

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 3
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION****Assemblymember Fran Pavley, Chair****TUESDAY, MAY 17, 2005
STATE CAPITOL, ROOM 447
8:30 A.M.**

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Proposed Consent Calendar	
Program	Proposal
Department of Forestry and Fire Protection	May Revise Proposal: Technical Correction – \$1.1 million General Fund increase and \$915,000 Reimbursement decrease. These funds were set aside for the purpose of the making lease Revenue Bond debt service adjustments via control section 4.30.
Department of Forestry and Fire Protection	\$4.1 million (General Fund) for increased funding associated with unemployment insurance costs of departmental personnel.
Wildlife Conservation Board	Capital Outlay. Reappropriation of \$18.6 million in Proposition 40 funds to continue funding for Oak Woodlands and Rangeland, Grazing Land and Grassland Protection programs.
Coastal Conservancy	April 1 Finance Letters: \$10 million Prop 40 reappropriation \$17.5 million Prop 12 Reversion
Conservation Corps	May Revision. Report of Lease Revenue Bond Allocation. Because of project revisions, \$913,000 that was previously allocated for the lease revenue base of the Camarillo Satellite Project will no longer be needed.
Department of Water Resources	May Revision – Prop 13 Funds. Reversion of \$177.9 million in Proposition Funds. Extension of Liquidation Period for \$70.8 million in Proposition 13 funds. Reappropriation of \$30.1 million in Proposition 13 funds
Air Resources Board	May Revision. \$12.5 million (Air Pollution Control Fund) augmentation for increased Carl Moyer Program funding.
California Department of Food and Agriculture	May Revision. \$10,000 (General Fund) and a decrease of \$20,000 Reimbursements associated with Lease Revenue Bond debt service adjustments that were reflected in a set aside item in the January 10 budget, related to Control Section 4.30.
California Department of Food and Agriculture	May Revision. A decrease of \$17,000 (General Fund) and an Increase of \$17,000 Reimbursements, to reflect a change in fund source for a lease revenue funded project.
California Department of Food and Agriculture	May Revision. Eliminate the Agriculture Cooperative Bargaining Advisory Committee.
California Department of Food and Agriculture	May Revision - Capitol Outlay.

STAFF RECOMMENDATION: Staff had no issues with these proposals. Approve Consent Calendar.

ITEMS TO BE HEARD**0540 SECRETARY FOR RESOURCES****ISSUE 1: EXTENTION OF LIQUIDATION AND PROP 13 APPROPRIATION**

The following extension of liquidation and appropriation of Prop 13 funds would allow the City of Maywood to acquire the last of eight parcels for a regional park. Once the land tenure is secured from the BNSF railroad, then the City can begin to drawdown its park development grant funding from the Resources Agency. In addition, as the Resources Agency has no appropriation for Proposition 13 funds in which, to administer this liquidation extension, the \$16K will provide funding for state operations support.

1. Add to item 0540-490:

6015—River Protection Subaccount

Notwithstanding any other provision of law, the period to liquidate encumbrances for the Maywood Riverfront Park from the following citation is extended to June 30, 2006

(1) Item 0540-101-6015(a), Budget Act of 2000 (Ch. 52, Stats. 2000).

2. Add new item 0540-001-6015 and appropriate \$16,000 from the River Protection Subaccount, and take conforming action in the Agency's main support item 0540-001-0140

Staff Recommendation: Staff had no issues with proposal and recommends approval.

3540– FORESTRY AND FIRE PROTECTION

ISSUE 1: MAY REVISE: JACKSON DEMONSTRATION STATE FOREST OPERATIONS

The Department of Forestry and Fire Protection (CDF) proposes a one-time funding of The Renewable Resources Investment Fund (RRIF) in the amount of \$3 Million for 2005-06. This request is to continue baseline programs for several CDF Resource management programs that are traditionally funded by Forest Resources Improvement Fund (FRIF) in anticipation that the revenue from harvesting on Jackson Demonstration State Forest does not materialize.

The sum of the budget needs for the individual programs is significantly more than can be expected in revenues from State Forests into the FRIF in 2005-06.

Staff Comments: The Renewable Resources Investment Account receives 30 percent of royalties from the federal government for geothermal leases. Funds from this account may be used for the following purposes: fish habitat improvements; forest resource improvements; urban forestry projects; agricultural soil drainage and soil erosion programs; agricultural, industrial and urban water conservation; wildland fire protection; and coastal resource enhancement projects. This proposal will backfill funding for the following baseline programs.

