed its interests in the three offshore oil and gas leases back to the Commission. Venoco then filed for bankruptcy and plans to pursue liquidation of its assets under the United States Bankruptcy Code. Venoco's quitclaims along with their financial inability to continue staffing and operating these leases have created a significant safety concern for the State of California.

In order to avert an emergency, the Commission requested and received emergency funding in an amount of $3 million to maintain adequate staffing through the end of the 2016-17 fiscal year.

According to Commission staff, total costs for plugging, abatement, and ongoing maintenance could grow to approximately $70 million. Veneco's bond of $22 million will cover some of the costs, including paying back this proposal. In addition, the Commission plans on filing claims in bankruptcy and exploring whether previous lease holders bear responsibility.

Staff Recommendation. Approve as budgeted.

3860 Department of Water Resources

Issue 1 – Dam Safety and Emergency Flood Response

Governor's Proposal. The May Revision includes the Administration's dam safety and emergency response proposal, which was initially submitted to the Legislature as a current year proposal on February 24th of this year. Specifically, the Administration is proposing funding, trailer bill language, and the redirection of existing authority as follows:

- Appropriations totaling $8.3 million General Fund, including:

  1) $6.5 million as a General Fund loan to the Dam Safety Fund, to be repaid from revenue generated from dam safety fees, and 12 positions to support the following program enhancements: $3 million for the Department of Water Resources (DWR) Division of Safety of Dams to conduct more extensive evaluations of appurtenance structures, such as spillways, gates, and outlets; and, $3.5 million for DWR to review and approve required inundation maps and coordinate the review of emergency plans.

  2) $1.9 million General Fund and four positions for the Office of Emergency Services (OES) to review and approve dam-related emergency response plans, and coordinate with local emergency management agencies on incorporation into all-hazard emergency plans (there is a distributed administration adjustment in the amount of $175,000 to conform to this action).

- Appropriation of $387.1 million in Proposition 1 funding for DWR to accelerate a portfolio of flood control projects over the next two fiscal years. The funds would be provided from the flood management allocation of Proposition 1 and are intended to enhance flood protection in the Central Valley, the Sacramento-San Joaquin Delta, and in other areas of the state with significant flood risk. The following table from the department provides further detail on the intended use of these funds:

	Program Area	Prop 1 Available	Total Appropriation
Delta	Urban Flood Risk Reduction	$295	$65
	Delta Levee Subventions		$27

	Delta Special Projects		$57.1
	"Systemwide" Flood Risk Reduction		$130
	Emergency Response		$10
Central Valley and Coastal Watersheds	Coastal Watershed Flood Risk Reduction	$100	$27
	Central Valley Tributary Projects		$50
	"Systemwide" Flood Risk Reduction		$21
		Total	$387.1

Dollars in millions

- Trailer bill language to require dams to have an emergency action plan that is updated every ten years, updated inundation maps every ten years, or sooner if specific circumstances change, and provide DWR with enforcement tools, including fines and operational restrictions for failure to comply.

Background. California has the "leading dam safety program in the nation" according to a peer review conducted by the Association of State Dam Safety Officials in 2016. Currently, 1,250 dams are subject to the state's jurisdiction with respect to safety and regulated by DWR's Division of Safety of Dams and are inspected annually. These dams are currently classified in three categories consistent with federal definitions; 678 high hazard, 271 significant hazard and 289 low hazard. Two dams are under review for classification.

The current inspection process focuses heavily on the dam itself and includes a visual inspection of the appurtenant structures. In light of the February 2017 spillway failure at Oroville, a more extensive evaluation of the adequacy, stability and structural integrity of appurtenant structures is necessary. In addition, Emergency Action Plans are not currently required for all jurisdictional dams; however, 70 percent of the high-hazard dams have them, including Oroville. Inundation maps, which provide the basis for Emergency Action Plans, are only created at the time a dam is built or enlarged and are only required for a complete sunny day dam failure scenario. They do not take into account a failure of an appurtenant structure as occurred at Oroville. Furthermore, the DWR Division of Safety of Dams has no enforcement power to mandate completion of Emergency Action Plans or inundation maps.

The Administration proposes to strengthen the evaluation of dam safety and establish new requirements for preparing and updating Emergency Action Plans and inundation maps, including improved coordination between DWR and OES.

The DWR is requesting $3 million Dam Safety Fund to develop a focused Safety Re-Evaluation Program for a detailed review of appurtenant structures, beginning with the evaluation of 108 large spillways considered to pose the greatest downstream risk if they were to fail.

The DWR Dam Safety Program is comprised of four basic safety activities including: annual maintenance inspections, construction oversight, application reviews, and re-evaluation of existing dams. The re-evaluation component of the program over the last 10 years has focused on the highest risk to California dams including a seismic re-evaluation of dams in areas that have a high probability of a major earthquake occurring. The recent seismic re-evaluation program has led to over $1 billion in repairs to dams. As a result of the February 7, 2017 incident at the Oroville Dam spillways, it is necessary to immediately expand the re-evaluation program to include spillways of large dams. The re-evaluation program will need to continue at the expanded level in order to remediate dams associated with other high risk factors.

By October 1, 2017, DWR is proposing to complete a reconnaissance of the geologic, hydraulic, hydrological, and structural adequacy of the identified 108 largest spillways in the state. By January 1, 2018, DWR will complete a thorough site investigation and evaluation of those spillways that are found to be potentially at risk. Immediate action, such as emergency repairs or reservoir operation restrictions, will be required of dam owners as necessary to reduce the risk of any spillway identified to be in poor condition as a result of the study. DWR will complete evaluations of the remaining spillways by January 1, 2019, and direct dam owners to make required repairs or restrict reservoir operations as needed.

Continued review of spillways at significant-hazard dams will also be required. In addition, for all high and significant-hazard dams, other high risk factors that need to be considered include the adequacy of emergency outlet systems, and drainage systems within the dam and its foundation, implementation of robust vegetation/rodent management programs, as well as continued seismic re-evaluations of dams reflecting advancements in earthquake engineering.

DWR and OES are requesting a total $5.3 million and new legislation to implement a comprehensive approach to dam safety by requiring the development and review of inundation maps and emergency action plans.

Currently, inundation maps, the cornerstone of emergency plans, are only created or updated at the time the dam is built or enlarged. A dam inundation map delineates the area that would be flooded by a particular dam breach or failure. It includes downstream effects and shows the probable path by water released due to the failure of a dam or from abnormal flood flows released through a dam's spillway and/or other appurtenant works. Furthermore, these maps are currently only required for a sunny day full dam failure scenario, and do not take into account a failure of an appurtenant structure or failure of downstream flood facilities such as a levee breach. Additional inundation maps for other critical flow control structures and saddle dams will be identified by DWR.

Emergency Action Plans are a critical component of a strong dam safety program, however; California currently has inadequate inundation maps, as well as insufficient requirements for the development of those plans. The plans outline the action steps that are taken to protect life and property and include the components of detection measures through inspections and maintenance, determinations of emergency levels based upon the threat of flooding, notification protocols for local government and the public, and other preventive measures dam owners/operators can take. The emergency plans utilize dam inundation mapping to guide actions and notification protocols since they show the potential area of flooding and its impacts

Under the Administration’s proposal, DWR’s Division of Safety of Dams will re-classify jurisdictional dams as extremely high, high, significant or low risk. DWR will require inundation maps and Emergency Action Plans for all jurisdictional dams allowing a waiver for low hazard dams. During regular inspections, DWR will track any dams where the hazard classification has changed and reassess the waiver as necessary.

DWR will identify which scenarios beyond a complete dam failure require a separate inundation map. The dam owner will create the inundation map and submit to DWR, which will be reviewed and approved by DWR's Division of Flood Management. The approved maps will then be posted publicly on DWR's website and linked to OES' website.

Dam owners will be responsible for creating Emergency Action Plans in accordance with federal guidelines and based on their updated inundation maps. OES will provide guidelines regarding the coordination between dam owners and local emergency management agencies to create local emergency response plans. Dam owners will submit the plans through DWR, who will work with OES to review and confirm that plan components are acceptable for incorporation into and to guide local emergency response plans. The dam owner will send the final Emergency Action Plans and inundation map to DWR, OES and local emergency management agencies.

OES will coordinate emergency response drills with dam owners and local emergency management agencies. The dam owner will be required to update the Emergency Action Plans regularly in accordance with federal guidelines and update the inundation maps every ten years or sooner if there is a change in dam status or change in downstream risk.

The proposal will provide DWR additional enforcement power over dam owners who are not complying with the new emergency plan/inundation maps requirements. The proposal includes revisions to the Water Code to incorporate penalties such as fines and reservoir operation restrictions when dam owners violate DWR's directives and orders.

Legislative Analyst's Office (LAO). Instead of the Governor's proposal to appropriate all ($387 million) of the Proposition 1 flood funding in 2017-18, the LAO recommends that the Legislature provide only a portion of the total. The LAO's rationale is as follows:

- **Flood Management Merits Additional Spending…** A strong rationale exists for providing additional funding to improve the state's ability to manage floods. Much of the state's extensive flood management infrastructure is aged and in need of improvements.
- **…However Projects Supported by Previous Flood Funding Still Underway.** Given local entities are still in the midst of implementing flood projects with billions of dollars of funding from Propositions 84 and 1E, the local capacity to immediately undertake new projects with the full amount of Proposition 1 funding seems uncertain.
- **New Urgent Needs Could Emerge in Coming Years, Additional Source of Funding Not Yet Identified.** Given a significant source of funding for future flood projects - such as a new Central Valley regional assessment or a new statewide general obligation bond - has not yet been identified, we believe the state should preserve some Proposition 1 funding to be able to address flood management needs and priorities that may develop in the coming years.
- **Two of Governor's Proposals Represent New Programs about Which Detail is Somewhat Lacking.** Of the eight program areas the Governor has proposed for the Proposition 1 funds, two (Central Valley tributary projects and coastal watershed projects) represent new programs/efforts. The administration has provided limited information as to how these programs would be structured, how flood management needs in these regions have been assessed, how projects would be selected, and how funds would be prioritized for expenditure. In contrast, the other six expenditure categories represent existing programs or projects reflecting the clear prioritization criteria in the comprehensive 2017 Draft Update to the Central Valley Flood Protection Plan (CVFPP) that the state has recently completed.

In the following figure, the LAO provides one possible alternative approach the Legislature could take. This approach would provide one-third of the funding the Governor requested to continue existing programs and initiate systemwide projects identified in the draft CVFPP Update, and retain the remaining funding for future prioritization and appropriation. According to the LAO, this alternative would hold off on providing funding for the Governor's two new proposed programs until the administration provides additional detail in future budget change proposals and the Legislature is better able to evaluate their merit in the context of other programs and identified needs.

Proposition 1 Flood Funding Approaches
(dollars in millions)

Program Category	**Amount**	
Delta	Governor	LAO Alternative
Systemwide flood risk reduction projects	$ 130.0	$ 43.3
Urban Flood Risk Reduction Program	$ 65.0	$ 21.7
Delta Special Projects Program	$ 57.1	$ 19.0
Delta Levee Subventions Program	$ 27.0	$ 9.0
Emergency response projects	$ 10.0	$ 3.3
Subtotal	*$ 289.1*	*$ 96.4*
Statewide		
Central Valley tributary projects	$ 50.0	$ -
Coastal watershed flood risk reduction projects	$ 27.0	$ -
Central Valley systemwide flood risk reduction projects	$ 21.0	$ 7.0
Subtotal	*$ 98.0*	*$ 7.0*
Total	**$ 387.1**	**$ 103.4**

To ensure the flood funds are used in a cost effective manner and as the Legislature intends, the LAO recommends the Legislature 1) schedule the appropriations in the budget bill in specific expenditure categories, so that the administration must come back to the Legislature to request a change if it wants to redirect funding in a different manner, and 2) include language that funding must be spent in accordance with the framework established in the 2017 CVFPP update to be sure that a strategic statewide approach is followed. The LAO also recommends that the Legislature reject the Governor's proposed language that the funds be encumbered or expended by June 30, 2019, as this establishes an unreasonable timeline for complex flood management projects.

Staff Comment. Given that recent incidents have highlighted the urgent need to ensure California's dam infrastructure is sufficient and that the state is doing all that it can to prevent or mitigate potential flooding scenarios, it is encouraging to see that the Administration is proposing initiatives intended to immediately enhance dam safety. However, the LAO raises concerns regarding the accelerated Proposition 1 funding that should be taken into account as the proposal is considered.

Staff Recommendation. Approve the Administration's Dam Safety and Emergency Flood Response proposal, however, revise the Proposition 1 component consistent with the LAO's recommendation by: 1) adopting the LAO's alternative funding plan totaling ($103.4 million), 2) schedule the appropriations in the budget bill in specific expenditure categories, so that the administration must come back to the Legislature to request a change if it wants to redirect funding in a different manner, and 3) include language that funding must be spent in accordance with the framework established in the 2017 CVFPP update.

Issue 2 – Drought Emergency Response

Governor's Proposal. The May Revision proposes a decrease by $8 million General Fund. The Governor's Budget included $17.5 million for DWR to address drought-related issues. This proposal reduces funding for DWR's drought response activities, while continuing support for the following needs: $5 million local assistance and related support costs for emergency drinking water projects in areas of diminished groundwater supplies in the Central Valley, $3.5 million for projects that enhance conditions for Delta smelt, and $1 million for the Save Our Water campaign to focus on "Making Water Conservation a California Way of Life."

Background. Executive Order B-40-17 lifted the Governor's previous drought declaration in all but four counties. Despite the abundance of rain and snow over the winter and spring, communities and residents solely dependent on groundwater continue to suffer. DWR is actively working with local counties, communities, the Office of Emergency Services, and the State Water Resources Control Board to address ongoing critical water supply issues. Projects continue and are still being developed in Fresno, Kings, and Tulare Counties in particular. Many private wells have run dry and it could be years before they recover and are able to reliably provide water. Groundwater in the Central Valley and some coastal areas remain at critical levels in many regions and DWR will be required to maintain its role in providing technical and direct assistance to these regions and sectors.

According to the Administration, although the drought may be over for much of California, much work remains to recover from and prepare for the next drought including further efforts to help establish water conservation as a way of life. This request provides for direct support to address solutions for drinking water shortages, support increased conservation and the ability to work directly with local agencies to implement required actions.

Legislative Analyst's Office (LAO). The LAO recommends that the Legislature reject the $1 million for Save Our Water Campaign. Given the end of the drought emergency, the LAO does not believe continuing a statewide public relations campaign for water conservation in 2017-18 is the highest priority for General Fund resources. If the state proceeds with some form of establishing new urban water use reduction targets—as seems likely given legislative proposals and the proposed trailer bill—water agencies will have incentives to continue encouraging water conservation at the local level. Moreover, many local agencies (including Metropolitan Water District, which provides water to 19 million people) are already undertaking locally funded, region-specific water conservation campaigns.

Staff Recommendation. Approve the proposal related to continuing activities from the Governor's budget drought proposal. However, reject the $1 million request for the Save Our Water Campaign.

Issue 3 – Proposition 13 San Joaquin River Fish Population Enhancement

Governor's Proposal. An April 1 Finance Letter proposes $21 million from Proposition 13 for the Department of Water Resources to construct facilities to improve fish populations in the San Joaquin River Watershed. The funding will support four existing positions and projects over five years ($3.73 M in 17-18, $4.12M in 18-19, $4.31 M in 19-20, $4.42M in 20-21 and 21-22).

Background. The San Joaquin River is one of the two major rivers of California and is the second longest river in California. The river provides drinking water to over 22 million California citizens and was once one of the richest river ecosystems in California.

The largest historic run of spring-run Chinook in the Central Valley once occurred in the San Joaquin River. Those runs ended when the Friant Dam was constructed in 1942, and the water was diverted to provide drinking water and to irrigate crops. Since then, environmental organizations have been fighting to restore water flows and reviving the decreasing fish populations.

The San Joaquin River Restoration Program (SJRRP) was formed in response to a 2006 settlement of an 18 year-old lawsuit between the U.S. Departments of the Interior and Commerce, the Natural Resources Defense Council, and the Friant Water Users Authority. The goal of the settlement is to restore and maintain fish populations in "good condition" in the main stem of the San Joaquin River below Friant Dam to the confluence of the Merced River, including naturally-reproducing and self-sustaining populations of salmon and other fish.

DWR assists with various aspects of the planning, design, and construction of physical improvements identified in the settlement, including projects related to flood protection, levee relocation, design and construction of facilities to provide for fish passage and to minimize fish entrainment, the establishment of riparian habitat, and water surface and water quality monitoring. DWR also assists with various aspects of the implementation of the Water Management Goal.

DWR indicates that this proposal would dovetail with the SJRRP. The request focuses on improving fish populations in the San Joaquin River Watershed through technical and financial assistance to any local, state, and federal government entities and private land owners operating in concert with government entities implementing the SJRRP. The request does this by focusing on projects that will provide improved ecological performance on public or private lands in the San Joaquin River system that the SJRRP is focused on but not actively working on.

