AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Assemblymember Fran Pavley, Chair

WEDNESDAY, APRIL 26, 2006
STATE CAPITOL, ROOM 447
8:30 A.M.

Hearing Items

CONSENT CALENDAR

ITEM	DEPARTMENT	SUMMARY
3560	State Lands Commission	Selby Site Remediation
3560	State Lands Commission	Oil and Gas Financial Auditor
3560	State Lands Commission	Discharges for Oceangoing Ships (SB 771)
3680	Department of Boating & Waterways	Various Local Assistance Programs
3680	Department of Boating & Waterways	Increase Staffing for the Boating Accident Program
3680	Department of Boating & Waterways	Abandoned Watercraft Abatement Program
3680	Department of Boating & Waterways	Funding for Beach Restoration Studies
3680	Department of Boating & Waterways	Beach Restoration Program-Local Assistance
3680	Department of Boating & Waterways	Boating Safety and Enforcement Subvention Program (SB 255)
3720	Coastal Commission	Coastal and Marine Public Education Grant Program
8570	Department of Food & Agriculture	Tax Enforcement Pilot Program with Board of Equalization

3360 CALIFORNIA ENERGY COMMISSION

The California Energy Commission (CEC) is responsible for ensuring a reliable supply of energy that meets California's needs and complies with environmental, safety, and land use goals. The Commission reviews and approves applications to site major electricity power plants, encourages measures to reduce the inefficient use of energy and adopts energy conservation standards for buildings and appliances, evaluates energy usage and forecasts energy supply and demand for the state; monitors alternative ways to supply energy, and oversees state-funded energy research and development projects.

The Governor's budget proposes $327.7 million from special funds (predominantly financed by utility ratepayer charges) and 492.4 personnel-years (PYs) of staff for the Energy Commission in fiscal year 2006-07. This represents an increase of 8.3 PYs and a decrease of $105.9 million from the revised 2005-06 Budget.

California Energy Commission
Budgeted Expenditures
(in thousands)

Program	**Actual 2004-05***	**Estimated 2005-06***	**Proposed 2006-07***
Regulatory and Planning	$26,880	$25,775	$26,179
Energy Resources Conservation	22,130	26,504	22,880
Development	183,120	383,203	279,758
Policy, Management and Administration	11,398	11,551	13,082
Distributed Policy, Management and Administration	-11,398	-11,551	-13,082
Loan Repayments	-5,179	-1,883	-1,133
Total Expenditures (All Programs)	**$226,951**	**$433,599**	**$327,684**

The large spending reduction results from one-time spending commitments of accumulated carryover balances budgeted in the current year from Renewable Resources Trust Fund (RRTF) and, to a lesser degree, the Public Interest Research, Development, and Demonstration Fund (which supports the Public Interest Energy Research, or PIER, Program). These two funds receive annual ("public goods charge") payments from the state's investor-owned electric utilities. The RRTF provides subsidies to projects that generate electricity from renewable sources, such as solar energy, and the PIER Program funds a wide variety of energy-related research, including research on climate change. Expenditures from these funds are budgeted as commitments are made. However, payments under these commitments may not occur until future years (or not at all in some cases). Ongoing spending for commission staff and support excluding spending on grants, loans, and subsidies—will total $71.1 million in 2006-07, an increase of $4 million (6 percent) compared with the current year.

ISSUE 1: RENEWABLE RESOURCES INVESTMENT PLAN—WHAT'S THE PRIMARY GOAL?

The subcommittee first discussed this issue at its April 5th overview hearing on the Governor's climate change budget proposals.

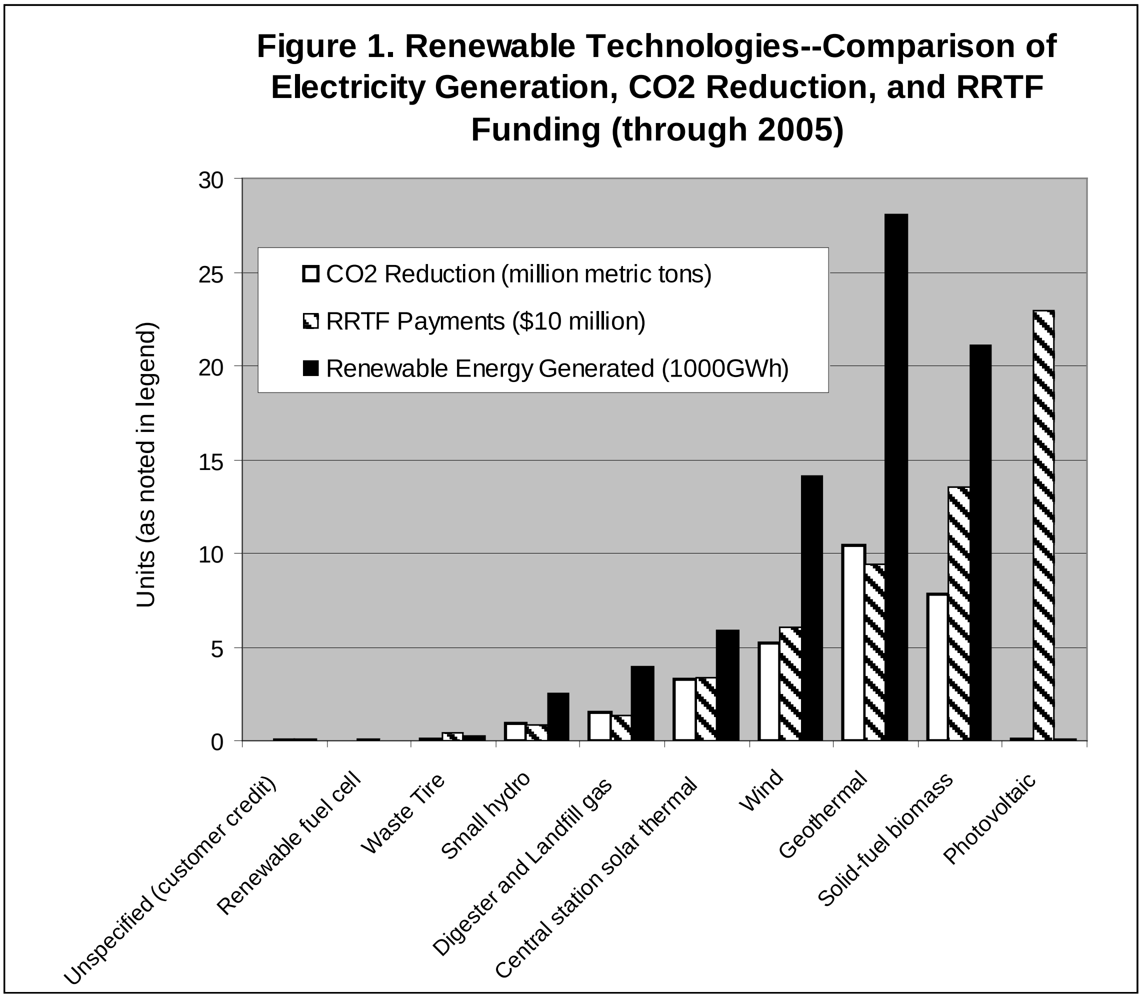
Existing law requires the CEC to prepare investment plans to guide the expenditure of Renewable Resources Trust Fund (RRTF) funds. The second 5-year investment plan was presented to the Legislature in February 2006. That plan proposes the allocation of $750 million of ratepayer funds deposited in the between January 2007 and January 2012. Although existing law continuously appropriates RRTF funds for the purpose of renewable energy subsidies, expenditure of post-2006 funds is contingent on further action by the Legislature to "reauthorize" the program after review of the new 5-Year Investment Plan.

One of the primary purposes of the RRTF is to provide financial incentives to increase renewable energy electricity generation to meet the state's Renewable Portfolio Standard (RPS) goal of 20 percent of electricity from renewable resources by 2017.

Should the Renewable Investment Program Be More Focused On Electricity Generation and GHG Reduction? The new investment plan does not directly address whether the RRTF funding amount or the specific allocations proposed by the commission will achieve the RPS goal. Indeed, the allocation of funds among different renewable energy technologies and approaches (partly reflecting existing statutory direction and partly reflecting the Administration's choices) is primarily directed at funding a variety of technologies and approaches than at achieving any single goal (such as the reduction of GHG emissions) in the most expeditious and effective manner.

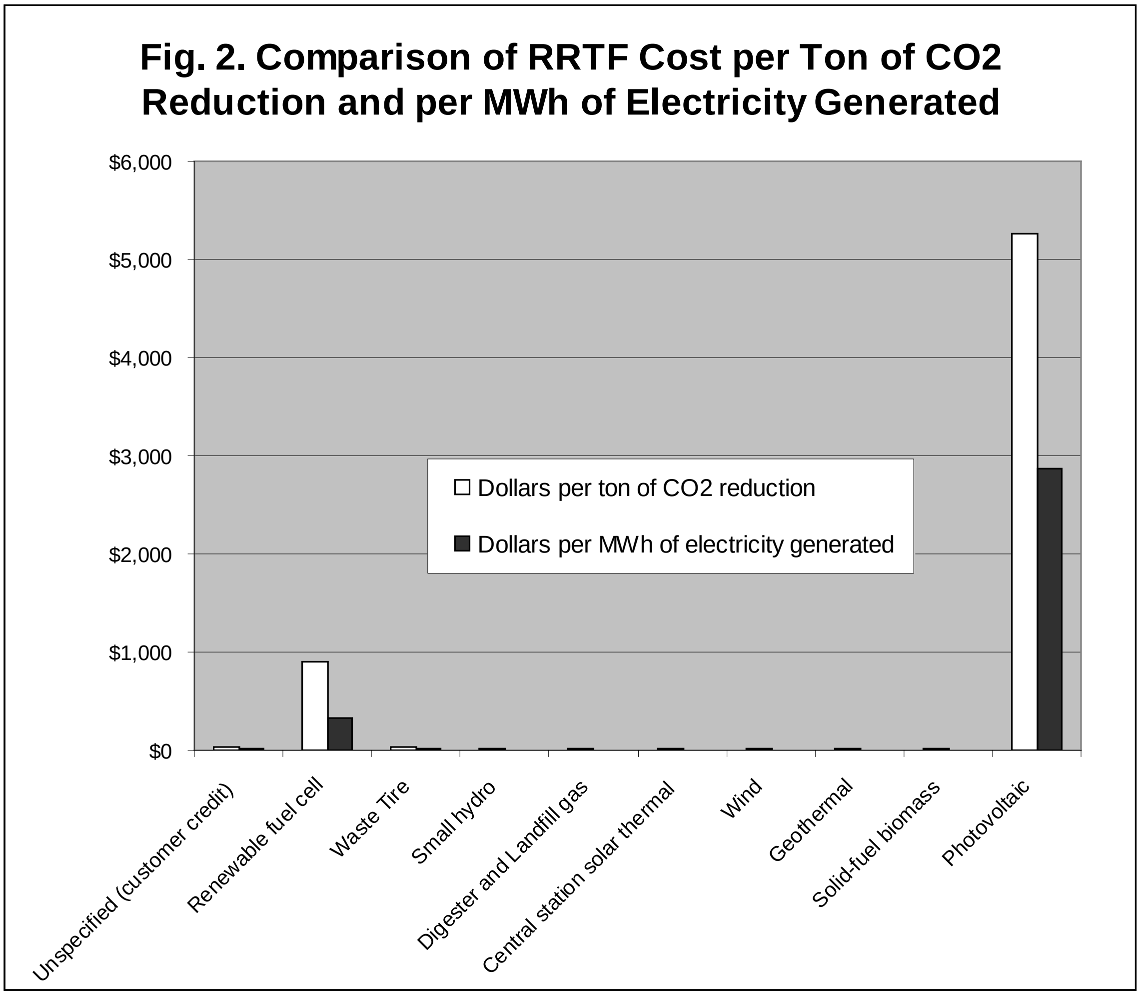
In the context of the discussion of the Renewable Energy Program and the *2006 Renewable Energy Investment Plan* at the subcommittee's April 5th hearing, the chair requested that the Energy Commission provide information comparing the GHG emissions, electricity production and RRTF funding among renewable electric generation technologies.