Legislative Analyst's Office. The LAO recommends providing $4 million for one year, and requiring the department to update the Legislature on program activities and progress and request additional funding in next year's budget. This is a new effort the department is undertaking, and it is not yet able to provide adequate detail on which specific projects will be funded or how projects will be selected or prioritized. To provide sufficient oversight and ensure funds are being used effectively, the Legislature would benefit from additional information on how this new effort develops and evolves.

Staff Recommendation. Approve as budgeted.

3600 Department of Fish and Wildlife
3860 Department of Water Resources
3940 State Water Resources Control Board

Issue 1 – Open and Transparent Water Data Act (AB 1755)

Governor's Proposal. The May Revision proposes appropriations to complement the AB 1755 (Dodd), Chapter 506, Statutes of 2016, April 1 Spring Finance Letter by providing one-time funding to begin development of the strategic plan and initial data protocols while donations to the Water Data Administration Fund are pursued. Specifically, this request includes: $150,000 from the Environmental License Plate Fee (ELPF) for the Department of Fish and Wildlife (DFW), $450,000 from the ELPF for the Department of Water Resources (DWR), and $200,000 from the ELPF for the State Water Resources Control (SWRCB) to begin implementation of AB 1755.

Background. AB 1755, The Open and Transparent Water Data Act, places new responsibilities on DWR, SWRCB, and DFW to implement the following:

- Develop, implement, and maintain protocols for data sharing, documentation, quality control, public access, and promotion of open-source platforms and decision support tools related to water data.
- Publish a report on protocols.
- Develop and publish a strategic plan to guide implementation of an integrated water data platform.
- Create, operate, and maintain a statewide integrated water data platform.
- Develop and maintain common language or crosswalks for integrating datasets across programs and agencies.
- Make specified datasets available on the integrated water data platform by statutory deadlines, with.
- Quarterly updates thereafter.

The work to be undertaken pursuant to AB 1755 will address an unmet need for an open-access platform to: a**)** help water managers operate California's water system more effectively, plan and manage water resources better, and help water managers and users make more informed decisions through data-driven decision-making; b) integrate and increase access to existing water data; c) foster collaboration among state, federal, and local agencies on sharing and integrating existing datasets; d) improve transparency and accountability; and e) promote openness and interoperability of water data and make information accessible, discoverable, and usable by the public, thereby fostering entrepreneurship, innovation, and scientific discovery.

Legislative Analyst's Office (LAO). The LAO recommends adopting this proposal, however, they note that the activities required by AB 1755 span multiple years and the administration is only proposing one year of funding. The ELPF likely could not sustain out-year expenditures. Assuming the departments are not able to absorb future costs within their existing budgets, the Legislature will be faced with revisiting how to support continued implementation of the legislation in future years. (The administration hopes that charitable donations will materialize.)

Staff Recommendation. Approve as budgeted.

3790 Department of Parks and Recreation

Issue 1 – Improving State and Local Parks

Governor's Proposal. The May Revision proposes $54 million from the State Parks and Recreation Fund and $26.6 million in reimbursement authority to reflect the expenditure of revenues resulting from the passage of SB 1 (Beall), Chapter 5, Statues of 2017.

Background. SB 1 (Beall, Chapter 5, Statutes of 2017) created the Road Maintenance and Rehabilitation Program to fund road maintenance, various safety projects, and active transportation projects. The measure would also generate revenue to support state parks, including off-highway vehicle and boating programs.

The Department of Finance anticipates an increase of $54 million for the department. This May Revision proposal represents the Administration's plan for expenditure of these additional funds. Specifically, the proposal requests to:

- Fix Our Parks—$31.5 million for deferred maintenance projects to repair and maintain the aging infrastructure of the state park system and to address the recent damage sustained from the severe winter storms. This proposal also includes increasing reimbursement authority by $26.6 million to facilitate funding from the Federal Emergency Management Agency to help address storm-damaged areas.

- Establish Partnerships to Improve Access to Parks—$1.5 million to establish a pilot project to provide transportation to parks from urban areas and schools.

- Build a Recruitment and Training Program—$1 million to establish a recruitment and training program. This program will focus on hard-to-fill classifications, including park rangers, lifeguards, maintenance workers, administrators, and managers. The program will also develop strategies to better reach candidates from diverse communities.

- Fund Local Parks—$18 million to provide a local assistance grant to the Jurupa Area Recreation and Park District.

- Support Off-Highway Vehicle Recreation—$1 million from the State Parks and Recreation Fund to the Off Highway Vehicle Trust Fund. $1 million for local assistance grants for additional law enforcement, environmental monitoring, and maintenance grants supporting federal off-highway vehicle recreation.

- Reduce Boating Hazards—$1 million from the State Parks and Recreation Fund to the Abandoned Watercraft Abatement Fund. $1 million for local assistance grants to remove abandoned watercraft from California's waterways.

Staff Recommendation. Approve the request with the addition of budget bill language requiring the department to report back on the use of the access funding; including, where the funding was spent and the number and type of participants in the program.

Issue 2 – Base Funding – Maintain Operations

Governor's Proposal. The Governor's budget proposes $12.6 million from the SPRF and $4 million from the California Environmental License Plate Fund (ELPF), on a one-time basis, to maintain existing service levels throughout the state parks system. This proposal is intended to allow the department to complete implementation of operational efficiency initiatives, enhance revenue generation opportunities, and explore additional partnerships, including an outside support organization as specified by SB 111 (Pavley) Chapter 540, Statutes of 2016. The proposal sustains the current level of service at parks, while acknowledging the need to solve the long-term structural shortfall.

Background. The state park system, administered by DPR, contains almost 280 parks and serves about 75 million visitors per year. State parks vary widely by type and features, including state beaches, museums, historical sites, and rare ecological reserves. The size of each of park also varies, ranging from less than one acre to 600,000 acres. In addition, parks offer a wide range of amenities including campsites, golf courses, ski runs, visitor information centers, tours, trails, fishing and boating opportunities, restaurants, and stores. Parks also vary in the types of infrastructure they maintain, including buildings, roads, power generation facilities, and water and wastewater systems.

Over the past several years, the department has relied on one-time augmentations to sustain core operation service levels. In 2014-15 and 2015-16, the department received one-time augmentations from its SPRF fund balance; however, in 2016-17 a one-time transfer of fuel tax revenue, initially slated to go to the Off-Highway Vehicle Trust Fund (OHVTF), was needed to both sustain operations and keep SPRF solvent.

Service-Based Budgeting (SBB)
The Parks Forward Commission (PFC) was appointed in July of 2013 to recommend improvements for ensuring the state park system's long-term sustainability. The commission's primary purpose was to look beyond the immediate crisis and toward a broader vision for California parks - a vision of a focused and modernized department positioned to lead a park system that:

- Values and protects the state's iconic landscapes, natural resources, and cultural heritage;
- Remains relevant and accessible to all Californians and welcomes visitors from around the world;
- Engages and inspires younger generations; and
- Promotes healthy and active lifestyles and communities that are quintessentially Californian.

In anticipation of the PFC report, the California Natural Resources Agency and the department's director commenced a state parks transformation process by retaining an advisor with extensive state and local government organizational development experience to identify a series of initiatives that will result in many positive changes in the department's organization. To accomplish these changes, the department has assembled a transformation team that has taken on several important transformative initiatives, including Service-Based Budgeting (SBB). SBB was established to improve allocation of resources, increase service consistency across parks, monitor spending across programmatic areas, and understand under-met programmatic needs.

In May 2016, the department completed the data collection effort for SBB that documents all functions, across each district and park to enable analysis of the resource requirements for each task the department needs to perform to achieve its mission (optimum service level). This process also revealed which tasks are currently performed and to what extent (current service level). This data is captured in hours by classification and can be converted to cost using current salary, benefit, and operating equipment and expense information. The department has been able to analyze this information through high-level analytics, and for the first time can articulate through a qualitative analysis the service levels it currently provides and how it allocates its resources. The department has begun the process of setting service level standards that align to the department's mission and goals.

Maintaining Existing Service Levels
According to the department, any decrease in funding would mean reductions to core operations and could ultimately impact visitor services, natural and cultural stewardship, community engagement, or park infrastructure. Over the past two years $80 million has been invested in addressing state parks infrastructure. It is critical that support functions be maintained and preserved as well. While SBB will inform the allocation of existing resources, resources in many areas are already stretched thin to address critical health and safety, infrastructure, and revenue generation mandates. To the extent that funding to maintain existing services is depleted, the department will lose flexibility to reallocate internally to either fill service gaps or promote revenue generating activities.

Revenue Generation Projects
The department's request includes $477,000 in SPRF to support four revenue-generating projects at Hearst Castle within Hearst San Simeon State Historical Monument (Hearst Castle), Morro Strand State Beach (SB) and South Carlsbad SB. The department is mandated to engage in revenue-generating projects throughout the state parks system in order to obtain sustainability and sufficiency. These four projects are vital to adhere to the Legislative mandate and create revenue for the Department as part of its Transformation Team efforts and are self-supporting from the revenue they generate.

Legislative Analyst's Office (LAO). The LAO's overview of this proposal included the following addition background related to funding for the department:

- **Major Funding Sources for State Park Operations.** Park operations are ongoing activities necessary to run the park system, including staffing, management, maintenance, fee collection, and administration. Other activities performed by the department, such as capital outlay projects and grants provided to local governments, are not considered part of park operations. The state park system receives funding from many sources to support its operations. The major sources for funding include:

    - **SPRF.** In recent years, the department's largest fund source for operations has been SPRF, which has provided about 40 percent of the department's operations funding. The fund is supported primarily by revenues collected from fees charged to park users. Parks frequently charge user fees, including for parking, park entrance, and specific recreational activities (such as the use of overnight campsites). The fund also receives revenue from contracts with state park concessionaires that provide certain services, as well as some revenue from the Highway Users Tax Account and the Motor Vehicle Fuel Account for constructing and maintaining public roads in state park units.
    - **General Fund.** With a few exceptions, state parks cost more to operate and maintain than they currently generate in revenue. For this reason, state park operations are partly funded from the state General Fund. The Governor's 2017-18 budget includes $137 million in General Fund support for DPR operations. The amount of General Fund support for the parks has declined since 2006-07.

  - **Off-Highway Vehicle (OHV) Trust Fund.** The department receives roughly $60 million annually from the OHV Trust Fund for operations of the Off-Highway Motor Vehicle Recreation Division of DPR. Revenue for the OHV Trust Fund primarily comes from 1) fuel taxes that are attributable to the recreational use of vehicles off highway, 2) OHV registration fees, and 3) fees collected at State Vehicular Recreation Areas (SVRAs). This fund primarily is spent to operate and expand the state's eight SVRAs, to acquire land for new SVRAs, and make grants to agencies for OHV trails on other public lands.
  - **Other Special Funds.** State parks receive support from various special funds, including revenue from the state boating gas tax, federal highway dollars for trails, and various state revenue sources earmarked for natural resource habitat protection. Historically, DPR has also received funding from ELPF, which collects revenue from specialty license plate sales. However, this funding was eliminated as part of a solution to ELPF's structural deficit in 2015-16.

- **Recent SPRF Shortfalls.** Changes to DPR's budget since 2011-12 have resulted in a SPRF operating deficit and depletion of the SPRF fund balance. During the recent recession, the 2011-12 and 2012-13 budgets reduced baseline General Fund support for the department by a total of $22 million to achieve General Fund savings. In response to the reduction, the Legislature provided additional SPRF funding on a temporary basis rather than close state parks. The Legislature also took other actions to encourage parks to become more self-sufficient through increased revenue generation. This also increased expenditures and transfers from SPRF to provide funding for new projects and activities intended to generate revenue.

  These changes, coupled with other one-time and ongoing spending, caused expenditures from SPRF and its subaccounts to increase by more than $66 million between 2011-12 and the projected 2017-18 level. Revenues and transfers to the fund did not increase at the same rate over that period. These trends resulted in a structural deficit and the virtual depletion of the SPRF fund balance.

- **Legislature Created Revenue Generation Program.** State parks have historically relied on park-generated revenue to help support operations. In recent years, the Legislature has directed DPR to improve its revenue generation. Specifically, SB 1018, (Committee on Budget and Fiscal Review), Chapter 39 of 2012 directed DPR to maximize revenue generation activities (consistent with the mission of the department).

  The District Incentive Program sets annual revenue targets for each district based on how much revenue that district earned in the previous three years. If both the state as a whole and an individual district exceed revenue targets, half of the district's revenue earned above its target is allocated back to that district. The remainder stays in SPRF—in the Revenue Incentive Subaccount—to be used for specified purposes, including new fee collection equipment and projects to improve the experiences of visitors. A district that does not exceed its target does not receive an allocation under the program. Chapter 39 also created and transferred bond funds to the State Park Enterprise Fund to be used for infrastructure and facility improvement projects designed to increase revenue.

The LAO found that the Governor's budget proposal is a reasonable way to address the shortfall on a one-time basis. The Governor's budget projects that SPRF will have a year-end fund balance of only $4.6 million (three percent of revenues and transfers) at the end of the budget year. In addition, while ELPF is projected to have a fund balance of $10.8 million at the end of 2017-18, it could not sustain the proposed funding for parks on an ongoing basis without putting that fund into a structural deficit.

In fact, the ELPF had its own structural deficit until a series of budget actions was taken last year that included eliminating ELPF support for DPR. One reason ELPF could support this expenditure in the budget year is because of a proposed one-time transfer of $6.3 million from the Motor Vehicle Account into ELPF. This transfer is related to past overcharges to the ELPF discovered in a 2013 audit by the California State Auditor. The LAO noted that using ELPF to support DPR in the budget year delays rebuilding the fund's balance and reduces the amount available for other ELPF-supported activities.

Staff Recommendation. Approve the proposal with the addition of $1.5 million from the ELPF, on a one-time basis, and budget bill language to establish an Outdoor Environmental Education Grants Program to increase the ability of underserved and at-risk populations to participate in outdoor environmental educational experiences at State Parks and other public lands where outdoor environmental education programs take place.

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, May 18, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Part A

Consultant: James Hacker

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.

Vote-Only Calendar

2660 California Department of Transportation (Caltrans)

Issue 1 – SB 1 Cleanup Language Technical Amendment

Budget Subcommittee No. 2 approved cleanup language for SB 1 (Beall), Chapter 5, Statutes of 2017 to align statute with the intent of the bill. After consideration of the bill, several technical errors became apparent. Specifically, the bill references "local transportation agencies," which should be referenced as "a regional transportation agency or city" for clarity.

Staff Recommendation: Amend the proposed cleanup trailer bill with a technical fix to Section 2032 of the Streets and Highways code to reference "a regional transportation agency or city."

Issue 2 – Road User Charge Pilot Program Reporting Language

Governor's Proposal. The Governor's budget requested one-time funding of $737,000 (State Highway Account) and $750,000 (federal funds) to utilize federal funding made available under Section 6020 of the federal Fixing America's Surface Transportation (FAST) Act to further study the use of a road charge mechanism as an eventual replacement of the currently existing system of fuel taxes.

Budget Subcommittee No. 2 heard this item on May 11th, and voted to approve as budgeted. Assembly Budget Subcommittee No. 3 included reporting language requiring Caltrans to report to the Legislature on the outcomes of the pay-at-the-pump study by July 1, 2018. Staff is supportive of this reporting language.

Staff Recommendation: Approve reporting language, as approved by the Assembly.

Issue 3 – Sustainability Program and Zero-Emission Vehicle Pilot

Governor's Proposal. The Governor's budget includes provisional language to allow Caltrans to spend up to $40 million ($20 million from the State Highway Account (SHA) and $20 million from federal funds) to construct direct current (DC) fast charging stations at seven locations in 2017-18.

This item was last heard in Budget Subcommittee No. 2 on May 11th.

Staff Recommendation: Reject the proposed provisional language and adopt the following:

> *The Department of Transportation may expend up to $20 million in state funds (matched with up to $20 million federal funds) on zero emission vehicle charging infrastructure, including hydrogen fueling infrastructure, upon authorization of the Department of Finance. The Department of Finance may authorize the expenditure of funds from the proposed sources not less than 30 days after notification has been provided to the Joint Legislative Budget Committee, or whatever lesser time after that notification the chair of*

the joint committee, or his or her designee, may determine. The notification shall include an explanation of the sources of funding that were pursued to fund EV and ZEV charging and hydrogen fueling infrastructure, why the proposed source was selected, and why other identified sources were not selected.

Issue 4 – Project Acceleration Trailer Bill Language

The Governor's May Revision includes trailer bill language related to the implementation of SB 132 (Committee on Budget and Fiscal Review), Chapter 7, Statutes of 2017, which, among other requirements, required the Secretary of Transportation to convene a task force of state, local, and private sector experts to accelerate the schedule of delivery for these and other projects in the region, and requires that any recommendations from this task force requiring statutory changes be included in the May Revision to the 2017-18 Governor's budget.

Staff Recommendation: Adopt placeholder trailer bill language for this proposal.

Issue 5 – Freight Trade Corridors Trailer Bill Language

The Governor's May Revision includes language that would direct federal and state funds to the Trade Corridors Enhancement Account to be allocated for freight-related projects as identified in the State Freight Mobility Plan.

Staff Recommendation: Adopt placeholder trailer bill language for this proposal.

Issue 6 – Advance Mitigation Authority Trailer Bill Language

The Governor's May Revision includes trailer bill language to set additional parameters for the Advance Mitigation Program, as was indicated in SB 1. This language allows Caltrans to acquire specified types of mitigation credits.

Staff Recommendation: Adopt placeholder trailer bill language for this proposal.

Issue 7 – Property Tax Assessment Authority for LA Assessor for SR 710 Properties

The Governor's May Revision proposes trailer bill language that directs the Los Angeles County Assessor to assess State Route (SR) 710 properties sold by Caltrans at an affordable or reasonable price, at those sales prices, instead of the market rate. This clarification will allow the properties to be sold as intended to low-income current tenants, where applicable, and sold without further delay.

Staff Recommendation: Adopt placeholder trailer bill language for this proposal.

2740 California Department of Motor Vehicles (DMV)

Issue 1 – Driver License / Identification Card Federal Compliance

Governor's Proposal. The Governor's May Revision requests $23 million Motor Vehicles Account and 218 positions in 2017-18; 550 positions and $46.6 million in 2018-19; 715 positions and $57.9 million in 2019-20; 667 positions and $50.2 million in 2020-21; 345 positions and $26.2 million in 2021-22; and 228 positions and $16.7 million in 2022-23 for a total of $220.6 million over six fiscal years to implement a federal compliant driver license/identification card (DL/ID) card that will be accepted by the Transportation Security Administration (TSA) to board an airplane. This request includes trailer bill language.

Staff Recommendation: Approve 218 positions and $23 million in 2017-18 and 550 positions and $47 million in 2018-19.

Issue 2 – SB 1 Implementation: Transportation Funding

The Governor's May Revision requests $3.8 million in 2017-18 and $7.8 million in 2018-19 from the Road Maintenance and Rehabilitation Account for additional costs of credit card transaction fees due to the implementation of SB 1.

Staff Recommendation: Approve as Budgeted.

Issue 3 – Front End Sustainability Project: Pre-project

The Governor's May Revision requests provisional language to allow the Director of Finance to provide $3.4 million in funding for Department of Motor Vehicles (DMV) planning activities related to the Front End Applications Sustainability Project provided that the department meets certain criteria.

Staff Recommendation: Reject the proposed provisional language and adopt the following:

> *1) The Director of Finance may augment this item by $3,414,000 to provide funding for planning activities related to the Front End Applications Sustainability Project. An augmentation shall be authorized not sooner than 30 days after notification in writing to the chairpersons of the committees and appropriate subcommittees that consider the State Budget and the chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may determine. This augmentation may not occur until the department has either gained concurrence from the Department of Technology that it has sufficient availability of program and IT staff necessary to complete the planning efforts, or has completed the following information technology projects: a) Commercial Driver License Information System, b) expansion of the automated knowledge test to accommodate additional languages, c) system updates to conform to federal requirements for issuance of driver licenses and identification cards, and d) tokenization to increase security for credit card transactions. On or before July 1 of each year until the augmentation*

provided has been spent or has reverted, the Department of Motor Vehicles shall provide an annual status report to the chairpersons of the appropriate subcommittee that considers the state budget. The report shall include, but is not limited to, all of the following: (1) the amount spent to date, (2) a description of project accomplishments, (3) a description of project activities underway and their estimated completion dates, (4) whether the project scope has changed, and (5) the department's progress towards completing the state's IT approval process for the Front End Sustainability project.

3360 California Energy Commission (CEC)

Issue 1 – Amendment to the 2016 Budget Act: Reduction of Research Funding

Governor's Proposal: The Governor's January budget proposes to reduce the Energy Commission's budget by $3 million General Fund. The 2016 Budget Act included $15 million General Fund (budgeted in state operations) and language requiring a competitive grant process including a provision for the federal cost share for alternative fuel applied research and demonstration solicitations, and (2) $3 million General Fund (local assistance) for the federal cost share for alternative fuel applied research and demonstration solicitations (intended to provide matching funds for successful federal awards).

According to the Department of Finance, the proposed reduction of $3 million will impact the number of awards and the breadth of research, but the Energy Commission can still meet the intent of the original proposal. The Energy Commission has already released a competitive solicitation for the federal cost share and issued contingent awards.

Staff Recommendation: Reject the proposed reduction.

8660 California Public Utilities Commission (PUC)

Issue 1 – Multiyear Reappropriation of Funding for eFAST

The PUC requests a reappropriation and an extended encumbrance period to June 30, 2021, for $1,483,000 from various 2016 Budget Act items. The PUC also requests provisional language for an extended encumbrance period to June 30, 2021, for $1,884,091 in various 2017-18 budget act items.

The 2016-17 Budget Change Proposal requested funds for contract services to develop the eFiling Administration Support (eFAST) Platform and three Business Configuration Projects. Authorization of this proposal would align restructured project plans with revised funding needs. There is no change to the total funding requested for the IT projects. This proposal only shifts funds to budget out years.

Staff Recommendation: Approve as Budgeted.

Issue 2 – LifeLine Program Funding and Trailer Bill Language

Governor's Proposal. The Governor's January budget requested an augmentation of roughly $151 million ($147 million for local assistance, $4 million for state operations) for the LifeLine program in 2017-18. The Governor's May Revision updates this request by increasing state support costs by $580,000 to cover higher-than-expected printing and mailing costs, and by reducing local assistance expenditures by $5.3 million to reflect an estimated decrease in workload. This results in current year expenditures of $485.8 million and budget year expenditures of $630 million.

This request also includes provisional language allowing the Department of Finance, subject to 30 day legislative notification, to augment state operations should printing and mailing costs continue to rise.

Staff Recommendation: Approve as Budgeted.

Items for Discussion

8660 California Public Utilities Commission (PUC)

Issue 1 – Strengthening the Transportation Enforcement Branch (TEB)

Governor's Proposal. The Governor's May Revision requests $636,000 from the PUC Transportation Reimbursement Fund (PUCTRA, Fund 0461) to fund the conversion of six limited-term positions to permanent positions to meet critical program and process needs of the PUC's Transportation Enforcement Branch (TEB) to begin implementing recommendations from the independent audit required by SB 541 (Hill), Chapter 718, Statutes of 2015. This request also includes trailer bill language giving PUC investigators impoundment authority.

Background. TEB, in coordination with the PUC's Legal and Administrative Law Judge (ALJ) Divisions, implements and enforces regulations over approximately 11,000 carriers. State law requires limousines, private buses, moving companies, TNCs, and other carriers to carry specified levels of insurance coverage, screen drivers for drugs and alcohol, monitor driving records, and compete fairly in the marketplace.

In 2015, the Legislature adopted SB 541, which, among other things, required the PUC to hire an independent consultant to assess the transportation program's ability to meet its programmatic objectives in the regulation of household goods carriers and passenger charter-party carriers. The independent consultant found that TEB is not currently meeting any of its nine objectives. The audit report concludes that, over time and due to multiple regulatory challenges, there were declines in the transportation program's visibility, importance, and effectiveness. Despite this, the report affirms that the program itself has a solid foundation due to dedicated staff, new leadership, and a strong commitment to implementing improvements. The challenge areas for TEB include chronic understaffing and high turnover rates that increase workload and overwhelm remaining staff. The report also identifies that current enforcement tools are tailored for the pursuit of licensed carriers, which hinders successful enforcement against unlicensed carriers.

The following audit recommendations are salient to this BCP:

- Hire staff to fill vacant positions and add additional staff to support effective operations.
- Improve enforcement of unlicensed carriers.
- Introduce more powerful enforcement tools

LAO Comments. The LAO has reviewed this request, and has offered the following analysis:

> We recommend approving the CPUC request to convert six positions from limited-term to permanent and provide $636,000 ongoing for enhanced oversight of transportation carriers because the workload for these activities is ongoing and the positions are needed to address deficiencies identified in recent audits. We also recommend rejecting without prejudice the proposed trailer bill language to (1) shift certain aspects of CPUC's regulatory oversight of transportation carriers to other state agencies and (2) provide additional transportation enforcement authority to CPUC. These proposals may have merit by allowing CPUC to more effectively focus its regulatory efforts and improve its

regulatory enforcement efforts. However, in our view, these are policy issues that are most appropriately considered through the policy committee process.

Staff Comments. The Transportation Enforcement Branch currently has three limited-term positions due to expire on June 30, 2017. The PUC received these positions to implement SB 611 (Hill), Chapter 860, Statutes of 2014, which required the PUC to document on an annual basis passenger carrier operators' modified limousines and their terminal locations and to provide information to the California Highway Patrol so it may inspect the vehicles on a regular basis. Although the positions expire on June 30, 2017, full implementation of SB 611 does not begin until July 1, 2017, and the SB 611 program does not have a sunset date. Three other positions were created from the blanket and are also due to expire on June 30, 2017. The PUC created these positions in 2014 to help licensing staff keep up with workload, which saw a spike of 52 percent from 2012 in new applications, permit transfers, renewals, and re-filings, and to catch up with the regulation of Transportation Network Companies (TNCs). Although the workload has leveled off since 2014, the licensing staff does not meet TEB's statutory mandate to timely process applications and hold application workshops for potential applicants according to the SB 541 report. While the positions are limited-term, staff notes that the workload is ongoing and likely permanent. As such, extending the positions is appropriate.

However, staff shares the LAO's concern with using budget bill language to extend impoundment authority to PUC investigators. While granting PUC investigators such authority has merit from a regulatory standpoint, the budget is not the appropriate venue to make such statutory changes. PUC should pursue such a change through the policy process.

Staff Recommendation: Approve six permanent positions and $636,000 from the PUCTRA. Reject the proposed trailer bill language without prejudice.

Issue 2 – Transfer of Regulatory Oversight of Transportation Functions

Governor's Proposal. The Governor's May Revision includes trailer bill language that transfers regulatory authority for select transportation programs from the PUC to other state agencies or local jurisdictions.

Background. The PUC has authority under Article XII of the State Constitution to establish rules and set rates for various categories of companies that transport passengers and property. Specifically, the PUC has licensing, rate regulation, enforcement, prosecution, rulemaking authority and insurance rate setting responsibility over passenger and goods carriers such as limousines, airport shuttles, transportation network companies, buses, ferries, boats, commercial air operators and household goods carriers.

During the 2015-16 legislative session, the Governor signed a package of bills enacting various reforms to improve public safety, as well as PUC governance, accountability, and transparency. In an accompanying signing message, the Governor directed the Administration to work with the PUC to reorganize duties and responsibilities over transportation-related regulation.

This proposal will transfer transportation functions effective July 1, 2018, as follows:

- Private carriers of passengers—Transfer to the Department of Motor Vehicles.
- Household goods carriers—Transfer to the Department of Consumer Affairs' Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation.
- For-hire vessels—Transfer to the Department of Parks and Recreation's Division of Boating and Waterways.
- Commercial air operators—Transfer to local jurisdictions.

Under this proposal, three jurisdictions would stay with PUC:

- Passenger stage corporations
- Vessel common carriers
- Charter party carriers, including transportation network companies

LAO Comments. The LAO has reviewed this request, and has offered the following analysis:

> We recommend approving the CPUC request to convert six positions from limited-term to permanent and provide $636,000 ongoing for enhanced oversight of transportation carriers because the workload for these activities is ongoing and the positions are needed to address deficiencies identified in recent audits. We also recommend rejecting without prejudice the proposed trailer bill language to (1) shift certain aspects of CPUC's regulatory oversight of transportation carriers to other state agencies and (2) provide additional transportation enforcement authority to CPUC. These proposals may have merit by allowing CPUC to more effectively focus its regulatory efforts and improve its regulatory enforcement efforts. However, in our view, these are policy issues that are most appropriately considered through the policy committee process. This especially applies to the proposal to shift various regulatory responsibilities, which raises a variety of questions about how the changes would affect regulated industries and consumers,

what type and level of state efficiencies would be gained, why certain regulatory functions would remain at CPUC, and the capacity of the receiving departments to conduct these activities. In addition, the urgency to adopt this new proposal as part of the 2017-18 budget, rather than through the typical policy process, is unclear.

Staff Comments. Staff generally concurs with the LAO analysis. While transferring some of the listed regulatory responsibilities to other state and local authorities has merit, the budget is not the proper venue to make such sweeping policy changes. The PUC should pursue such changes through the policy process.

Staff Recommendation: Reject the proposed trailer bill language without prejudice.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, May 18, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Part A

Consultant: James Hacker

Public Comment

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
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Thursday, May 18, 2017
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State Capitol - Room 112

Consultant: Joe Stephenshaw

Agenda Part B

Vote Only Calendar

Discussion Calendar

Discussion Calendar (continued)

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.

Vote-Only Calendar

3540 Department of Forestry and Fire Protection

Issue 1 – Board of Forestry and Fire Protection Fiscal Realign

Governor's Proposal. The Governor's budget proposes a net increase of $293,000 ($193,000 State Responsibility Area Fire Prevention Fund, $410,000 Timber Regulation and Forest Restoration Fund and reductions of $308,000 General Fund and $2,000 Professional Forester Registration Fund) for specified Governor's appointee and staff salary increases and one position for a full-time, dedicated attorney.

Background. The Board of Forestry and Fire Protection is a government-appointed body within CAL FIRE. The board is responsible for developing the general forest policy of the state, for determining the guidance policies of CAL FIRE and for representing the state's interest in federal forestland in California. Together, the board and CAL FIRE work to protect and enhance the state's unique forest and wildland resources.

The subcommittee heard this request on March 30th.

Staff Recommendation. Approve as budgeted.

Issue 2 – Hiring and Training – Permanent Funding and Staffing

Governor's Proposal. The Governor's budget proposes $14.2 million ($10 million General Fund, $332,000 in Special Funds, and $3.9 million in reimbursements) and 55 positions to address increased hiring and training demands.

Background. Funding for personnel who are responsible for hiring and training CAL FIRE's firefighting workforce is based on the traditional fire season length. However, climate change, demographics, invasive species, and past fire management are lengthening the fire season in California.

The longer and more active fire season requires that more firefighters be hired and trained as expeditiously as possible. CAL FIRE has requested and received authority over the last several years to augment its firefighting force to deal with the longer and more active fire season. In addition, CAL FIRE has requested and received additional short-term funding to partially address this increased hiring and training workload. CAL FIRE, however, has not received any additional permanent funding or positions for its hiring and training workload.

The subcommittee heard this request on March 30th.

Staff Recommendation. Approve as budgeted.

Issue 3 – Helicopter Procurement Reappropriation

Governor's Proposal. The May Revision proposes to reappropriate the funds allocated last year for the procurement of replacement helicopters in order to extend the encumbrance period.

Background. The Budget Act of 2016 appropriated $12 million for CAL FIRE to purchase one helicopter in 2016-17. Department of General Services (DGS) issued a Request for Proposal in March 2017, and vendor bids were received in May 2017. These bids are currently being evaluated. Contract award could occur in late June 2017. However, if the funds are not encumbered by June 30, 2017, the requested reappropriation language provides for the current appropriation to be used should there be potential delays.

Staff Recommendation. Approve as budgeted.

Issue 4 – Implementation of AB 1958, AB 2029, and SB 122

Governor's Proposal. The Governor's budget included $1.4 million ($1.3 million Timber Regulation and Forest Restoration Fund and $120,000 Reimbursements) and six positions to comply with recent legislation.

Background. The subcommittee approved this proposal on March 30th. Subsequently, the Assembly took action to adopt placeholder trailer bill language to delay the report required by AB 1958 by one year and specify that the report shall include an analysis of exemption use, the need to remove or consolidate exemptions, whether the exemptions are having the intended effect, any barriers for small forest owners, and measures that might be taken to make exemptions more accessible to small forest owners.

Staff Recommendation. Conform to Assembly action to adopt trailer bill language.

3600 Department of Fish and Wildlife

Issue 1 - Restructuring the Fish and Game Preservation Fund

Governor's Proposal. The Governor's budget proposes $12.4 million in additional revenue from an increase in commercial fish landing fees to support the Department of Fish and Wildlife's (DFW) commercial fishing program, and a one-time redirection of $10.6 million from the Lifetime License Trust Account (LLTA) ($8.7 million of which would go to the Fish and Game Preservation Fund (FGPF) non-dedicated account). This proposal is intended to address the approximately $20 million deficit in the FGPF.

Additional Budget Proposals. In addition to the proposal to address the FGPF's deficit, the Governor's budget includes the following proposals that would increase FGPF expenditures:

- $1.7 million to develop and implement a sampling program, in coordination with the Department of Public Health, to protect public health and prevent unnecessary fishery closures associated with harmful microalgae blooms (aka "red tides").

- $1.8 million to improve efficiency in the conservation of natural resources through compliance with the State Water Resources Control Board's emergency regulation for measuring and reporting on the diversion of water related to management and operations of department lands and facilities.

These issues were heard by the subcommittee on March 2nd.

Staff Recommendation: Reject all of the Governor's proposals and adopt budget bill language requiring the department to (1) to reconvene Vision Stakeholders to provide an update on the status of the Vision recommendation implementations; (2) provide a report regarding the same to the Legislature by October 1, 2017; and (3) undergo a zero-based budget evaluation in time for implementation by fiscal year 2018-19.