Spending Doesn't Correlate with Results. Figure 1 below compares, for each renewable technology funded by the RRTF, the cumulative CO2 reduction (excluding other GHGs), the cumulative electric energy generated, and the amount of RRTF funds paid through 2005.



The largest CO_2 reductions (compared with generation from natural gas plants) and the greatest amounts of electricity were produced by geothermal, solid-fuel biomass, wind and central-state solar-thermal projects (in that order). The total value of subsidies was greatest, however, for photovoltaic installations, which produced only very small amounts of energy or CO_2 reduction.

Figure 2, below, uses the same information to compare the cost-effectiveness of each of the renewable energy technologies in terms of the dollars of RRTF subsidy provided per ton of CO_2 reduction or per megawatt-hour of electricity production. This comparison only considers the funding provided by the RRTF, and does not compare total costs. For most of the renewable technologies, the amount of RRTF subsidy per ton of CO_2 reduction was in the neighborhood of $10 per ton and the subsidy per MWh of electricity production was around $5. For solar photovoltaic, however, these figures were several hundred times larger ($5,259 per ton of CO_2 reduction and $2,866 per MWh of electricity generation). The subsidy rates for renewable fuel cells also were particularly high, but very little was spent on this technology.



What Have Photovoltaic Subsidies Accomplished So Far? The large amounts spent on photovoltaic subsidies have produced little either in terms of electricity production or GHG reductions to date. To the extent that opportunities exist for expanding the use of the other technologies, money spent there will produce much more bang-for-the-buck, at least in the near-term.

Big Potential If Costs Can Be Reduced. The attraction of solar photovoltaic technology is the very large potential for expansion versus the more site-limited opportunities for technologies such as geothermal or wind. Photovoltaic technology also can be sited on rooftops, where it has minimal land-use impact. However, costs remain very high. Decades of subsidy and demonstration programs for photovoltaic installations have failed, thus far, to reduce the cost to a competitive level—even compared with other renewable technologies. In addition, the price of photovoltaics has been driven up further recently by a subsidy bidding war with Japan and Germany for the existing production capacity of the industry. Moreover, the Energy Commission's RRTF program to fund photovoltaic installations focuses primarily on individual home installations, which tend to be more costly than larger commercial installations. Each small residential installation requires its own set of equipment to connect with the grid. Furthermore, maintaining output depends on homeowners who must clean off dust and debris on pitched roofs and prune or remove trees that grow to shade the solar cells.

The state's approach thus far has been to subsidize photovoltaics in the hope that creating demand will reduce costs by generating manufacturing economies and by spurring technological development of more efficient and lower cost solar cells. Over several decades, there have been improvements in cost-effectiveness and performance. However, there is still a long way to go.

Questions for the Commission

Staff suggests that the commission respond to the following questions:

1. What should be the basis for the allocation of funding between renewable technologies that currently can produce significant amounts of energy and reductions in GHG emissions on a reasonably cost-effective basis versus "emerging" renewable technologies (primarily solar photovoltaic)? How did the commission decide on the funding allocation in its 5-year investment plan?

2. What is the best way to encourage development of more cost-effective photovoltaic technology? For example, does it make sense for the state to engage in the current subsidy bidding war for existing photovoltaic production? Should the state, instead, defer most funding until significant cost reduction benchmarks are met?

Request for Authority to Move Funds between Program Uses

The Energy Commission's 5-year investment plan recommends that it be given statutory authority to move funds between the various program areas funded by the RRTF. The commission points out that there is considerable uncertainty about the future demand for supplemental energy payments to support compliance with the RPS or the Governor's accelerated targets, so that it may be advisable to move money between programs as events unfold and more information becomes available.

Staff Comment and LAO Recommendation. As the commission points out, future mid-course corrections probably will be needed. However, the current Renewable Energy Program lacks clear priority and focus. Consequently, it is not clear how the CEC would determine what funding shifts should be made. Given that the RRTF is continuously appropriated, LAO recommends against giving this additional authority to the Energy Commission. Rather, LAO recommends that the Energy Commission request authorization to move funds between program areas through the annual budget process in order to give the Legislature sufficient opportunity to oversee the program.

How Much Overlap with PUC Programs?

LAO points out that the Public Utilities Commission and the Energy Commission manage similar programs designed to support renewable energy. In the areas of solar photovoltaics and fuel cells, both agencies operate or will operate support programs. While the commissions have indicated that they are coordinating these programs, LAO expresses concern that having similar programs in different agencies may create administrative redundancies and confuse potential program participants. LAO recommends that the commissions report at budget hearings on any costs and benefits from program consolidation and how such programs could be consolidated.

STAFF RECOMMENDATION: CEC should address the questions raised by staff and LAO. No action on funding flexibility language.

ISSUE 2: PUBLIC INTEREST ENERGY RESEARCH (PIER) PROGRAM

In accordance with existing law, the Energy Commission provided a March 2006 report to the Legislature on the Public Interest Energy Research (PIER) Program. The report sets out long-term research priorities. The commission now has hundreds of active PIER research and development projects. The PIER Program receives about $70 million annually for research from ratepayer funds (and interest) and currently spends about $5 million annually on climate change research—although many other research projects address energy conservation, renewable energy and efficient pricing systems that may result in reduced greenhouse gas emissions.

LAO Comments

Staffing Plan Not Yet Available. The Energy Commission has not yet delivered its statutorily mandated staffing plan for the PIER program. Without this plan, it is difficult to evaluate whether the Energy Commission's 2006-07 budget proposal for the PIER program will allow it to adequately manage its growing workload and whether the Energy Commission has the appropriate balance between permanent staff and contract employees to manage its research projects.

Identification of Research Priorities. While the Investment Plan identifies five priority areas for energy research, the priority areas are general in nature and the Investment Plan does not indicate whether there is any relative prioritization between these research areas. The Investment Plan also lacks detailed projections for how research funds will be allocated between and within the priority research areas (for example by explaining the criteria the Energy Commission will use to allocate funds between and within program areas). This lack of detail makes it difficult to evaluate the Energy Commission's plan for allocation of future research funds.

PIER Funding For Transportation Research. The Governor's budget proposes $504,000 from the Gas Consumption Surcharge Fund to add 5 additional positions to oversee this research program and to expand it to include transportation-related research that will benefit natural gas ratepayers. The budget indicates that the CEC will spend $16.8 million on natural gas research in 2006-07. The request would double existing staff in this program, which was first funded in the 2005-06 Budget.

Statute allows the Energy Commission to expend ratepayer funds for natural gas research projects relating to transportation, to the extent that the research will benefit ratepayers. While the Investment Plan acknowledges this requirement, the Energy Commission has not yet determined what benefits, if any, will accrue specifically to natural gas ratepayers from transportation-related research.

STAFF RECOMMENDATION: Leave open, pending receipt of staffing plan and identification of natural gas ratepayer benefits.

ISSUE 3: CLIMATE CHANGE EMISSION REDUCTION INITIATIVE

Climate Change Initiative (4 positions). The Governor's budget proposes an augmentation of $612,000 to fund 4 positions and $200,000 of ongoing contract funds to help implement the Governor's June 2005 Executive Order setting out his greenhouse gas emission reduction goals for California. The Energy Commission's tasks would be to reduce emissions from electricity generation and from industrial activity, accelerate the Renewable Portfolio Standard (RPS), update the greenhouse gas emissions inventory, and analysis of the economic impact of climate change on California.

Comment. AB 32 (Nunez and Pavley), currently pending in the Senate, would enact the California Global Warming Solutions Act of 2006 to establish new GHG emission reduction goals and requirements. The subcommittee may wish to defer action on this request pending evaluation of the budget request in light of the provisions of AB 32.

STAFF RECOMMENDATION: Leave open.

ISSUE 4: FINANCE LETTER REQUEST—TRANSPORTATION ENERGY MODEL

In a March Finance Letter, the commission requests $874,000 from the Energy Resources Programs Account to fund 2 permanent positions and $665,000 in contract funds to develop and maintain a dynamic simulation model of the California transportation energy market. The model will incorporate all components of the transportation section, including transit, freight, and aviation. It will provide for automated updating of data and a central data depository, along with dynamic analysis and risk analysis capabilities. The commission's current transportation energy models are fragmented and uncoordinated, and they do not use recent data in some cases.

The LAO recommends approval.

STAFF RECOMMENDATION: Approve Finance Letter request.

ISSUE 5: OTHER BUDGET CHANGE PROPOSALS

The Energy Commission's budget request also includes the following budget proposals:

- **Alternative Transportation Fuels.** AB 1007 (Pavley) requires the Energy Commission to develop a plan to increase the state's use of alternative transportation fuels. The budget includes $500,000 of one-time contract funds to complete the alternative fuels plan. The plan will evaluate fuels on a full fuel-cycle basis, set goals for the use of alternatives by 2012, 2017, and 2022, and recommend policies to ensure that alternative fuel goals are attained.

- **Verifying Energy Efficiency Savings.** The Governor's budget proposes $209,000 for two permanent positions to assist in the Public Utilities Commission's efforts to verify the performance of utility energy conservation and efficiency programs.

- **Katz Safe School Bus Program.** The Governor's budget proposes the expenditure of $303,000 remaining in the Katz School Bus Fund to replace three pre-1977 buses currently in operation. The 2005-06 budget included $25 million to retrofit and replace additional school buses in a program that is managed by the Air Resources Board. There are 743 pre-1977 buses remaining on the roads.

- **Expansion of Information Technology (IT) Support.** The Governor's Budget proposes $311,000 from the Energy Resources Programs Account for 2 new permanent positions and $125,000 in one-time contract funds. The positions will provide additional staff IT support to commission programs. The contract fund will replace an aging email system.

Staff is not aware of any issues that have been raised regarding these proposals.

STAFF RECOMMENDATION: Approve as budgeted.

3560 – CALIFORNIA STATE LANDS COMMISSION

The State Lands Commission (CSLC) manages and protects all statutory lands which the State received from the federal government upon its entry into the Union. These lands include the beds of all naturally navigable waterways such as major rivers, streams and lakes, tide and submerged lands in the Pacific Ocean which extend from the mean high tide line seaward to the three-mile limit, swamp and overflow lands, state school lands, and granted lands. These lands total more than 4 million acres. The Commission authorizes the use of public lands based upon environmental, health and safety, and public benefit considerations. The three-member commission consists of the Lieutenant Governor, the State Controller, and the Director of Finance.

California State Lands Commission
Budgeted Expenditures
(in thousands)

Code	Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
10	Mineral Resources Management	$5,792	$6,764	$6,967
20	Land Management	56,151	8,318	8,997
30.01	Executive and Administration	2,538	3,182	3,214
30.02	Distributed Administration	-2,538	-3,182	-3,214
40	Marine Facilities Division	7,881	8,548	9,164
Total Expenditures (All Programs)		**$69,824**	**$23,630**	**$25,128**

ISSUE 1: TIDELANDS OIL REVENUE

Tideland Oil Revenues are collected by the State Lands Commission (SLC) from royalties paid by oil companies to drill off California's coast near Long Beach. Though these funds can be used throughout state government as General Fund, the Legislature has historically tied the use of these funds to support resources programs because these funds are directly generated from the depletion and degradation of natural resources along the California coast.