3940 State Water Resources Control Board (SWRCB)

Issue 1 – Drought Resources: Updated Request

Governor's Proposal. The May Revision proposes a decrease by $4.7 million General Fund. The Governor's budget proposed $5.3 million for drought-related activities. The requested reduction will maintain a budget of $600,000 to support four positions that are necessary for the conclusion of open drought-related compliance and enforcement issues currently underway at the State Water Resources Control Board.

Background. Executive Order B-40-17 lifted the Governor's previous drought declaration in all but four counties. As a result of improved and significantly increased precipitation this year, the State Water Resources Control Board no longer requires additional resources for water curtailments and emergency change petitions.

Staff Recommendation. Approve as budgeted.

Issue 2 – Irrigated Lands Management Program

Governor's Proposal. The Governor's budget proposes $1 million from the Waste Discharge Permit Fund and five permanent positions to support ongoing regulatory efforts to protect sources of drinking water and reduce nitrate loading to groundwater from irrigated agriculture in California.

Background. In 2013, the SWRCB's report to the Legislature, "Recommendations Addressing Nitrate in Groundwater," identified nitrate contamination in groundwater as a widespread water quality problem that can pose serious health risks to pregnant women and infants. Agricultural fertilizers and animal wastes applied to cropland are by far the largest sources of nitrate in groundwater. The report revealed that almost 97 percent of nitrate loading to groundwater in the Central Valley and Central Coast can be directly linked to irrigated agriculture. The State Water Board made 15 specific recommendations to address issues associated with nitrate contaminated groundwater. The State Water Board and the Regional Water Quality Control Boards (collectively, the Water Boards) are engaged in numerous efforts to address nitrate contamination in groundwater. This proposal focuses on the Water Boards' efforts to regulate discharges with the Irrigated Lands Regulatory Program (ILRP).

The ILRP currently is supported by $4.5 million and 23.1 positions. Identification of water quality concerns related to agricultural practices and operations has resulted in a systematic increase in workload over the last decade. The positions in this BCP will be funded from waste discharge permit fees from agricultural dischargers. To the extent that the existing fee payer base for these dischargers cannot support the increased program oversight costs, the current fee structure for these dischargers may be increased to cover the costs of regulating these facilities to protect sources of drinking water, public health, and the state's groundwater.

This proposal was heard by the subcommittee on March 16th.

Staff Recommendation. Approve as budgeted.

3970 Department of Resources Recycling and Recovery

Issue 1 – Disaster Debris Recovery Closeout and Project Backlog

Governor's Proposal. The May Revision proposes $1.0 million Integrated Waste Management Account (annually for two years) to finalize and complete disaster debris removal-related workload and project backlogs incurred by redirecting staff toward emergency disaster recovery and post-recovery efforts.

Background. The Engineering Support Branch, within the Waste Permitting, Compliance, and Mitigation Division, reviews and approves solid waste, and tire, facility plans to ensure effectively implemented state standards. The branch provides engineering technical support to other department branches for solid waste, climate change, bioenergy, and illegal dumping issues. It oversees CalRecycle's cleanup and remediation programs to mitigate hazards created by closed, illegal, and abandoned solid waste and tire disposal sites.

CalRecycle's responsibilities and expertise in the remediation of solid waste disposal sites make them suited to carry out debris removal operations required for the fire related disaster recoveries.

In 2015, the Governor declared a State of Emergency in Lake and Napa counties due to the severity and magnitude of the wildfires. CalRecycle was directed to support local governments in the management of debris removal operations. CalRecycle redirected significant resources from its Solid Waste Program to assist. The extended duration of debris removal operations, as well as the complexity and magnitude of managing project costs, claims, and federal reimbursements, have taxed staff resources significantly and delayed or postponed other planned projects.

According to CalRecycle, they are inadequately staffed to perform long-term, large-scale debris removal operations, in addition to carrying out its mandated responsibilities. The staff redirection has resulted in an un-absorbable backlog. Moreover, there continues to be ongoing workload to finalize debris removal projects, workload for evaluating costs for federal reimbursement, and work to assist counties with insurance recovery. CalRecycle remains behind in the review of technical reports, such as closure and post-closure maintenance plans, non-water corrective actions plans, implementation of various health and safety programs, and site remediation.

Staff Comment. An estimated 250 tons of waste and debris were generated for each residential structure destroyed during these wildfires. Thousands of structures were damaged, between the Valley Fire and Butte Fire. CalRecycle will likely continue to face added workload needs relating to the near- and long-term efforts to close out the Valley and Butte fire recoveries, as well as their own backlog as a result of staff redirection. This request is consistent with those needs.

Staff Recommendation. Approve as budgeted.

8570 Department of Food and Agriculture

Issue 1 - Plant Pest Prevention System

Governor's Budget. The Governor's budget proposes $1.8 million General Fund, and $2.6 million in Department of Food and Agriculture Fund (Agriculture Fund) authority in 2017-18 and 190.5 positions (25.5 permanent positions and a conversion of 165 temporary positions to permanent positions), and $1.9 million General Fund, $2.9 million in Agriculture Fund and $570,000 of reimbursements and 194 positions (29 permanent positions and a conversion of 165 temporary positions to permanent positions) in FY 2018-19 and ongoing for the Department of Food and Agriculture (CDFA) to fortify the infrastructure of the state's pest prevention system.

Legislative Analyst's Office (LAO). The LAO recommends approving the new positions and half of the positions requested to be shifted from temporary status. They further recommend the Legislature require the department to report at budget hearings on the need for new office facilities to house the additional staff requested under the Governor's proposal, as well as the estimated cost of the greenhouse structures that might be needed in order to implement the Governor's proposed biocontrol program.

This proposal was heard by the subcommittee on March 2nd. Since the time of the hearing, it has been brought to the subcommittee's attention that there is an additional concern regarding resource needs to combat Pierce's Disease. Vineyards statewide are being impacted. However, state funds that previously went to CDFA's Pierce Disease Control Program were cut in 2011.

Staff Recommendation: Approve the Governor's request. Additionally, add $5 million General Fund for the Pierce Disease Control Program to combat and minimize the statewide impact of Pierce's Disease and its vectors in California.

Discussion Calendar

3820 San Francisco Bay Conservation and Development Commission (BCDC)

Issue 1 – Co-Location to Regional Headquarters

Proposal. BCDC is need of $5 million General Fund for construction of tenant improvement costs to make the bare floor (the 5th floor) of their new office habitable. The costs will be amortized over the ten-year period of the lease.

Background. The 2016 budget included $350,000 General Fund to relocate BCDC offices into the Metropolitan Transportation Commission's new regional agency headquarters building in San Francisco at 375 Beale Street. This item had been heard multiple times in the subcommittee in 2014 and 2015 with recommendations to support this co-location move. BCDC does not have available funds for this co-location project, and is statutorily required to be located in San Francisco.

BCDC and its Bay Area Regional Collaborative (Metropolitan Transportation Commission, Association of Bay Area Governments, and the Bay Area Air Quality Management District) partners "coordinate and improve the quality of land use, transportation, and air quality planning for the Bay Area" by "coordinating the development and drafting of major planning documents prepared by" member agencies. BCDC is leading the region's efforts to adapt to climate change, is helping to coordinate the next iteration of the Bay Area's Sustainable Communities Strategy (SB 375), and working closely with its partners to harmonize important regional plans and strategies.

Co-locating these efforts in one building in which all agency staffs can work together seamlessly-both physically and figuratively-to increase regional integration more efficiently use state resources, rather than leaving BCDC on the sidelines by being the only one of the four partner agencies not located at the single site. Not joining its regional partners at 375 Beale would complicate, hinder, and lessen collaboration required to fulfill BCDC's mandate and would delay or otherwise diminish regional state policies-particularly addressing the challenge of how rising sea level will cause damage to state-owned and dependent assets absent BCDC and regional collaboration.

Staff Comment. This move was approved by the subcommittee last year. However, the costs ($5 million) for tenant improvements have been identified, which BCDC does not have current resources to address.

Staff Recommendation. Approve $5 million, to be amortized over the ten-year lease period, for BCDC to complete its move to 375 Beale Street in San Francisco.

3960 Department of Toxic Substances Control (DTSC)

Issue 1 – Exide Closure Implementation

Governor’s Proposal. The May Revision proposes a loan of $1.4 million annually for three-years from the Lead-Acid Battery Cleanup Fund to the Hazardous Waste Control Account for a third-party quality assurance contractor to provide oversight of the activities conducted under the Closure Plan for the Exide Technologies, Inc. facility in Vernon.

Background. The Exide facility is located in the City of Vernon, began operations as a lead smelter in 1922. Exide purchased the facility in 2000 and Exide's operations included treatment and recycling of spent lead-acid batteries. The Exide facility suspended its operations in 2013 in response to enforcement actions and permanently closed the facility in 2015.

In November 2014, DTSC ordered Exide to maintain a surety bond of approximately $11 million and to establish a closure/post closure trust fund to ensure adequate funding for closure. DTSC estimates that closing the Exide facility will require Exide to spend $38.6 million.

In March 2015, DTSC required Exide to submit an updated closure plan for the facility in accordance with applicable laws and regulations. Exide also signed a non-prosecution agreement with the United States Department of Justice that requires Exide to comply with certain orders issued to Exide by DTSC.

On December 8, 2016, DTSC approved the closure plan for the Exide facility. The closure plan requires the work to be overseen by a third-party quality assurance (QA) contractor hired by the regulatory agencies and funded by Exide. The third-party QA contractor will provide oversight for implementation of the closure plan to ensure that the closure activities do not add additional environmental impacts that are not already identified in the Environmental Impact Report (EIR) to the surrounding neighborhoods. This provision was included in the closure plan by DTSC in response to requests and concerns raised by the communities near the Exide facility.

DTSC intends to use the spending authority contained in this proposal to ensure payment to the contractor in the event that Exide disputes or rejects any invoice submitted by DTSC for reimbursement. DTSC would repay the loan as it receives payment from Exide for any late or disputed invoice.

Staff Comment. Nonpayment by DTSC to the contractor may cause a suspension of oversight work. This proposal will ensure that DTSC has the spending authority necessary to pay the contractor until it received reimbursement from Exide.

Staff Recommendation. Approve as Budgeted

Issue 2 – Augmentation for National Priorities List and State Orphan Sites

Governor's Proposal. The May Revision proposes $3.7 million, on a one-time basis, from penalty revenues from various funds ($0.5 million from the Department of Pesticide Regulation Fund, $2.7 million from the Air Pollution Control Fund, and $0.5 million from the Waste Discharge Permit Fund) to direct site remediation at National Priorities List and state orphan sites. DTSC also requests provisional budget bill language to allow this.

Background. The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), also known as the "superfund," was passed in 1980 to help address cleanup needs at the nation's most heavily contaminated toxic waste sites. Hazardous waste sites eligible for long-term remedial action financed under the superfund program, are placed on the National Priorities List (NPL). Sites placed on the NPL contains the most heavily contaminated and difficult to clean up hazardous waste sites.

In partnership with the USEPA, DTSC acts on behalf of the State of California to remediate sites listed on the NPL. Under CERCLA, at sites where the responsible party cannot be found or cannot pay, the state is legally obligated to pay 10 percent of the cost of constructing the cleanup remedy (federal funds pay 90 percent), and 100 percent of the cost of operating and maintaining the remedy after it is built.

Over the past several years, DTSC has received an annual appropriation of approximately $10 million for site remediation. According to DTSC, the funds allocated have not met historic demand. For example, in 2016-17, DTSC project managers identified a funding need that was more than twice the current appropriation. Underfunding this work has created a backlog at DTSC.

Staff Comment. CERCLA legally obligates DTSC to pay for 100 percent of operations and maintenance costs at NPL sites. The requested resources would allow DTSC to fully fund the state's NPL obligations and to protect the public and the environment from hazardous substances.

Staff Recommendation. Approve as budgeted.

3540 Department of Forestry and Fire Protection

Issue 1 – Climate Adaptation Extended Fire Season

Governor's Proposal. The May Revision proposes $42.4 million ($42.1 million General Fund, $309,000 Special Funds and Reimbursements), 18.5 positions, and 276.1 ongoing seasonal firefighters to add 42 year-round fire engines to the existing 10 year-round fire engines and to extend fire engine and helitack base ground crew staffing in the fall and spring. The department reports that there will be a corresponding reduction in E-Fund.

Background. Over the last five years, CAL FIRE has experienced a 25 percent increase in fire activity; data confirms that fire season length and intensity have noticeably increased over the past two decades. Much of the increased fire activity is due to the conditions resulting from the extreme weather patterns over the last five years in California – the worst drought in modern history, overlaid with the three consecutive hottest years on record, followed by the wettest year on record. Many predict that these extreme weather patterns will continue and result in larger, more frequent, and more intense fires.

Due to increased fire suppression needs, CAL FIRE has utilized the Emergency Fund (General Fund) over the last several years to supplement their staffing and budgetary needs. Instead of continuing to do so, CAL FIRE is requesting to adapt its staffing allocation guideline and base budget with its actual needs given the ongoing impact of climate change, demographics, invasive species, and forest health conditions.

The additional 42 engines and the extension of fire engine and helitack staffing in fall and spring each calendar year is intended to provide an amount of resources within each of CAL FIRE's 21 units to address climate driven conditions, based on the number of ignitions and acres. The extended fire engine and helitack base staffing would also provide surge capacity when there is an extended attack or major incident during this time, as is often the case with wind driven fires. This has the potential to avoid Emergency Fund costs as more CAL FIRE engine and helitack base staff would be available for assignment to incidents, eliminating the need for costlier local government resources. The General Fund portion of this budget request will be offset by a commensurate reduction in the Emergency Fund starting in FY 2017-18, which results in a zero net cost to the General Fund.

Legislative Analyst's Office (LAO). The LAO recommends requiring the department to provide additional information in budget hearings prior to approving the requested resources. In particular, the department should address why the requested increase from 10 to 52 year-round staffed engines is justified given a 25 percent increase in fire activity in the winter months. In addition, the LAO suggests that the Legislature may want to request that the department more fully describe the outcomes it anticipates to achieve with the additional firefighters, such as reduction in number acres burned and acres on which they perform fuel reduction activities. LAO notes that the Administration's budget proposal assumes an equivalent reduction E-Fund expenditures. LAO argues that, while there might be some reduction in future spending from E-Fund if the funded activities effectively reduce the number of large fires, it is not clear what level of savings will actually occur, if any. Finally, the LAO recommends that if the Legislature chooses to approve these additional resources, they also recommend approving them on a limited-term basis in order to ensure that the Legislature has an opportunity to revisit whether the requested level of resources reflects the ongoing need rather than the unique circumstances created by the recent drought.

Staff Recommendation: Approve as budgeted.

Issue 2 – CAD Hardware and Service Refresh

Governor's Proposal. The May Revision proposes $7.1 million General Fund in 2017-18, and $1.3 million annually thereafter through 2021-22, to update the Altaris Computer Aided Dispatching (CAD) system.

Background. The CAD system is CAL FIRE's primary dispatch system used at CAL FIRE's emergency command centers, the academy and the information technology services headquarters lab facility. The CAD system is also CAL FIRE's primary automation tool used to facilitate initial attack dispatching operations by tracking the movement of CAL FIRE personnel in order to dispatch resources to an emergency.

The CAD system was originally approved in March 2002. The Budget Act of 2007 included five years of funding for CAD hardware update and ongoing maintenance and support. Funding for the last CAD hardware update and five-year contract for software maintenance and support was provided in the Budget Act of 2012. The warranties for the current hardware purchased with this funding will expire on June 30, 2017. In addition, the current five-year CAD software maintenance and support contract with Northrop Grumman Systems Corporation (NGSC) is also set to expire on June 30, 2017. The new contract is scheduled to begin July 1, 2017.

According to CAL FIRE, they do not have the staff or expertise necessary to service and maintain the CAD proprietary software system. Consequently, without ongoing service and maintenance support, the system would be considered "out of service" as soon as the first software failure is reported. Any failure in CAD has the potential of increasing risks in emergencies. Dispatching would return to operating on a manual system, which would be a massive undertaking at each command center because the manual system has not been maintained and would require an enormous time commitment to re-establish.

The prior and current CAD software maintenance and support contract with NGSC were for five years, respectively. CAL FIRE has negotiated a third five-year CAD software and maintenance support contract with NGSC, which was most recently discussed with DGS in April 2017. In early May 2017, DGS informed CAL FIRE the five-year term of the proposed CAD software maintenance and support contract could run longer than this. This request if approved will provide a one-time hardware lifecycle replacement, along with ongoing maintenance and support.

Staff Recommendation: Approve as budgeted.

Issue 3 – Emergency Drought Actions

Governor's Proposal. The May Revision includes a reduction of $49.3 million General Fund from the January Governor's budget, revising the $90.98 million originally requested, resulting in a total request in the budget year of $41.7 million ($38.7 million General Fund and $2.98 million SRA Fire Prevention Fund).