In 1997, SB 271 (Thompson) was enacted that directed Tidelands Oil Revenue to fund four separate areas of natural resources investment: salmon and steelhead restoration; marine conservation; state parks maintenance; and a natural resources infrastructure fund for the Department of Fish and Game, water quality and regional conservation planning. Due to budget shortfalls in recent years, Tideland Oil Revenues have been redirected to the General Fund and these statutory priorities have not been fully funded. In June of 2006 the funding mechanism established by SB 271 (Thompson) is set to sunset and after which nearly all Tideland Oil Revenues will be deposited into the General Fund unless actions are taken otherwise in the annual budget process.

In 2005-06, the Legislature approved $22 million in Natural Resources funding from Tidelands Oil Revenues. These augmentations were reduced by the administration to $6 million and accordingly, assumed General Fund revenues were increased to a total of $220 million for the 2005-06 Budget. The following chart shows both the proposed and final approved use of Tidelands Oil Revenues for the 2005-06 budget year.

2005-06 Tideland Oil Revenue

Program	Amount Proposed by Legislature	Final Approved Amount
State Parks Operations and Maintenance	$8	$2
Steelhead and Salmon Restoration	8	4
General Fund	48	48
Fish Hatchery Operations	3	0
Deferred Maintenance	3	0
General Fund	204*	220*
Total	**$22***	**$6***

* this last funding category captures all additional revenues

Current Year and Budget Year Expectations
Staff understands that the projected General Fund Revenue targets from Tidelands Oil Revenues are expected to surpass in the months of April and May as a result of increasing oil prices. With the price of oil climbing as high as $75 per barrel, the State Lands Commission should be able to update the committee on Tidelands Oil Revenue expectations for the current and budget year.

STAFF RECOMMENDATION. Item is informational

ISSUE 2: SCHOOL LAND BANK FUND

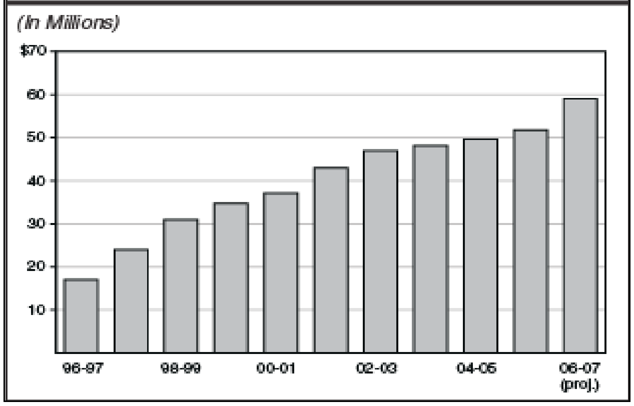
The State Commission (SLC) manages lands that were given to the state by the federal government in order to help support public education. Some of these lands are leased for commercial purposes (such as mining and oil drilling). Lease revenues (royalties) are deposited in the Teachers' Retirement Fund (TRF) after SLC recovers its costs. The TRF is administered by the California State Teachers' Retirement System (CalSTRS).

Under the School Land Bank Act of 1984, the commission may also sell school lands and use the proceeds to purchase other properties in order to consolidate school land parcels into contiguous holdings. The purpose of consolidating school lands is to facilitate the effective management of those lands for the purpose of generating lease revenue for TRF. Proceeds from land sales are deposited in the SLBF. These proceeds are available to SLC only for acquiring and enhancing school lands.

LAO Concerns. The LAO has raised concerns that because the SLC is maintaining significant reserves (as shown in Figure 1) in the SLBF the SLC is not fulfilling legislative intent by using those funds for reinvestment in the purchase of new landholding and providing maximum benefit to the State School Teacher's Retirement System.

Figure 1

School Land Bank Fund Year-End Reserve



LAO Recommendation*.* The LAO recommends that in order to ensure that the intended use of the SLBF is fulfilled; the Legislature should adopt trailer bill language requiring the SLBF fund balance be transferred to TRF and that subsequent proceeds from school land sales be deposited in TRF for investment by CalSTRS.

Staff Comments. Recognizing the concerns raised by the LAO, because the recommendation to move school land bank funds to CALSTRS would require a significant shift in policy direction from that which was originally envisioned by the School Land Bank Act of 1984 staff recommends that this would merit a larger policy discussion outside of the budget arena. In discussions with staff, the SLC indicated that in the budget year it expects to be able to devote more existing staff resources towards land procurement activities and it is recommended that the SLC report back to the subcommittee in next year progress made in addressing concerns raised by the LAO.

STAFF RECOMMENDATION. Approve supplemental report language that would require the State Lands Commission to report by January 10, 2007 on their activities within the School Land Bank Program.

3790 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 (CZMA) 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.

California Coastal Commission
Program Expenditures
(in thousands)

Code	Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
10	Coastal Management Program	$14,847	$14,795	$14,687
20	Coastal Energy Program	893	716	719
30.01	Administration	1,573	1,613	1,624
30.02	Distributed Administration	-1,460	-1,532	-1,543
Total Expenditures (All Programs)		**$15,853**	**$15,592**	**$15,487**

ISSUE 1: ENERGY AND OCEAN RESOURCES UNIT

The Energy and Ocean Resources Unit is one of the Commission's programs that has suffered acutely from the budget year and prior year reductions. The Commission currently has two analysts and one manager to review all OCS, LNG, power plant, desalinization, wave and wind energy, aqua culture, fiver-optic cable, and open ocean fish farm issues within the Commission's jurisdiction. With ongoing workload, this shortage of staff poses significant challenges to the department especially when compounded with increased workload associated with the following:

Liquefied Natural Gas (LNG). The Coastal Commission is the only state agency with regulatory authority over all five proposed LNG terminals either through its permitting or federal consistency review authority. Commission staff (the Energy Unit Manager) has been actively participating in the LNG working group facilitated by the Energy Commission and the commission has indicated that is understaffed to review the 5 LNG proposals planned to be submitted in FY 2005-06, 2006-07, and FY 2007-08. Depending on the timing of the LNG submittals, the Commission expects that the permit review will take an additional 1-2 full time positions above the current Energy Unit staffing.

The Five LNG Proposals and estimated time frames for peak workload are:

1. BHP Billiton: Offshore Ventura County *(2006-2007)*

2. Sound Energy Solutions: Port of Long Beach (E*nd of 2006 through 2007)*

3. Crystal Energy: Platform Grace *(Late 2006 through 2007/2008)*

4. Woodside Project: Proposed "every bridge" offshore in federal waters *(Late 2006 through 2007/2008)*

5. Tidelands Oil Project: Proposed offshore federal waters (Late 2006 through 2007/2008)

Power Plants. The Energy Commission estimates it will receive 1-5 applications for coastal power plant projects over the next four years. The Coastal Commission will also be receiving complex permit applications for the replacement of steam generating units of the San Onofre Nuclear Generating Station (SONGS) and the Diablo Canyon Nuclear Power Plant, and for the disposition of the SONGS offshore outfall and intake lines. The Commission estimates that this workload will require one additional full time position.

Desalination Projects. The Coastal Commission expects to receive over 20 project proposals for desalination facilities along the coast within the next 2-3 years. The majority of these proposals are expected in FY 2006-07 and FY 2007-08 and review and compliance follow-up is estimated to require one to two full time positions.

Federal Consistency Review of 36 Outer Continental Shelf OCS Leases. The Commission reviewed and acted upon requests for lease suspensions (i.e., lease extensions) at its June 2005 meeting. Because of pending litigation it is not clear at this time what the next steps will be. Depending on the resolution of the federal lawsuit, workload on these leases could continue into FY 2006-07 and FY 2007-08 with compliance, potential litigation, and potential re-submittals. The Coastal Commission expects additional work on the OCS issues in FY 2006-07 will require about ¼ to one full time position.

Governor's Budget. In last year's budget, the Legislature approved the $350,000 and 5 PYs for the Commission's Energy and Ocean Resources Unit to address increased workload. These augmentations were vetoed by the administration under the veto message that "the Coastal Commission had sufficient resources to perform critical, high priority work such as the review of LNG applications." The Veto Message also made reference to the Commission's ability to raise fees to address funding shortfalls within the department.

Staff Comments. Staff finds that permitting fees have not been increased since 1991 and are much lower than comparable fees charged by local governments. Although the Coastal Commission has authority to raise its fees without legislative authorization, current law requires that permitting fees be allocated to the Coastal Conservancy. In order for the Coastal Commission to see a programmatic benefit from increased permitting fees, the legislature would need to adopt trailer bill language to direct fee revenue to the General Fund for Coastal Commission activities.

For the hearing, the Coastal Commission should be prepared to comment on their progress in updating their current fee schedule.

STAFF RECOMMENDATION. Because the needs identified by the Commission may require General Fund, staff recommends that this item remain open.

ISSUE 2: IMPROVING COASTAL ACCESS AND DEVELOPMENT

The California Coastal Commission was established in 1972 with a primary responsibility is to protect the state's natural and scenic resources along the California Coastal Zone. In order to achieve this mission, the Commission is authorized to issue permits for development along the coastal zone, and to place upon these permits conditions for offsetting, or mitigating, the adverse effects of the permitted development.

The Coastal Commission's mitigation strategies include owners offering to dedicate portions of their property to public use as a condition of receiving a coastal development permit. These "offers to dedicate" (OTDs) are designed to provide public access to the coast or to provide open space and public trails within the coastal zone as mitigation for development. In contrast with permit conditions that require mitigation (including public access) to be provided by the permittee concurrent with development, OTDs result in a delay in the intended mitigation because they are dependent on future actions by third parties. In general the Commission breaks down the classification of OTDs into two classifications – Access and Non-Access.

Access OTDs are identified by their relationship to the ocean: "lateral" OTDs are parallel to the ocean; "vertical" OTDs are perpendicular to the ocean; and "trail" OTDs provide recreation access within the coastal zone. The second broad category of OTDs are nonaccess (mainly conservation) dedications. These are generally conservation areas or environmentally important areas where public access is not the primary goal of the mitigation

Supplemental Report – Conservation/Open Space OTDs. In a supplemental report to the Legislature that was required in by the 2005-06 Budget Act, the Coastal Commission reported to the Legislature that there are a total of 968 conservation/open space OTDs recorded by the Commission, of which 524 remain to be accepted. The table below summarizes the status of these OTDs as of January 20, 2006.

Conservation/Open Space Offers to Dedicate

	Total to Date	**Total Percentage**
Accepted	324	34%
Expired/Allowed to Lapse	17	1%
Status to be Confirmed	103	11%
Remain to be Accepted	524	54%
Total OTDs	968	100%

The Coastal Commission also reports that in 2005, staff was able to successfully negotiate the acceptance of 34 offers and in that time, no offers expired and only one new OTD was recorded.

Supplemental Report – Public Access OTDs. In their supplemental report on public access OTDs, the Coastal Commission reported that there are a total of 1496 OTDs recorded. Of those 75 percent, or 1131 have been accepted.

Staff Comments. It should be noted that statute requires the Coastal Conservancy to accept all public access OTDs prior to their expiration if they are not accepted by another entity. There is no such requirement for Conservation/Open Space OTDs and once they expire, the state no longer has any claim to them.