Background. The Governor's proposed budget in January included $90.98 million ($88.1 million General Fund and $2.9 million SRA Fund) for CAL FIRE for expanded fire protection in the 2017 fire season. This included continuation of increased firefighter surge capacity, extended fire season, surge helicopter pilots, California Conservation Corps fire suppression crews, increased vehicle maintenance and exclusive use of the large and very large air tankers. The proposed budget also reflected an additional $90.4 million General Fund in the current fiscal year, supported by the Emergency Fund, to initiate these enhanced fire protection efforts in the spring of 2017.

Based on updated weather and fuel conditions, CAL FIRE is reducing the $90.98 million to $41.7 million. CAL FIRE is also reducing the current fiscal year amount to $46.97 million. The majority of the savings come from reducing the extended fire season staffing in recognition of the climate adaptation budget request, eliminating the surge helicopter pilots, and reducing the number of exclusive use large and very large air tankers.

The remaining funding requested would be used to address the massive tree mortality and bark beetle infestation, as detailed in the October 30, 2015, Governor's State of Emergency Proclamation on the tree mortality epidemic.

On November 18, 2016, the U.S. Forest Service increased its estimate of the number of dead trees in California's forestlands from 66 million to 102 million. Large numbers of trees are dying due to six repeated years of drought, which has weakened trees and left millions of acres of forestland highly susceptible to bark beetle attacks. Drought stress is exacerbated in forests with too many trees competing for limited resources, especially water. Tree losses due to drought stress and bark beetle attacks are expected to increase until precipitation levels return to normal or above normal for several years. Research suggests forests recovering from drought take two to four years; drier forests take longer. Additional research shows high variability in response, with some species taking up to five years. It is, however, important to note that dead and dying trees will continue to increase fire risk until the trees burn, decompose, or are removed. The current 102 million dead and dying trees, along with inevitable incremental increases in mortality, will directly impact fuel conditions and fire behavior for up to 20 years.

Even after a normal rainy season, the dead vegetation will continue to dry out from past drought. Due to the large amount of moisture that a tree can store, it can take up to three years to completely die, as seen in Fresno County. The amount of diseased or infected trees, other increased dead fuels such as brush and smaller trees, and below average fuel moisture, has weakened trees to the point that they can fall down more easily during wind and snow storms, thus continuing to increase the dead fuel loading. The result of low live fuel moisture mixed with an abundance of dead fuel loading will increase the probability of fire starts and rapid rates of fire spread even during non-wind events, and will likely contribute to increased fire activity during hot periods, which also makes the fuels easier to ignite.

Staff Comment. As noted in the background, tree mortality and fire fuel remains a big concern despite the drought being over. The Subcommittee may wish to ask CAL FIRE how it is prioritizing fuel reduction activities. In addition, in the last couple of years the Legislature has added funding from the State Responsibility Area Fire Prevention Fund for grants to locals support fuel reduction efforts.

Staff Recommendation. Approve the request. However, add $10 million from the State Responsibility Area Fire Prevention Fund and budget bill language to support local assistance grants for fuel reduction efforts and to improve drought resilience within state responsibility areas.

3860 Department of Water Resources

Issue 1 – Infrastructure Repairs and Reimbursements for Flood Control

Proposal. A member letter submitted to the subcommittee requests $100 million General Fund on an annual basis for the department to perform critical and serious infrastructure repairs and reimbursements for flood control infrastructure.

Background. The letter notes that the amount of rainfall this year and the severe damage to the Oroville Dam spillways have caused substantial damage to flood control structures that need to be addressed as soon as possible. The letter further notes that the need for a consistent and reliable source of funding to reduce food-risk in our state is vital to protection of human life and property.

The letter notes that the Sacramento, Feather, and Yuba River levees along with the Sutter and Yolo Bypasses are in critical need of repair, that serious repair must be made to urban and rural flood protection facilities in high risk flood areas, and that local agencies have spent a significant amount of money on emergency response activities.

Finally, the letter notes that the Central Valley Flood Protection Plan estimates up to $21 billion needed over 30 years for upkeep of the state plan of flood control system of levees while an analysis by the department and the U.S. Army Corps of Engineers identified more than $50 billion in needs in a 2013 report.

Staff Recommendation. Hold open.

3970 Department of Resources Recycling and Recovery

Issue 1 – Enhanced Oversight, Audit, and Enforcement in the Beverage Container Recycling Program

Governor's Proposal. The May Revision proposes $2.3 million Beverage Container Recycling Fund and 22 positions to convert limited-term resources into permanent to sustain increased and enhanced oversight, audit, and enforcement functions within the Beverage Container Recycling Program.

Background. Beverage container recycling is a multi-billion-dollar a year industry, and California is one of only ten states in the United States with a bottle bill program. Program revenues come from primarily two sources: the beverage manufacturers who pay processing fees to CalRecycle and beverage distributors who make redemption payments to CalRecycle for beverage container sold or transferred in California.

In 2015, over 23 billion containers were sold or transferred in California. On a daily basis, over 50 million containers are recycled. The recycling rate of the program reached 85 percent in 2013. A portion of the increase in the recycling rate is due to a substantial increase in fraud by individuals and entities attempting to compromise the integrity of the fund. Based on CalRecycle's experience, as well as the experiences of the Department of Justice, the majority of program fraud and illicit payments is associated with the importation and subsequent illegal redemption of imported out-of-state empty beverage containers and re-redemption of CRV empty beverage containers purchased from consumers in California.

In November 2014, the California State Auditor conducted an audit of the Program. The Auditor's report recommended that CalRecycle implement changes to address several areas to protect the Fund from the risk of the importation and illegal redemption of imported out-of-state empty beverage containers.

In the 2015 budget, five limited-term positions for auditors were approved to audit Beverage Manufactures and Distributors within the BCRP. As two-year limited-term positions, there were challenges to recruiting for the position and keeping the positions filled. Two of the positions were filled by March 2015. The five positions were fully staffed between November 2015 and February 2016. In February 2016, two of the auditors transitioned into other permanent positions and CalRecycle has been unable to hire qualified candidates. All five limited-term positions will expire on June 30, 2017.

Despite the hiring challenges, the limited-term auditors started a total of 32 audits, and have been able to complete 10 of them. The total findings of these 10 audits have amounted to $251,488. Additionally, there are 22 audits still in progress and the department estimates that projected findings for these 22 audits will amount to a total of $793,774. The total amount of findings to which these five positions will have contributed is $1,045,262.00. These "findings" represent underpayments of CRV and/or processing fees identified by the audits.

The limited-term positions have helped cleared the backlog issues that CalRecycle had experienced in the past. Every year CalRecycle plans to conduct a certain number of audits; if an audit is not performed within the year in which it is planned for, it will be carried to the next fiscal year. The limited-term auditors help conduct the low-volume audits, thus allowing the seasoned auditors to focus on the more difficult high-volume audits. Therefore, not many audits have to be pushed to the next fiscal year. In addition, many audits are in the quality control inventory, waiting to be reviewed to make sure the audit conclusion is supported by sufficient appropriate evidence before the report can be issued. Some of the seasoned auditors can be freed up to do certain QC review, thus, helped to clear the backlog in QC.

Staff Comment. The previously approved limited-term resources for CalRecycle to conduct audits have proven to be successful, despite the difficulty in recruiting staff due to the limited-term positions. Making these positions permanent would allow CalRecycle to continue to conduct audits and enforcement.

Staff Recommendation. Approve as budgeted.

3885 Delta Stewardship Council

Issue 1 – Delta Stewardship Council Trailer Bill Language

Governor's Proposal. The Governor proposes trailer bill language to extend the term limit of the chairperson position at the Delta Protection Commission from four years to eight years.

Background. The Delta Reform Act established the Delta Stewardship Council in 2009. The council was created to advance the state's coequal goals for the Delta – a more reliable statewide water supply and a healthy and protected ecosystem, both achieved in a manner that protects and enhances the unique characteristics of the Delta as an evolving place. The council is tasked with developing an enforceable long-term sustainable management plan for the Delta to ensure coordinated action at the federal, state, and local levels. The Delta Plan, adopted in 2013, includes both regulatory policies and non-binding recommendations.

The council is comprised of seven voting members and advised by a 10-member board of nationally and internationally renowned scientists. Four members are appointed by the Governor, one member is appointed by the Senate Rules Committee, the Speaker of the Assembly appoints one member, and one member serves as the Chairperson of the Delta Protection Commission.

The chairperson of the Delta Protection Commission serves as a member of the council for the period during which he or she holds the position as commission chairperson, which is four years.

Staff Comment. Whether to extend the term of the Delta Protection Commission chairperson from four to eight years is a policy questions. These issues were significantly debated in the past and the May Revise does not allow enough time to appropriately revisit.

Legislative Analyst's Office (LAO). The LAO believes the proposal to extend the term of the council chairperson from four to eight years is a policy decision without a budgetary link, and therefore should be discussed through the policy process rather than the budget trailer bill. Moreover, including this change in the May Revision trailer bill does not allow sufficient time for the Legislature to solicit feedback or concerns from stakeholders.

Staff Recommendation. Reject, this proposal should be considered through the policy process.

8570 Department of Food and Agriculture

Issue 1 – Milk Pooling Trailer Bill Language

Governor's Proposal. The Governor proposes trailer bill language to authorize CDFA to establish a stand-alone milk quota program.

Background. The U.S. Department of Agriculture (USDA) uses marketing orders to regulate the sale of dairy products. These marketing orders are binding on all handlers of the commodity within the geographic area of regulation, once it is approved. The order may limit the quantity of goods marketed, or establish the grade, size, maturity, quality, or prices of the goods. This system allows producers to promote orderly marketing through collectively influencing the supply, demand, or price of a particular commodity. Research and promotion can be financed with pooled funds.

California has a state-specific pricing system for dairy that is separate from the USDA. CDFA is the regulatory agency charged with overseeing this system. In order to perform this function, CDFA monitors conditions in the diary market place and establishes the minimum price that must be paid by processors to producers.

In February 2017, the USDA recommended establishing a federal order that would incorporate California dairy. USDA is now in the process of taking public comments on the recommendation. USDA is scheduled to host an official vote of California dairy farmers between late fall of 2017 and early spring of 2018 on whether to join the federal order.

If California dairy farmers choose to join the federal order, the existing California milk pricing system (which includes a quota system) would be repealed, but there would be no quota system under the federal order. California dairy farmers may be interested in maintaining a California-specific quota system (in addition to the federal order).

The proposed trailer bill language would authorize CDFA to establish a California-specific quota system contingent upon approval through a dairy farmer referendum. According to CDFA, it is important for dairy farmers to know whether CDFA has authority to implement a California-specific quota system before a vote is taken on whether to join the federal order.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 2 – Turlock North Valley Laboratory Replacement

Governor's Proposal. The Governor's budget proposed $3.1 million General Fund to construct the North Valley Animal Health Laboratory, a new full-service animal health laboratory in the northern San Joaquin Valley.

Background. The California Animal Health and Food Safety Laboratory System (CAHFS) is a network of four laboratories throughout California, providing broad-based surveillance for diseases in agriculture to ensure food and animal feed safety. CAHFS serves to prevent, detect, contain and eliminate livestock and poultry disease outbreaks through livestock and poultry necropsy examinations (animal autopsy) submitted by vets or animal owners to determine the cause of illness or death of an animal. CAHFS also tests environmental samples submitted to assist with diagnosing diseases, certifying animals/environments are free from disease (often a requirement prior to import/export), and to maintain flock or herd health.

CAHFS' four laboratories (Davis, Turlock, Tulare, and San Bernardino) are strategically located throughout the state to facilitate receiving an adequate sample surveillance stream and serve as an early warning system to rapidly detect diseases of concern so they can be contained by CDFA before they spread.

Laboratories in Davis, Tulare, and San Bernardino provide full-service necropsies and testing on biological samples (eg. blood, tissue biopsies, etc.). Turlock is the only laboratory that is restricted to poultry testing. The laboratory in Turlock opened in 1958 and has two on-site trailers for a total square footage of 5,100. The laboratory can only accept avian (bird) species and cannot provide mammalian necropsy/pathology services.

According to CDFA, the testing limitations of the Turlock Laboratory leave a gap in the surveillance system given the large population of cattle, sheep and other livestock in the northern central valley of California. CDFA further asserts that the existing laboratory does not meet current standards for diagnostic testing, lacks adequate biocontainment safeguards, and cannot be modified to comply due to its age, the presence of asbestos, and the size and location of the existing site. This proposal seeks to replace the laboratory facility in Turlock with a full-service animal health laboratory. The total estimated cost of this project is $54.1 million.

Staff Recommendation. Approve as budgeted.

3600 Department of Fish and Wildlife

Issue 1 – Drought Modifications

Governor's Proposal. The May Revision proposes a decrease of $5.6 million General Fund to reflect decreased need for emergency drought funding. The Governor's budget proposed $8.2 million for drought-related activities. The requested reduction will maintain a budget of $2.6 million to support acoustic monitoring in the Delta and maintenance of infrastructure procured during the drought.

Background. Executive Order B-40-17 lifted the Governor's previous drought declaration in all but four counties. As a result of improved conditions and significantly increased precipitation this year, the Department of Fish and Wildlife no longer requires additional resources for new infrastructure, terrestrial monitoring, salmon passage criteria, and increased law enforcement. However, this request will allow the department to continue to move forward with a long-term fish tracking system that will allow for real-time analysis of fish movement to provide more accurate data for decision making. The department currently funds an acoustic monitoring array that is overseen by a multi-agency Core Array Advisory Group. This monitoring array is built around several core locations within the Delta and its tributaries; however, this system is limited in size and scope, utilizes outdated technology that does not support real-time monitoring, and is funded under a Proposition 84 grant agreement set to expire in 2017.

In 2015 drought funding was provided to enhance the state's efforts by funding a pilot program (Phase I) that will, over the next two years develop the technology needed to implement a real-time monitoring program in the Delta. The 2015 funds are short-term and will not support a long-term program. With Phase I funding, the department was able to purchase 30 acoustic receivers and approximately 2,600 tags in order to create an array of monitoring stations throughout the Delta. Effective wide-scale monitoring of fish movement in the Delta is fundamental to the protection of several at-risk aquatic species and the operations of the state and federal water projects. Additionally, it would facilitate adaptive management strategies by tracking spatial and temporal success of restoration and management activities.

Staff Recommendation. Approve as budgeted.

Issue 2 – Voluntary Agreements for Sacramento-San Joaquin River

Governor's Proposal. The May Revision proposes $1.1 million General Fund and five positions to provide resources to negotiate, complete, and implement voluntary agreements in tributaries to the Sacramento-San Joaquin Rivers and the Delta. These agreements are intended to create water supply and regulatory certainty for water users, and improve ecological flow and habitat for species.

Background. The "Protect and Restore Important Ecosystems" action of the California Water Action Plan (CWAP) provides that:

> "The administration, with the involvement of stakeholders, will build on the work in tributaries to the Sacramento and San Joaquin river, analyze the many voluntary and regulatory proceedings underway related to flow criteria, and make recommendations on how to achieve the salmon and steelhead and ecological flow needs for the state's natural resources through an integrated, multi-pronged approach."

The CWAP also identified the need for the State Water Resources Control Board to update the Bay Delta Water Quality Control Plan, which requires understanding and analysis of ecological conditions in over 20 streams in the Central Valley. The water board has begun this update, of which the department has been an active participant in and provided both written and oral comments. Through those ongoing efforts, the board has publicly stated its desire for parties to reach voluntary agreements that they can consider in lieu of lengthy water rights proceedings.

The department is currently involved in many, if not most, tributaries to the Sacramento and San Joaquin rivers and working directly with irrigation districts and water agencies through existing administrative processes. This includes Federal Energy Regulatory Commission relicensing of hydroelectric facilities, through collaborative discussions about ecological flow and restoration programs, and through programs like the department's Voluntary Drought Initiative.

The state provided $816,000 to the department in 2016 to support legal assistance and re-direct staff to fully engage in voluntary agreement negotiations. This has allowed the department to develop the preliminary scientific and modeling evaluations necessary to negotiate critical terms of the voluntary agreements. Additionally, this level of support has provided assurance of the state's commitment to these efforts, which subsequently motivated parties to become similarly engaged. So much that formal negotiations on the San Joaquin tributaries is now underway.

Legislative Analyst's Office (LAO). To ensure that General Fund-supported staff work is targeted for project assessment and implementation work that serves/improves public trust resources (and not private interests, which should be supported by project permit fees or private funds), the LAO recommends adding budget bill language stipulating that requirement.

Staff Recommendation. Approve the proposal with the addition of budget bill language, as suggested by the LAO, to ensure that General Fund-supported staff is targeted for work related to public trust resources.