In last year's budget, the Legislature approved 5 PYs to improve tracking and management of OTDs, expand the Commissions database, and ensure that all OTDs are accepted prior to their expiration date. This proposal was vetoed by the administration and in the budget year 66 conservation OTDs are scheduled to expire.

For the hearing, the Coastal Commission should be prepared to comment to the subcommittee on their expected workload related to the acceptance of Conservation OTDs that are scheduled to expire in the budget year and whether their current staffing levels are adequate to prevent further expiration of OTDs.

STAFF RECOMMENDATION. Because the needs identified by the Commission may require General Fund, staff recommends that this item remain open.

8570 – DEPARTMENT OF FOOD AND AGRICULTURE

The objectives of the Department of Food and Agriculture are to:

- Serve the diverse citizens of California by maintaining an abundant, affordable, safe, and nutritious food supply.
- Provide leadership, innovation and oversight in the production and marketing of agricultural products.
- Prevent or eradicate animal diseases and exotic and invasive species harmful to people, commerce, and the environment.
- Develop and enforce weights and measures standards for all types of products in California and at all levels of commerce.
- Support a network of fairs and expositions in the state for their societal and economic service values.

Department of Food and Agriculture
Program expenditures
(in thousands)

Code	Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
11	Agricultural Plant and Animal Health; Pest Prevention; Food Safety Services	$145,291	$148,312	$160,083
21	Marketing; Commodities and Agricultural Services	66,363	62,375	63,773
31	Assistance to Fair and County Agricultural Activities	71,870	60,918	60,333
41.01	Executive, Management and Administration Services	12,987	14,280	14,392
41.02	Distributed Executive, Management and Administration Services	-11,943	-13,178	-13,292
Total Expenditures (All Programs)		**$284,568**	**$272,707**	**$285,289**

ISSUE 1: EMERGING THREATS

The Governor's budget is proposing a General Fund augmentation of $7.2 million and 39.0 PYs to implement a statewide effort to address identified emerging threats to the state's food supply and livestock. Of the requested funding, $1.7 million will be for one-time purposes and $5.5 million will be ongoing.

Proposed funding for this proposal will be divided among the following ten components:

Personal Protection Program for First Responders (1 PY and $187,936). The requested position and funding will be used to: assess the Departments needs for protective equipment for staff; purchase necessary equipment; provide training to employees; and implement a medical monitoring program that will include regular and documented medical evaluation vaccination schedules, general monitoring of employee health.

Dairy Food Safety and Security (4 PYs and $498,701). The requested funds will be directed towards establishing security standards for milk processing, storage and distribution in order to minimize the risk of an intentional contamination of the milk supply. The positions will also collaborate with law enforcement agencies and provide on-going outreach to over 2,000 dairy farms, their milk haulers, and 35 fluid milk processing plants to identify and assist the milk industry with security concerns.

Agriculture Biosecurity and Emergency Management Program (4 PYs and $587,843). The requested funds will assist farmers statewide in assessing biosecurity levels on farms, ranches and other animal production facilities and implement enhanced biosecurity plans where needs are identified. Additionally, this program will also aim to assess and make recommendation for integrated emergency response planning at the local level to respond to prevent the spread of disease.

Field Communications and Data Management Upgrade (4 PYs and $418,356). The requested funds and positions will develop and implement a statewide notification system that will allow the CDFA to have real-time disease and animal population data.

Field Early Warning System/Rapid Notification (1 PY and $163,223). The position and funding for this program will be used to begin the creation of a statewide notification system by identifying and training field observers, maintaining a contact information database and contracting with notification services that are capable of sending thousands of messages via telephone, fax, pager, or e-mail.

Premises, Animal Identification, and Movement Tracking System (4 PYs and $753,141). Funding for this proposal will be used to create an integrated identification and tracking system that will allow CDFA to develop quarantine boundaries, trace movement of diseased and disease exposed animals, conduct epidemiologic investigations, develop risk assessments and accurately coordinate response and surveillance efforts.

Rural–Urban Community Outreach and Disease Surveillance (10 PYs and $1,173,238). The requested funding and positions will be used to provide statewide outreach and disease surveillance at statewide locations that are especially vulnerable to the spread of disease such as specialty markets, auctions, swap meets, feed stores, shows and fairs.

Expanded Laboratory Capacity for Rapid Testing and Surveillance ($2,294,900). The requested funding will be used to procure $450,450 in equipment, enter into $155,450 in equipment service contracts and spend $830,000 for a Laboratory Information Management System to support expanded laboratory capacity required to detect a disease or food contaminant. Additionally, $589,000 will be used to contract with laboratory staff to provide increased testing activities.

Investigation, Research, and Policy Development Unit (3 PYs and $399,349). Funding requested by this proposal will be used for new staff to work with other research entities to conduct research and policy development that reflects the most current understandings of diseases and applications of the latest technology.

Agricultural Security and Emergency Response Office (8 PYs. $1,016,768). The requested funding and positions will be used to run the Agricultural security and Emergency Response Office (ASER) that is located in the Office of Emergency Services Headquarters and serves as a central point of coordination in case of emergency for Department resources, agricultural industry, agricultural commissioners and statewide fairgrounds. The ASER office has been operating in 2005-06 with Federal Specialty crop grant funds.

LAO Recommendation. The LAO raised the following concerns with the department's proposal to fully maximize:

Most Activities Appear Eligible for Federal Funds. In their request, CDFA references several instances of the receipt of federal funds offsetting the need for General Fund support. Additionally CDFA reports that it exhausted all additional federal funding options. The LAO, however, have found through their review that most of the department's proposal is consistent with federal funding parameters for the largest grants received by the state. Moreover, the federal government recently placed an emphasis on supporting agricultural-related prevention with its grants. Eligible activities under federal grant guidelines include conducting public education campaigns, promoting business emergency preparedness, conducting vulnerability assessments, and developing security plans. Eligible equipment purchases include agricultural terrorism prevention, response, and mitigation equipment.