Senate Budget and Fiscal Review—Senator Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, August 24, 2017
Upon adjournment of session
State Capitol - Room 4203

Consultant: Joe Stephenshaw

Issues for Discussion

Greenhouse Gas Reduction Fund Overview

Panelists:

- *Brian Brown, Managing Principal Analyst, Legislative Analyst's Office*
- *Matt Almy, Assistant Program Budget Analyst, Department of Finance*
- *Doug Ito, Assistant Division Chief, Transportation and Toxics Division, Air Resources Board*

Public Comment

Greenhouse Gas Reduction Fund Overview 2017-18

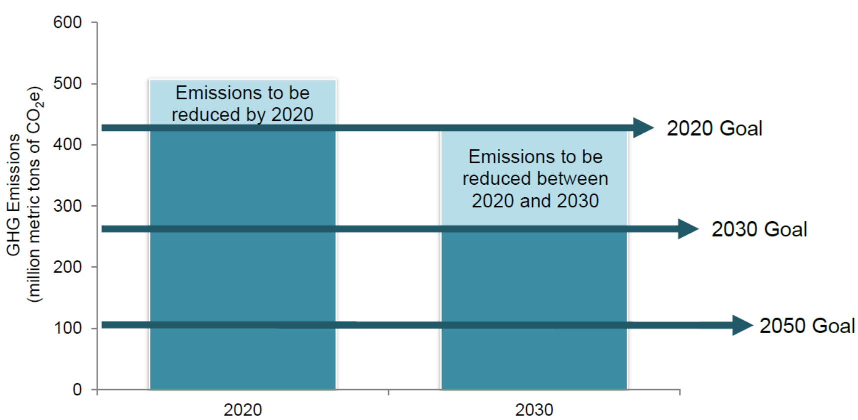
BACKGROUND

The California Global Warming Solutions Act of 2006 (AB 32 [Nunez/Pavley], Chapter 488, Statutes of 2006) established the State Air Resources Board (ARB) as the state agency responsible for monitoring and regulating sources emitting greenhouse gases (GHGs) and required the ARB to approve a statewide greenhouse gas emissions limit equivalent to the statewide greenhouse gas emissions level in 1990 to be achieved by 2020 and prepare and approve a Scoping Plan, to be updated every five years, to achieve the maximum technologically feasible and cost-effective reduction of GHG emissions.

Senate Bill 32 Pavley, Chapter 249, Statutes of 2016 established an additional GHG target of at least 40 percent below 1990 levels by 2030. In addition, Chapter 250 of 2016 (AB 197, E. Garcia) directs ARB to prioritize regulations that result in direct GHG emission reductions, including emission reductions at large stationary sources and from mobile sources.

GHG Emissions. AB 32 established 1990 as the baseline year for determining California's GHG emissions. According to ARB's updated emission inventory, 1990 emission levels were equal to 431 million metric tons of carbon dioxide-equivalent (MMTCO2e). The following chart from ARB's Cap-and-Trade Auction Proceeds Second Investment Plan shows the GHG emission reduction goals for 2020, 2030, and 2050. Significant investments from several sources of both public and private entities are needed to support the transformative technologies that are essential to reach both the 2030 and 2050 goals.

Figure 3. California Greenhouse Gas Emissions and Reduction Goals*



$MMTCO_2e$ means "million metric ton of carbon dioxide equivalent" emissions.

According to ARB's 2017 Edition California GHG Emission Inventory, California's GHG emissions have followed a declining trend since 2007. In 2015, emissions from routine emitting activities statewide were 1.5 million metric tons of CO2 equivalent (MMTCO2e) lower than 2014 levels, representing an overall decrease of 10 percent since peak levels in 2004. During the 2000 to 2015 period, per capita GHG emissions in California have continued to drop from a peak in 2001 of 14.0

tonnes per person to 11.3 tonnes per person in 2015, a 19 percent decrease. Overall trends in the inventory also demonstrate that the carbon intensity of California's economy (the amount of carbon pollution per million dollars of gross domestic product (GDP)) is declining, representing a 33 percent decline since the 2001 peak, while the state's GDP has grown 37 percent during this period. The following figures from ARB display the trends in, and overall percentage of, GHG emissions by sector.

Figure 3. Trends in California GHG Emissions*

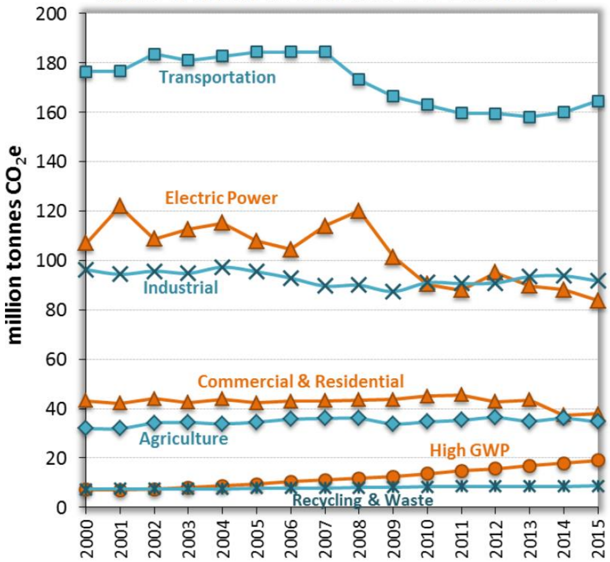
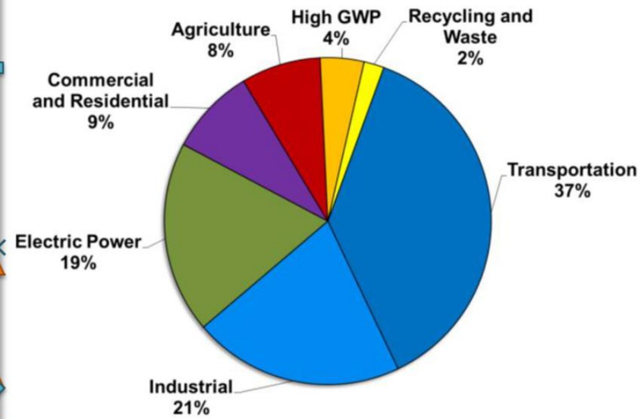


Figure 4. 2015 GHG Emissions by Sector*



The transportation sector remains the largest source of GHG emissions in the state, accounting for 37 percent of the inventory, and had an increase in emissions in 2015. Emissions from the electricity sector continue to decline due to growing zero-GHG energy generation sources. Emissions from the remaining sectors have remained relatively constant, although emissions from high-GWP gases have continued to climb as they replace ozone depleting substances (ODS) banned under the Montreal Protocol.

California faces ambitious goals to reduce GHG emissions, improve air quality, deploy zero-emission vehicles (ZEVs), and reduce petroleum dependency. ARB's 2014 First Update to the Climate Change Scoping Plan and 2016 Mobile Source Strategy conclude that many of the same actions are needed to meet GHG, smog forming, and toxic pollutant emission reduction goals – specifically, a transition to zero-emission and near zero-emission technologies and use of the cleanest, lowest carbon fuels and energy across all vehicle and equipment categories.

In addition to GHGs, SB 1383 (Lara) Chapter 395, Statutes of 2016, requires ARB to implement a strategy to reduce methane emissions by 40 percent, hydro fluorocarbon gases by 40 percent, and anthropogenic black carbon by 50 percent below 2013 levels by 2030. These types of emissions are also known as short-lived climate pollutants. Short-lived climate pollutants are estimated to be responsible for about 40 percent of current net climate forcing (the heating effect caused by GHG emissions in the atmosphere). ARB is currently in the process of updating its scoping plan to identify the policies that will be used to achieve the additional reductions needed to meet the 2030 GHG target.

Cap-and-Trade. The cap-and-trade program is a key element of California's GHG emission reduction strategy. The cap-and-trade program will provide about 20 percent of the GHG emission reductions needed to achieve the 2020 limit under AB 32. The program creates a limit on the emissions from sources responsible for 85 percent of California's GHG emissions, establishes the price signal needed to drive long-term investment in cleaner fuels and more efficient use of energy, and provides covered entities the flexibility to implement the lowest-cost options to reduce emissions. In addition to reducing GHG emissions, the program also complements and supports California's existing efforts to reduce criteria and toxic air pollutants.

In the cap-and-trade program, ARB places a limit, or cap, on GHG emissions by issuing a limited number of tradable permits (allowances) equal to the cap. A portion of the allowances are distributed for free, a portion placed in a cost-containment reserve, and the remainder auctioned. ARB conducts quarterly auctions where California state-owned and Québec-provincial-owned allowances, as well as allowances consigned by electrical distribution utilities, can be purchased. The funds raised by the sale of California state-owned allowances are deposited into the Greenhouse Gas Reduction Fund (GGRF) and are available for appropriation. Each year, the cap is lowered and the number of allowances declines in proportion to achieve the intended emission reductions. The cap is enforced by requiring each source that operates under the cap to turn in one allowance or offset credit for every metric ton of carbon dioxide equivalent (MTCO2e) emissions that it produces. Businesses that aggressively reduce their emissions can trade or sell their surplus allowances to firms that find it more expensive to reduce their emissions.

Beginning in 2013, the cap included GHG emissions from electricity and large industrial sources. Transportation fuels and residential and commercial use of natural gas and propane were included in the cap starting in 2015. The first cap-and-trade auction was held on November 14, 2012, and subsequent auctions have been conducted quarterly.

Proceeds from cap-and-trade auctions provide an opportunity for the state to invest in projects that help California achieve its climate goals and provide benefits to disadvantaged communities. Several bills in 2012, one in 2014, and one in 2016 provide legislative direction for the expenditure of auction proceeds, including SB 535 (de León), Chapter 830, Statutes of 2012, AB 1532 (J. Pérez), Chapter 807, Statutes of 2012, SB 1018 (Committee on Budget and Fiscal Review), Chapter 39, Statutes of 2012, SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014, and AB 1550 (Gomez), Chapter 369, Statutes of 2016.

These statutes require a state agency, prior to expending any money appropriated to it by the Legislature from the fund, to prepare a description of 1) proposed expenditures, 2) how they will further the regulatory purposes of AB 32, 3) how they will achieve specified greenhouse gas emission reductions, 4) how the agency considered other objectives of that act, and 5) how the agency will document expenditure results.

Additionally, AB 398 (Eduardo Garcia), Chapter 135, Statute of 2017, which extends ARB's authority to establish and utilize, a market-based mechanism, specifically a system of market-based declining annual aggregate emissions limits for sources or categories of sources that emit greenhouse gases (cap-and-trade), until December 31, 2030, includes the following investment priorities:

AB 398 Investment Priorities
1) Air toxic and criteria air pollutants from stationary and mobile sources.
2) Low- and zero-carbon transportation alternatives.
3) Sustainable agricultural practices that promote the transitions to clean technology, water efficiency, and improved air quality.
4) Healthy forests and urban greening.
5) Short-lived climate pollutants.
6) Climate adaptation and resiliency.
7) Climate and clean energy research.

Auction Revenue Spending. The state has used auction revenue to fund various programs and projects. For revenue collected in 2015-16 and beyond, statute continuously appropriates 1) 25 percent for the state's high-speed rail project, 2) 20 percent for affordable housing and sustainable communities grants (with at least half of this amount for affordable housing), 3) 10 percent for intercity rail capital projects, and 4) 5 percent for low carbon transit operations. The remaining 40 percent is available for annual appropriation by the Legislature. The chart below from the Legislative Analyst's Office (LAO) demonstrates how the state has spent auction revenues through 2016-17.

Figure 4

Cap-and-Trade Spending Through 2016-17

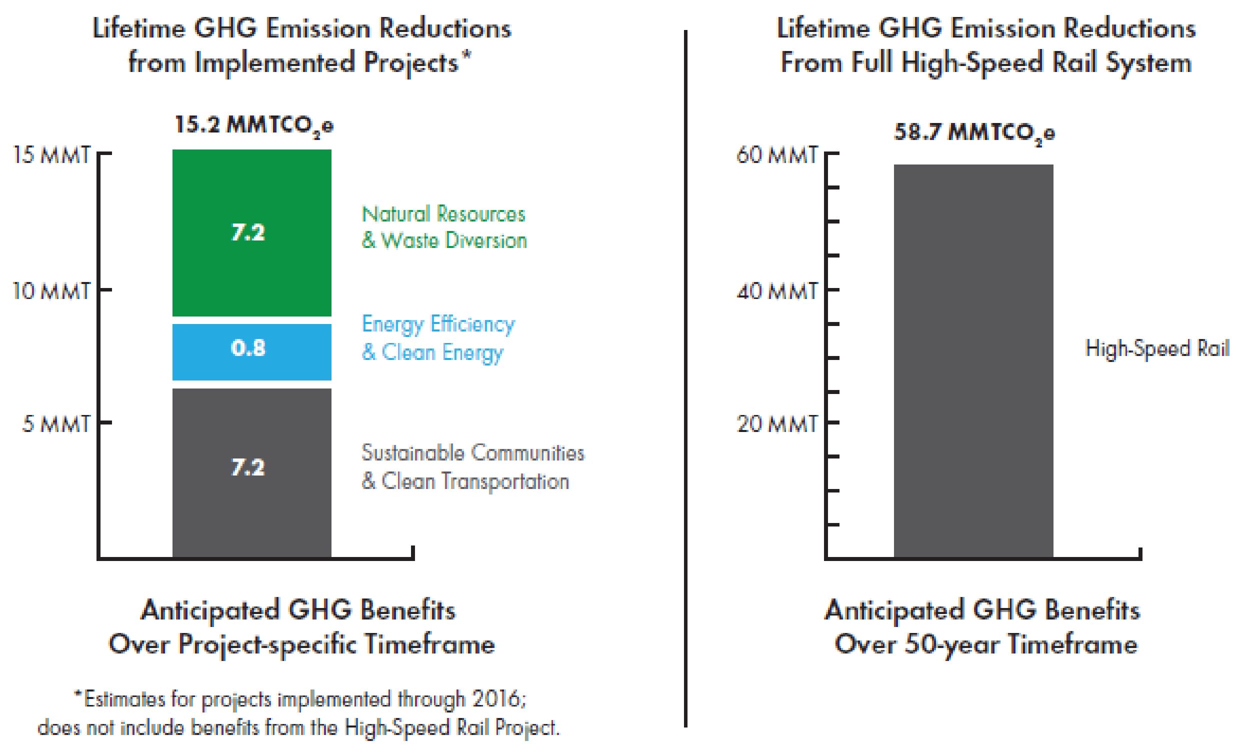
(In Millions)

Program	Agency	2013-14	2014-15	2015-16	2016-17	Total
High-speed rail[a]	High-Speed Rail Authority	—	$250	$458	$250[b]	$958
Affordable housing/sustainable communities	Strategic Growth Council	—	130	366	200[b]	696
Low carbon vehicles	Air Resources Board	$30	200	95	363	688
Transit and intercity rail capital	Transportation Agency	—	25	183	235[b]	443
Low-income weatherization and solar	CSD	—	75	79	20	174
Transit operations	Caltrans	—	25	92	50[b]	167
Transformational Climate Communities	Strategic Growth Council	—	—	—	140	140
Agricultural energy and efficiency	Food and Agriculture	10	25	40	65	140
Sustainable forests and urban forestry	Forestry and Fire Protection	—	42	—	40	82
Green infrastructure	Natural Resources Agency	—	—	—	80	80
Waste diversion	CalRecycle	—	25	6	40	71
Water efficiency	DWR	30	20	20	—	70
Wetlands and watershed restoration	Fish and Wildlife	—	25	2	—	27
Active transportation	Caltrans	—	—	—	10	10
Black carbon woodsmoke	Air Resources Board	—	—	—	5	5
Other technical assistance and administration	Various	2	10	14	24	50
Totals		**$70**	**$852**	**$1,354**	**$1,522**	**$3,800**

[a] Does not include $400 million loan repayment from General Fund that is allocated to high-speed rail in future years under current law.
[b] Estimated continuous appropriation based on $1 billion 2016-17 revenue estimate in Governor's budget.
CSD = Community Services and Development; Caltrans = Department of Transportation; and DWR = Department of Water Resources.

Agencies receiving appropriations, referred to as "administering agencies," develop and implement a suite of programs in transportation and sustainable communities, clean energy and energy efficiency, and natural resources and waste diversion. These programs are collectively referred to as California Climate Investments.

Investment Outcomes and Program Review. According to ARB's 2017 Annual Report on Cap-and-Trade-Auction Proceeds, implemented projects (projects for which final funding recipient has received funds and projects have attributable GHG and disadvantaged community benefits) are expected to reduce GHG emissions by over 15 million metric tons of carbon dioxide equivalent (MTCO2e) over their respective GHG reduction timeframes, which vary by program and are based on when projects are implemented and the duration of reductions as defined in the quantification methodology. In addition, the full High-Speed Rail Project is expected to reduce GHG emissions by nearly 59 million MTCO2e over its first 50-years of operating life, as detailed in the 2016 California High-Speed Rail Sustainability Report. This revised estimate is based on increased ridership forecasts and the extension from Los Angeles to Anaheim, which result in greater GHG reductions over the operating life. The reductions estimated from implemented projects and the High-Speed Rail Project are shown in the below figures from ARB's report.



Based on cumulative data, 50 percent of the $1.2 billion dollars implementing California Climate Investments is funding projects that provide benefits to disadvantaged communities; and 34 percent of the $1.2 billion is funding projects located within disadvantaged communities.

Cumulatively, agencies have implemented projects in 97 percent of disadvantaged community census tracts, which are providing a variety of benefits to those communities. For example, through CAL FIRE's Urban and Community Forestry Program, the City of Modesto Tree Replanting Activity Project has planted over 1,400 trees that provide shade, result in energy savings, and create a more comfortable environment for active transportation and recreation. Caltrans' Low Carbon Transit

Operations Program is supporting Visalia Transit system's V Line bus service expansion to seven days a week. CSD's Low-Income Weatherization Program is helping low-income residents in disadvantaged communities reduce their energy use and energy costs; in Kern County alone, over 600 homes received energy efficiency upgrades.

Pursuant to AB 1532 (Pérez), Chapter 807, Statutes of 2012, ARB's annual reports provide a summary of programmatic investments made from the GGRF, and estimates of the GHG reductions expected from project investments. For example, the 2016 annual report provided estimated costs that showed that programs for which they reported would spend an average of $57 in cap-and-trade auction revenue to reduce each ton of GHG. However, the estimated costs varied greatly between programs; ranging from $4 for organics and recycling loans to $725 for incentives for public fleets pilot projects for disadvantaged communities. The cost per ton was more than $100 for about half of the programs.

In its review of the 2016 report, the LAO expressed a number of concerns with the ARBs methodology, including, that it ignores interactions with existing regulations and not adequately accounting for likely activities that would occur without the program. As a result of these limitations, the LAO found that at least some of the estimates probably do not accurately predict the program's likely effect on GHG emissions.

In addition, the LAO pointed out that cap-and-trade spending is often only a portion of the overall amount of funding for each project, such as for transit improvement projects and affordable housing developments. As a result, it can be difficult to assess what portion of the GHG reductions should be attributed to state funds versus other funding sources.

Lastly, the LAO highlighted that many of the programs can provide significant co-benefits that the Legislature might also consider important, such as reduced local air pollution, water conservation, financial savings for low-income households, enhanced wildlife habitat, and improved forest health. Understanding the magnitude of these co-benefits can be an important piece of information when evaluating various spending options and weighing trade-offs between achieving GHG reductions and other co-benefits.

In its 2017 report, the ARB pointed out that, in an effort to quantify and standardize reporting on co-benefits achieved by these programs and others, CARB contracted with University of California (UC), Berkeley in 2016 to research and evaluate potential quantification methods for a number of economic, social, and environmental co-benefits. Administering agencies collaborated to prioritize benefits for initial evaluation based on those most broadly applicable across GGRF programs, and those with interest from multiple agencies and stakeholders, including job creation and local air quality. Methods will be developed next year and results will be included in future annual reports.

The 2017 report also provides an overview of each program or subprogram, including the total amount appropriated through 2016, a description of how GHG, disadvantaged community, and other benefits are achieved, cumulative anticipated GHG benefits from implemented projects, and disadvantaged community benefits from implemented projects. Some highlights include:

- **Clean Vehicle Rebate Project (GHG Benefit 4,852,300 MTCO2e, Located in DACs – 6 percent, Benefit DACs – 38 percent).** The State's Clean Vehicle Rebate Project (CVRP), which is now primarily supported by cap-and-trade dollars, promotes clean vehicle adoption by offering rebates of up to $7,000 for the purchase or lease of new, eligible zero-emission vehicles, including electric, plug-in hybrid electric and fuel cell vehicles. Eligible California residents can follow a simple process to apply for a CVRP rebate after purchasing or leasing an eligible vehicle. And many do. Since 2010, CVRP has issued more than $377 million in rebates for more than 175,000 vehicles, according to the Center for Sustainable Energy, which administers CVRP for CARB.

This statewide program is available on a first-come, first-served basis for new eligible clean cars. To make clean vehicles more accessible to a greater number of California drivers in communities most impacted by air pollution, lower-income consumers (with household incomes of less than or equal to 300 percent of the federal poverty level) are eligible for an increased rebate amount.

More than 11,000 rebates have been issued to individuals who live within a disadvantaged community. These investments are designed to help lower-income residents in areas of California affected most by air pollution afford the cleanest cars.

- **Enhanced Fleet Modernization Program Plus-Up (EFMP Plus-Up) (GHG Benefit 6,900 MTCO2e, Located in DACs – 94 percent, Benefit DACs – 100 percent).** Operates in conjunction with EFMP, the voluntary vehicle retirement and replacement program implemented by ARB and local air districts in coordination with the Bureau of Automotive Repair. EFMP Plus-Up provides additional incentives, above the base EFMP incentive, for lower-income consumers living in disadvantaged communities who retire older vehicles and replace them with cleaner used or new hybrid, plug-in hybrid, or zero-emission vehicles.

  Program benefits include GHG reductions by funding the purchase of new or used zero-emission vehicles, hybrids, or plug-in hybrid electric vehicles, which emit fewer GHGs than the vehicles being scrapped and conventionally fueled replacement vehicles.

  Disadvantaged community benefits include: improved public health and reduced exposure to environmental contaminants by reducing emissions from vehicles operating in or near disadvantaged communities; increased disadvantaged community residents' access to cleaner vehicles and transportation; the program provides an economic benefit to lower-income Californians and disadvantaged community residents that receive funding. Funding is limited to lower-income consumers living in disadvantaged communities.

  Co-benefits include: reduced NOX, ROG, CO, PM, and toxic air contaminant emissions, which help improve air quality and provide health benefits to the communities where projects are located; reduced petroleum use; economic benefit by reducing vehicle purchase costs and fuel costs; and accelerated implementation of advanced technology.

- **Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP) (GHG Benefit 76,100 MTCO2e, Located in DACs – 43 percent, Benefit DACs – 62 percent).** Provides vouchers, available on a first-come, first-served basis statewide, to help California fleets offset the higher up-front cost of purchasing hybrid and zero-emission trucks and buses. Additional incentives are provided for zero-emission vehicles that provide benefits to disadvantaged communities.

Program benefits include achieving GHG reductions by funding zero-emission and hybrid trucks and buses which emit fewer GHGs than conventionally fueled diesel vehicles.

Disadvantaged community benefits include: improved public health and reduced exposure to environmental contaminants by reducing emissions from vehicles operating in or near disadvantaged communities.

Co-benefits include: reduced NOX, ROG, CO, PM, and toxic air contaminant emissions which helps improve air quality, and provides health benefits to the communities where projects are located; reduced petroleum use; economic benefit by reducing vehicle costs and fuel costs; and accelerated implementation of advanced technology.

The 2017 annual report also provided data showing that, through 2016, programs funded by cap-and-trade revenue had received 986 proposals totaling approximately $4.9 billion. Of these, the programs were only able to select 505 projects totaling approximately $1 billion – meaning total requested funding was 490 percent of available funds.

The cap-and-trade program applies to transportation, energy, and industrial sources and helps California achieve the 2020 statewide emission reduction target. The State Agency Greenhouse Gas Reduction Report Card, published by the California Environmental Protection Agency (CalEPA), includes estimates of GHG emissions reduced as a result of measure implementation and a list/timetable for the adoption of measures.

Investment strategies that emphasize both GHG emission reductions and benefits to disadvantaged communities are priorities for California Climate Investment funding. Once program and project types for GHG emission reductions have been identified, the next focus is to prioritize program structures and project types that benefit disadvantaged communities. Many of the investment recommendations in the ARB’s Second Investment Plan have been identified by community representatives as priority projects (e.g., increased urban forestry, weatherization, and mobility options) or have the potential to yield environmental, economic, or public health benefits to disadvantaged communities. For example, an affordable housing project, located in a disadvantaged community near transit and paired with a clean car sharing program, can provide affordable housing, mobility, and air quality benefits for disadvantaged community residents.

2017-18 GGRF Funds

This past January, the Governor’s budget proposed to spend $2.2 billion in cap-and-trade revenue in 2017-18. This was comprised of $1.5 billion in auction revenue assumed to be collected in 2017-18 and almost $700 million in unallocated prior-year collections. Consistent with current law, 60 percent ($900 million) of projected 2017-18 revenue would be continuously appropriated. Under the Governor’s proposal, the remaining $1.3 billion in proposed discretionary spending was allocated as follows: 1) $500 million to support the Governor’s transportation funding package and 2) $755 million for other categories of activities as displayed in the following table from the LAO.

Figure 5

Proposed 2017-18 Cap-and-Trade Expenditure Plan

(In Millions)

Program	Amount
Continuous Appropriations	
High-speed rail	$375
Affordable housing and sustainable communities	300
Transit and intercity rail capital	150
Transit operations	75
Subtotal, Continuous Appropriations	($900)
Discretionary Spending	
Public transit and active transportation projects	$500
Clean transportation and petroleum use reduction	363
Transformative Climate Communities	142
Carbon sequestration	128
Short-lived climate pollutants	95
Energy efficiency and renewable energy	28
Subtotal, Discretionary Spending	($1,255[a])
Total	**$2,155**

[a] Does not total due to rounding.

In addition to the $1.5 billion assumed for 2017-18, the Governor's January budget proposal assumed $1 billion in cap-and-trade revenue in 2016-17. However, total 2016-17 revenue was actually $892 million, or $108 million less the Governor's budget assumption. As a result, programs that are continuously appropriated 60 percent of auction revenue received $535 million in 2016-17. Additionally, this resulted in a ending year fund balance of $843 million in discretionary funds available for appropriation in 2017-18.

Based on an $843 million fund balance and 40 percent of the $1.5 billion in estimated revenue for 2017-18, there is approximately $1.4 billion in discretionary funds that could be appropriated by the Legislature for the current budget year as displayed in the following table.

Available Cap-and-Trade Revenue for 2017-18 Appropriation (dollars in millions)	
2016-17 Fund Balance	$843
2017-18 Estimated Revenue	$1,500
60 Percent Continuous Appropriation	$900
2017 Budget Act (Keep the Lights On)	$22
Available for Expenditure Plan	**$1,400**
Fund Balance (End of 2017-18)	21

It should be noted that the ARB held the first auction of the current fiscal year last week (August 15th). All of the allowances sold in both the current and advance auctions. Total state revenue from this auction will likely be approximately $640 million. This is the first of four auctions that will be held in 2017-18. However, if subsequent auctions, during this fiscal year, result in similar revenue, the total revenue for 2017-18 would surpass the Governor's budget assumption of $1.5 billion.

Staff Comment

As mentioned above, the state is required to ensure that statewide GHG emissions are reduced to at least 40 percent below the statewide greenhouse gas emissions limit (1990 level) no later than December 31, 2030 (Executive Order B-30-15; SB 32 (Pavley)). Given this ambitious requirement, the state must increase its focus on and investments in sectors and activities that are the largest sources of GHG emissions.

For example and as previously mentioned, according to the ARB's 2017 Edition California GHG Emission Inventory, the transportation sector remains the largest source of GHG emissions in the state, accounting for 37 percent of the inventory, and had an increase in emissions in 2015. One approach the Legislature could pursue is to target emissions from the transportation sector by focusing investments on emission reductions in both light duty and medium/heavy duty vehicles and equipment:

- 75 percent of vehicle on CA roads are light duty and they account for 70 percent of on-road GHG emissions – the largest transportation source.
- Although there are 308,000 EVs on the road today, they still only account for 1.2 percent of all vehicles.
- CA needs to increase to 1.5 million EVs by 2025 and 4.2 million EVs by 2030.
- 3 percent of CA vehicles are medium/heavy duty, however, they account for 23 percent of on-road emissions.
- The Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP), which assists California fleets with purchasing advanced technology vehicles, has 214 vouchers, totaling $11 million on its waitlist (backlog will be much larger in the fall).
- Heavy-duty vehicles are responsible for approximately 33 percent of the State's NOx emission and approximately 25 percent of the diesel PM emissions and are the primary source of emissions in the freight system.

Such a focus would be consistent with the new investment priorities established by the Legislature in AB 398. Additionally, there are co-benefits related to public health from these types of targeted investments that will improve air quality. The American Lung Association's 2016 State of the Air report found that over 80 percent of Californians live in areas with unhealthy air. The Air Resources Board's current estimate is that the freight sector is responsible for $20 billion in health damages annually in California, including 2,200 premature deaths and 1,300 emergency room visits and hospitalizations each year.

Whatever approach the Legislature decides to pursue in developing a GGRF expenditure plan, a factor that must be considered is that AB 398 suspends the State Responsibility Area fee until January 1, 2031 and then repeals the fee as of that date and requires that GGRF funds backfill this suspension. AB 398 also provides for certain sales and use tax exemptions that are also required to be backfilled with GGRF revenue. These responsibilities will have to be taken into consideration when crafting GGRF expenditure plans.

Lastly, AB 617 (Cristina Garcia), Chapter 136, Statutes of 2017, among other things, creates various requirements for air quality control districts. The Legislature must weigh how these requirements create fiscal pressures on air quality control districts, as well as the appropriate level of state support.

Member Requests

The following GGRF requests have been submitted by member offices:

- **Safeguarding California Grant Program.** $5 million for the Natural Resources Agency, in coordination with Strategic Growth Council and Office of Planning & Research, to develop the Safeguarding California grant program to support the development and implementation of innovative climate adaptation and resiliency projects.

- **Clean Medium- and Heavy-Duty Vehicles and Port Equipment – $500 million.** There is an immediate need for substantial and sustained funding for zero and near-zero trucks and freight-related equipment – particularly in and around our ports, transportation arteries, and trade corridors. This could include medium- and heavy-duty trucks, cargo handling equipment, transport refrigeration units, drayage trucks, forklifts, freight locomotives, and ship emissions capture technology. Existing programs – such as SB 1204, HVIP and Prop 1B – are in extremely high demand and are vastly oversubscribed (current waitlists total tens of millions of dollars.) Goods movement is one of the largest sources of air pollution in the state, especially near freight hubs like ports. Heavy-duty vehicles are responsible for approximately 33 percent of the state's NOx emission and approximately 25 percent of the diesel PM emissions and are the primary source of emissions in the freight system. Simultaneously, California's ports serve as a major economic engine and job creator for the state and nation. It is imperative that our ports remain economically competitive while moving forward aggressively to drastically cut emissions and clean up the air. $500 million in annual GGRF funding for clean medium- and heavy-duty equipment and port equipment will help California achieve its greenhouse gas reduction, air quality, clean and sustainable freight and transportation, environmental justice, and public health goals.

- **Double Continuously Appropriated Transit Categories.** Since the passage of SB 862 in 2014, transit projects throughout California have been allocated approximately $515 million from the Low-Carbon Transit Operations Program and Transit and Intercity Rail Program based on the Air Resources Board's 2017 Annual Report to the Legislature. Combined, these transportation-related programs receive 15 percent of cap-and-trade revenues, yet the transportation sector generates over 90 percent of the cap-and-trade auction revenue. The existing funded programs include 228 allocated projects which will reduce greenhouse gas (GHG) emissions by almost 1.6 million metric tons once complete. Additionally, across the two programs, the level of funding invested in disadvantaged communities is approximately 95 percent.

  With the transportation sector accounting for 37 percent of all GHG emissions, several legislators are requesting that the existing transit programs, the Transit and Intercity Rail Program and the Low Carbon Operations Program be doubled to 20 percent and 10 percent, respectively. If this occurs, we can expect to see similar GHG reductions and disadvantaged community benefits moving forward.

- **Transit and Intercity Rail Program.** $100-$200 million increase in funding for the program in addition to the continuous appropriation.

- **ARB Zero Emission Bus Program.** $50-$100 million for the program.

- **Revise Disadvantaged Communities Definition.** SB 535 makes significant investments that benefit California's disadvantaged communities. AB 1550 changes the disadvantaged community requirement and now requires, at a minimum, 25 percent of cap-and-trade revenue to be invested in disadvantaged communities. Based on data from the 2017 Annual Report, 50 percent of all GGRF implemented funds ($614 million of $1.2 billion total), was for projects that provide benefits to disadvantaged communities.

  The Bay Area has nearly three million low-income residents. Many are excluded under CES 3.0 despite living in high-pollution areas. To remedy this inequity, and to ensure more struggling Californians benefit from the cap-and-trade program, the Legislature should expand the application of AB 1550 (Gomez) – particularly the minimum amount benefitting "low-income communities and households." AB 1550 utilizes eligibility criteria maintained by the California Department of Housing and Community Development (HCD) and better incorporates local cost of living factors. The income categories used in HCD's State Income Limits to determine low-income communities have long served as a proxy for a variety of environmental risk factors when considering the "natural affordability" of housing – housing that is locally less expensive in the market because of undesirable factors. AB 1550, which is already integrated into certain cap-and-trade allocation formulas, captures this issue well. Through an enhanced focus on low-income communities and households, it can better serve all affected communities across California.

- **Toxic Air Contaminant Relief Program.** Allocate funding annually from the Greenhouse Gas Reduction Fund to do the following within specified regions of Los Angeles County: create a citizens commission to conduct a comprehensive investigation of air, water, and soil contamination issues within Los Angeles County and recommend further additional actions to remediate and, with respect to communities identified in LA County life expectancy assessment with lower life expectancy, take specific action to reduce TAC and GHG emissions; fund heating and air conditioning retrofits to improve indoor air quality in homes, schools, and public buildings; provide enhanced clean vehicle infrastructure and vehicle incentives specific to low-income households; fund clean vehicle public transit programs; provide resources to help businesses make improvements to lower emissions and retain jobs; establish a data monitoring system to ensure TAC and GHG emission reductions are quantified.