The OHS reports that agricultural terrorism is one of the state's 15 funding priorities for the coming year. The OHS is in the process of reviewing and prioritizing state agency funding needs in anticipation of submitting a consolidated grant application to the U.S. Department of Homeland Security. By proposing General Fund spending, the administration has indicated that it deems CDFA's activities to be a spending priority an the LAO thus comments that they find little reason, therefore, why most of CDFA's proposals could not instead be priorities within the federal application.

Surveillance Would Be Ineffective. The CDFA proposes to establish a program to increase outreach and surveillance in urban and rural areas to detect agricultural diseases and provide education about preventing their spread. The department proposes to visit specialty markets, auctions, swap meets, feed stores, shows, and fairs. Because of the vast number of these venues across the state, the LAO is skeptical that a ten-member surveillance and education team would have even a minimal effect on disease detection. The state already has a network of local agricultural commissioners, public health officials, and UC cooperative extension offices. These entities have an established presence in every county and would be better able to target local efforts.

Staff Comments. Staff concurs that many of the activities presented in the proposal appear to be eligible for Federal funds or funding directly from industries that benefit from these activities. When addressing the subcommittee with this proposal, the Department should be prepared to comment on where there might be additional opportunities for non-general fund support for these proposals. Additionally, staff shares concerns with the LAO of how effective limited Sacramento based staff will be at operating a statewide monitoring and surveillance program and why these proposal don't more specifically tie into the state existing networks of agricultural commissioners and University Agricultural Extensions in our local communities.

STAFF RECOMMENDATION. Staff recommends that this item be held open because of General Fund effect and outstanding concerns related to funding sources for the proposal.

ISSUE 2: HYDROGEN FUEL STANDARDS

Background. In 2005, legislation SB 76 (Budget Committee) was enacted that directed CDFA to establish and adopt specifications for hydrogen fuels by January 1, 2008. This legislation provided the Air Resources Board (ARB) with $6.5 million from the Motor Vehicle Account to implement the Governor's Hydrogen Highway Blueprint Plan. The ARB contracted with CDFA in 2005-06 for $370,000 to support the development of interim fuel standards.

Governor's Budget. The Governor's Budget proposes $174,000 from the General Fund to support one 1-year limited-term position to develop standards related to hydrogen fuel quality.

LAO Recommendation. The LAO finds that the department only plans to spend $61,000 of the contract funds provided by the ARB in the current year. This would leave approximately $309,000 available for expenditure in the budget year. Therefore, the LAO recommends rejecting the department's proposal for an additional $174,000 from the General Fund.

Department Response. The department concurs with the LAO and has indicated that it will not need the additional funding in the budget year.

STAFF RECOMMENDATION. Staff recommends that the Subcommittee adopt the LAO recommendation and reject the proposal.

ISSUE 3: AGRICULTURAL INSPECTION STATIONS

Background. From 1921 to 2003, private vehicles entering California were screened for compliance with federal and state agricultural laws in an effort to minimize the introduction of pests that might cause damage to agricultural crops or native plant species. Due to fiscal constraints, the department discontinued the private vehicle inspection program. Since that time, only commercial vehicles entering the state have been subject to inspections.

Governor's Budget. The Governor's Budget proposes $380,000 from the General Fund to support five 2-year limited-term positions to conduct a pilot project to determine the pest introduction risk presented by private vehicles entering the state.

LAO Recommendation. The LAO finds that the department has a long history with this program and believes that one year should be sufficient to reassess the risk. The LAO recommends adopting a one-year pilot and supplemental report language declaring its intent.

Department Concerns. The department is concerned that limiting the pilot project to one year will reduce its effectiveness. Their main concern is that funding a one-year pilot for the fiscal year 2006-07 will reduce the department's ability to inspect vehicles during the summer months, which are considered high-risk months for pest infestations.

Staff Comments. As a compromise with the LAO recommendation, Senate subcommittee 2 approved funding for a one-year pilot program, but allowed the department to expend the funding over a two-year period. This would allow the department to conduct its pilot project during the 2007 calendar year or another time frame that allows the department to maximize its data collection efforts at high risk times of the year.

STAFF RECOMMENDATION. Staff concurs with the Senate's action and recommends that the Subcommittee take the following actions:

- **Adopt the LAO's recommendation and approve $190,000 from the General Fund to support a one-year pilot project.**

- **Adopt budget bill language that extends the liquidation period for these funds to June 30, 2008.**

- **Adopt supplemental report language that requires the department to report to the Legislature by March 1, 2008 on the findings from the pilot program, including the relative risk of pest infestation posed by private vehicles.**

ISSUE 4: WEED MANAGEMENT AREAS PROGRAM

Created by AB 1168 (Frusetta) in1990, The California Weed Management Area Program was created to bring local stakeholders within defined Weed Management Areas (WMAs) together leverage local and federal funds with state funds to control the spread and impact of invasive weeds throughout the state.

This program is administrated by CDFA typically through county Agricultural Commissioners' offices. In order for state funds to be awarded to local WMAs, an advisory panel reviews proposals from WMAs and makes awards according to guidelines. To receive funding, each WMA must have an MOU between all stakeholder groups in their area, and a strategic plan defining their goals and objectives. WMAs focus on treatment of weed infestations, but they also work on public education and mapping/inventory efforts.

Staff Comments. Proponents of this program cite that State funding provided to this program has been able to leverage a 3-1 match from outside grant funding and in-kind donations and services. This program has eradicated 128,421 acres and 2,015 populations of high priority weed infestations in the state. It has been requested that funding for this program be reauthorized at the previous level of $5 million.

STAFF RECOMMENDATION. Because this item has a general fund impact, staff recommends that it be held open.