- **Inglewood Transportation Sustainability Program.** Allocate $50 million to support transportation infrastructure projects related to the City of Inglewood's sustainability measures in its downtown redevelopment project.

- **East Contra Costa County Fire District.** Provide $10.5 million annually to allow the East Contra Costa County Fire District to open three fire stations that closed due to a lack of funding.

- **Short Lived Climate Pollutants – Waste Diversion and Food Recovery – $50 million to the California Department Of Resources Recycling and Recovery (CalRecycle).** To meet California's target of reducing methane emissions by 40 percent below 2013 levels by 2030 (SB 1383, Lara), an investment of $50 million in waste diversion and food recovery programs at CalRecycle is requested. This would continue the department's incredibly successful programs that reduce greenhouse gas emissions through food recovery, organic waste recycling, and recycled content manufacturing. These projects are critical for cities across California working to reach the waste diversion and GHG emission requirements set by the legislature, including the requirements established under SB 1383, which set an ambitious target of diverting 75 percent of the organic waste we generate. CalRecycle estimates this will require the construction of 50 to 100 new and expanded organic waste recycling facilities, at a cost of approximately $2-3 billion. These facilities have become increasingly expensive to build and are forced to compete with artificially low landfill tipping fees, so significant statewide investment will be necessary to achieve these goals and reduce the immediate climate impacts of landfilling organic waste. Despite limiting funding to shovel-ready projects, the department has received qualified grant applications totaling significantly more money than was available during each solicitation for each program. In fact, CalRecycle's programs have proven to be among the most oversubscribed of any CCI programs, and the department has been forced to deny multiple deserving projects, none of which went on to being built without the grants. In addition to being highly over-solicited, CalRecycle's programs are also ranked among the most cost effective methods in terms of dollars spent per GHG reduced.

- **Short Lived Climate Pollutants – Methane Reduction in the Dairy and Livestock Sector – $50 million to the California Department of Food and Agriculture (CDFA).** Methane is responsible for about 20 percent of current net climate forcing globally, and manure is responsible for 25 percent of California's methane emissions. Improved manure management offers significant, near-term potential to achieve deep reductions in the state's methane emissions. Before ARB regulates dairy and livestock manure emissions, as required by SB 1383, California agencies must encourage and support near-term actions by dairies to reduce manure emissions through financial incentives, collaboration to overcome barriers, development of policies to encourage renewable natural gas production, and other market support. This funding will send strong market signals, build on last year's GGRF investment, and encourage the development of diary digesters as well as alternate manure management practices.

- **Short Lived Climate Pollutants – Black Carbon Wood Smoke Reduction – $50 million to the ARB.** Residential wood burning produces greenhouse gases and toxic air pollutants, and is forecast to be the largest source of human-caused black carbon emissions in 2030 if no new programs are implemented. Residential wood combustion produces greenhouse gases, fine particulate matter, black carbon, carbon monoxide, volatile organic compounds, and hazardous air pollutants, such as benzene and formaldehyde. These emissions also have serious health and quality of life impacts, particularly on people living with existing heart or lung conditions as well as low-income people of color. Wood smoke reduction programs provide Californians with incentives to replace old, uncertified wood-burning stoves and home heating with cleaner and more energy-efficient alternatives. They have proven to be extremely popular and are consistently oversubscribed in various rural and urban air districts. This funding will reduce greenhouse gas emissions, address both indoor and outdoor air quality, reduce fine particle and toxic air pollution, improve energy efficiency, reduce the risk of chimney fires, and improve public health in communities across the state.

- **Delta Wetlands Management/Restoration.** Provide $20 million for the Delta Conservancy to work with private landowners to implement wetland management projects. The Delta Conservancy has been working with partner agencies to develop a carbon credit protocol.

Restoration projects may qualify for emissions credits certified by the ARB, which in turn could provide a revenue stream for further Delta restoration, causing a multiplier effect.

- **Sonoma Developmental Center.** Provide $1.5 million to transition the Sonoma Developmental Center Property to parkland. The center is in the process of being closed and sits on a site that is approximately 1,000 acres, much of which is underdeveloped and serves as a critical wildlife corridor. Ensuring that the land outside of the core campus is preserved as parkland in perpetuity is critical and will provide numerous critical environmental benefits, including reducing GHGs.

- **Healthy Soils Program.** $20 million for the Healthy Soils Program, which provides incentives/funding for farmers and ranchers to adopt innovative soil management practices that capture and store carbon. The program is currently funded at $7.5 million, which limits its reach and impact.

- **State Water Efficiency and Enhancement Program (SWEEP).** $20 million for SWEEP, which provides financial assistance for agricultural producers to improve irrigation management. These improvements reduce operating costs, improve yields, and save water and energy while reducing GHG emissions. Requested funds have exceeded the total available over the life of the program by nearly 250 percent. The program was funded at $7.5 million last year.

- **Farmworker Housing.** Request that funding be allocated to support farm worker housing.

- **ARB's new Riverside research and testing facility and UC Riverside's College of Engineering-Center for Enviro Research and Technology.** ARB is currently relocating its motor vehicle and engine emissions testing and research facility to the 18 acre site at University of California, Riverside (UCR). A proposal has been submitted to take the first step in a plan to include a world-class facility to support motor vehicle emissions standards development, implementation, and enforcement. UCR has begun exploring the creation of a Clean Technology Innovation Park as part of its CE-CERT program. As the state continues to invest significant resources in reducing air pollution and greenhouse gases, it is critical that we utilize and invest in scholarly expertise located within disadvantaged communities. This proposal would invest $10-12 million for a needs assessment study for the relocation and projected expansion of the CE-CERT facility; $50 million for field testing and the creation of test-beds; and $40 million for private sector investment to support innovation of clean technologies. With the partnership between UCR, CARB, and private investors, we stand to see a maximum return for a $100 million investment.

- **Sonoma Marin Area Rail Transit (SMART).** $40 million for expansion of rail service north of the Sonoma County Airport toward Windsor and Healdsburg.

- **State Coastal Conservancy.** $50 million to support State Coastal Conservancy carbon projects, which would help capture GHGs through the conservation of natural and working lands. Examples of projects include forestland protection, tidal wetlands restoration, and improving agriculture land practices.

- **Biomass/Forest Health.** $50 million for biomass focusing on forest health, which is one of the most cost-effective ways per ton of reducing GHGs. Wild land fire events release massive amounts of carbon into the atmosphere, and with tens of millions of dead and dying trees in the coastal and Sierra forest tracks, the state has a short amount of time to proactively deal with this pending crisis. Diverting forest residues, which would otherwise be open burned, to biomass plants will reduce GHGs through a carbon neutral process that also produces renewable energy.

- **Pacoima Wash.** $20 million for Pacoima Wash plans, which covers a suite of urban greening, active transportation, and other low-impact projects along a major tributary of the LA River. 2017-18 budget language prohibited Prop 1 LA River funding from being used on the tributaries. The projects in Pacomia – among the top 5 percent most polluted and disadvantaged areas in the state – will improve ecosystem health and the way families live, work, and move through the built environment, resulting in fewer GHG emissions. These projects are shovel-ready and have been fully vetted by the community. Most importantly, they will help fulfill the promise of cap-and-trade; namely that we can transform communities while substantially reducing GHG emissions.

- **Forest Health.** $15 million for prescribed burns and forest health. The devastating 2013 Rim Fire is a catastrophic result we can actually avoid. Over 1.2 million people were exposed to harmful particulate matter with an estimated $600 million in health impacts, not to mention the 11.3 million metric tons of carbon pollution that was meant to be sequestered in our forest lands. This proposal stems from Senate and Assembly hearing on forest fires and forest health, which has direct nexus to GHG emissions. Controlled burns, run by CalFIRE, local fire agencies, and fire safe councils can reduce the intensity and danger of forest fires.

- **Free Ride Everywhere Downtown (FRED) San Diego Shuttle.** FRED is a free ride-hailing service using an all-electric GEM vehicle. This proposal would allow for expansion, including to low/moderate income areas such as Barrio Logan and Balboa Park.

- **Port of San Diego Emissions Reduction Program.** $11.7 million through $13 million to convert trucks to cleaner engines and $10 million for port improvements that would reduce emissions and improve operations on the waterfront. The Marine Terminal on San Diego Bay currently sends 730 trucks from state tidelands managed by the Port of San Diego up interstates 5 and 15 on a weekly basis. The trucks are independently owned and use diesel fuel. The Marine Terminal is located in Barrio Logan – a hot spot on the current CalEnviro Screen.

- **Research and Development.** $100 million to fund enhanced and improved research, development and early-stage technology deployment (RD&D) to be distributed over a five year period beginning with $20 million this year. Innovative climate related projects resulting from RD&D will play a major role in reducing GHG emissions.

- **Heavy Duty Vehicle Incentive Program (HVIP).** $75 million for the HVIP, with 50 percent allocated to projects in goods movement corridors within communities identified as having highest exposure to diesel particulate matter. The HVIP program received $28 million in last year's budget. Applications for this funding well exceeded the amount allocated and by end of 2017 program is projected to have a $25 million shortfall. With this backlog, combined with the availability of new, cleaner technologies, the Air Resources Board (ARB) and industry experts project HVIP demand in 2018 to be $75 million. Communities located near goods movement corridors suffer the worst exposure to diesel particulate matter and should receive priority.

- **Heavy Duty Trucks/Equipment.** $175 million for heavy duty trucks and equipment. Diesel trucks and warehouses saturate environmentally disadvantaged communities. Heavy duty trucks operating in the state emitted 60 percent of all oxides of nitrogen emissions from mobile sources in 2016.

- **Urban Greening.** $100 million for urban greening. Disadvantaged communities are impacted by rail yards and motor vehicles that exude GHGs. Funding local green acres such as parks, greenways, and open spaces, in built communities reduces GHG emissions by connecting communities and minimizing vehicle use.

- **Technical Assistance.** $10 million for technical assistance. Communities often lack technical expertise, infrastructure, and implementation experience to compete for funds to mitigate GHG emissions.

- **Gold Line Foothill Extension Project.** $280 million for the project, which will increase public transportation from Los Angeles County to San Bernardino County and decrease emissions and congestion. Cities that will benefit with a station platform are Glendora, San Dimas, La Verne, Pomona, Claremont and Montclair.

- **Santa Barbara County Association of Governments.** $40 million dollars, including $10 million for a capitalized maintenance access fee to secure LOSSAN North 6th Passenger Trip, $15 million for electric busses and operating funds for the Coastal Express Regional Bus Service, and $15 million for electric bus purchases and facility improvements in Santa Barbara and Ventura counties.

- **The Port of Hueneme (Oxnard Port District).** $10 million to fund the purchase of a fully electric crane to meet customer needs and reduce on-dock emissions.

- **Santa Clara River Estuary.** $3-$4 million to implement fully completed study identifying Santa Clara River Estuary for wetlands restoration of over 42 acres of habitat.

- **Transformative Climate Community (TCC) Program.** $40 million to continue the TCC program, adding language prioritizing funding for communities with high exposure to criteria air pollution from refineries. Language in AB 398 that enacted a preemption on local air districts specifically related to refineries has caused communities living in the shadow of refineries concern that they will be subjected to higher levels of pollution. To allay these concerns, emissions reductions in these communities should be a priority in the 2018 expenditure plan. The majority of previously allocated TCC funds ($70 million) were provided to Fresno. Funding was not provided to the impacted refinery communities of the Bay Area and Los Angeles basin, which houses many zip codes that fall into the 90th percentile in CalEnviro Screen pollution levels.

- **Local Climate Action Plans.** $30 million to the Strategic Growth Council (SGC) to fund implementation of emissions reduction strategies in local CAPs. Funding to assist the direct implementation of emissions reduction strategies identified in local climate action plans gives locals a say in the pollution reductions and climate expenditures most valuable to their communities. Allocating funds through competitive grants will allow SGC to prioritize CAP projects with the highest GHG and criteria air pollution emissions reductions. Previous GGRF expenditure plans prioritized funding localities to develop climate action plans, now that many local governments across the state have both developed and adopted CAPs, now is the time to assist in the implementation to achieve direct emissions reductions.

- **Short-Lived Climate Pollution (SLCP).** $40 million to CalRecycle for SLCP reductions, and $20 million from the Low Carbon Transportation Fund at ARB for biofuels projects that reduce SLCPs. This funding will help replace diesel fuel in communities along freight corridors with cleaner biofuels while also promoting food recovery and organics recycling. Science shows that SLCPs, including methane emissions from organics, are responsible for 40 percent of global climate-forcing emissions. In addition, they are harmful local air pollutants. ARB's scoping plan emphasizes reduction of SLCPs as a key climate strategy, with proposed actions accounting for 32 percent of the state's overall GHG reductions through 2030. If California is to meet its climate change goals, it is critical that SLCP reductions receive funding.

- **Major Transportation and Freight Corridor - Phase 3.** $42 million to complete Phase 3, which includes a list of projects to mitigate the construction impacts, including extended turn pockets, additional turn pockets and roadway rehabilitations where the primary impacts have resulted or are expected.

- **Transformational Climate Communities (TCC).** $200 million, including $100 million for the Strategic Transportation Plan, which brought together all elements of the transportation system in the Gateway Cities and $100 million for the "Complete Street" regional corridor.

- **Transit Oriented Development (TOD).** $15.8 million, including $15 million to create the foundation to assist in the funding of a transit line/build a 20 mile sustainable corridor TOD from Artesia to Union Station, $500,000 to integrate access projects that will provide First/Last Mile planning for the upcoming Eco-Rapid Transit (West Santa Ana Branch Corridor under Measures R and M), and $300,000 study the feasibility of capping I-105 to provide enhanced station access, a superior bus/rail interface opportunity and a community oriented green space as well as possible bike-share facility.

- **Coastal Conservancy Climate Ready Program.** $10-$20 million for the program, which is helping natural resources and human communities along California's coast and San Francisco Bay adapt to the impacts of climate change, such as rising sea levels, beach and bluff erosion, extreme weather events, flooding, increasing temperatures, changing rainfall patterns, decreasing water supplies, and increasing fire risk. The conservancy is also working to capture greenhouse gases from the atmosphere through the conservation of natural and working lands.

- **Multi-use Urban Greening Facility.** $27 million for the Recreation Development with Watershed Management Multi-Use Features project consists of the redevelopment of an 82-acre area in the southeastern corner and eastern bank of the San Gabriel River in the City of Pico Rivera (and contiguous area). The Whittier Narrows Dam Basin Recreation Area (WNRA) provides over 1,500 acres of passive and active recreation facilities in addition to natural habitat areas, an area almost twice the size of the 843 acres that make up Central Park in New York City. The Pico Rivera City project area has a unique asset in its outdated and underutilized equestrian facilities which are heavily used by its neighboring low-income mostly immigrant community. Redevelopment would enhance this unique and extremely popular use in a low-income area and complete the overall WNRA providing an opportunity to establish a new and natural southern gateway into the WNRA from the communities of Pico Rivera, Whittier, and the communities further to the south, for equestrian and other forms of recreation such as walking, biking, and hiking.

- **Urban Greening.** $25 million for the Artesia Park – Community Center project will replace the existing center. The center is a vital space for the City's services to children, youth, seniors, and families. It also serves as a meeting space for public events.

- **Brownfields to Green Space.** $45 million for the Holifield Park Expansion project will enhance the park with a LEEDS certified community center and improved existing and additional play fields using water-efficient technologies such as bioswales and weather-based integrated controllers. Also, enhancements will include energy-efficient lighting for fields, and the installation of walkways throughout the park with exercise equipment. This expansion will provide the community with accessible park facilities, youth play fields, and family-oriented recreation areas for increased health and opportunities for education and community activities. The request for this funding is $20 million.

  The Hermosillo Park Rehabilitations project will include the addition of facilities that provide options for family and student recreation, including a LEEDS certified community center and an outdoor amphitheater. Also included will be field improvements, including the use of energy-efficient lighting and the installation of walkways throughout the park. This rehabilitation will also incorporate a large-scale water infiltration system to replenish groundwater. These improvements will provide additional opportunities for family-oriented activities, education, and entertainment. The request for this funding is $25 million.

- **Accessibility to Green Spaces and Hands-On Science.** $10 million for the Columbia Memorial Space Center is a hands-on learning center dedicated to bringing the wonder and excitement of science and innovation to audiences of all ages and backgrounds. Through world-class programs and engaging exhibits, the Columbia Memorial Space Center strives to ignite a community of critical and creative thinkers. Funding will be used to provide better equipment for their exhibits, provide scholarships for underserved youth, and allow for predevelopment costs for a strategic plan to augment STEM teacher training and direct student instruction.

- **Waste Removal.** $2.085 million for the City of Santa Fe Springs requests funding to remove volatile organic material/waste from wells serving the people within the City.

- **Fire Suppression.** $5 million for the upgrade of the water supply and distribution system of Pico Water District to improve fire suppression and ensure the safety of children at local schools.

- **Low Income Weatherization Program.** Continue funding for the program, which installs rooftop solar systems, solar hot water heating systems and energy efficiency measures for low-income households.