FRIF Funded Program	FY 2005-06 (dollars in thousands)
State Forests Management	\$2.6
State Forests Research and Education	254
Nurseries and Seed Bank	605
Forest Stewardship	447
Forestry Assistance Program	69
Pest Management Program	370
Fire and Resource Assessment Program	303
Total	\$4,625

STAFF RECOMMENDATION: Approve May Revision Request.

ISSUE 2: REPLACING AND ENHANCING CDF FLEET

January 10 Budget

The Governor's 2005-06 Budget proposed to increase CDF's annual baseline funding for equipment replacement by \$10.8 million. This augmentation is intended to fund, on an ongoing basis, the replacement of obsolete fire fighting apparatus and support vehicles as well as its eleven aging firefighting helicopters. This proposal is in response to a recommendation made by the Governor's Blue Ribbon Commission.

Staff Comments: This proposal was heard in subcommittee on April 13, 2005 and was held open pending additional requested detail on the proposal. Through meetings with the department, legislative staff and the LAO, all parties were able to reach a consensus that provided information adequately justified the January proposal.

May Revision

In the May Revision, the Administration is requesting a one-time \$5.0 million augmentation for the replacement and enhancement of CDF's aging fire engine fleet. This proposal will involve the procurement of 19 "type II" fire engines that are equipped with ladders and other apparatus to provide protection to structures as well as forestlands.

Staff Comments:

In the Governor's budget, \$10.8 million in ongoing funding was proposed to assist CDF with the replacement of an aging fleet of fire engines and other vehicles. The LAO raised various issues with the original proposal including a general lack of detail for the need, expected lifespan, and purchasing plan for the proposed equipment. Through various discussions with the department, legislative staff and the LAO, information was provided and agreed upon that resolved many of the LAO concerns. The Department's need for a long-term solution for its fleet replacement deficiencies were clear and the proposed solution seemed adequate. Throughout these discussions, the department did not provide staff with any indication as to neither an immediate nor a long-term need for Type II fire engines in the department's fleet.

STAFF RECOMMENDATION: 1) Reject the May Revision proposal. 2) Approve the department's January 10 proposal for a \$10.8 million ongoing general fund augmentation for equipment replacement. Additionally, approve the following supplemental report language

Item 3540-001-0001—California Department of Forestry and Fire Protection

1. *Mobile Equipment Expenditures.* On or before January 10, 2006, the California Department of Forestry and Fire Protection shall provide a report to the Legislature (including budget and fiscal committees from both houses) on its expenditures for mobile equipment. In particular, the report shall include the following:

- A comparison of budgeted and actual expenditures for mobile equipment, by type of equipment (such as fire engines, transports, trailers, etc), for fiscal year 2004-05.
- Actual expenditures in 2005-06 for mobile equipment, by type of equipment, as of December 1, 2005 and expenditure plans for the portion of the 2005-06 equipment appropriation which is unencumbered.
- Proposed expenditures, by equipment type, included in the *Governor's 2006-07 Budget*.

ISSUE 3: YEAR ROUND FIRE PROTECTION FOR SOUTHERN CALIFORNIA

The Governor's budget is proposing to augment the CDFFP budget by \$9 million (General Fund) and 48.8 positions to provide an additional four months of staffing with three firefighters at the San Diego, Riverside, and San Bernardino Units. This proposal was a recommendation of the Governor's Blue Ribbon Commission.

The department has provided the number of fires in the Riverside, San Bernardino and San Diego Units combined average nearly 80 in December, 66 in January, 60 in February, 60 in March and nearly 90 in April. To respond to these fires, there has been an executive order in place over the past several years to provide year-round fire protection and has been funded at the following funding levels: \$9.1 million in 2002-03; \$8.7 million in 2003-04 and \$8.9 million in 2004-05.

Staff Comments: This issue was held open in subcommittee on April 13th due to additional requests for information as to what the department plans are on using its year-round staffing for when they are not engaged in fire abatement activities. In addition to fire suppression, the department has mentioned its plans to utilize the proposed year-round staffing for non-fire suppression activities such as involvement in fuel reduction efforts as mandated by Chapter 720, Statutes of 2004, SB 1369 (Kuehl) that require flammable vegetation be cleared at least 100 feet from structures and reduction projects in Bark Beetle infested areas being priorities. When considering approval of this request, the subcommittee may wish to consider adopting supplemental report language requiring the department to report to the Legislature by January 10, 2006 the department's plan for its non-fire abatement activities. Additionally, the SRL would require the department to return after one-year of implantation and report on actual workload for these programs.

Staff Recommendation: Approve as budgeted with Supplemental Report Language requiring the department to report on the following (1) performance measures related to increase prevention/inspection work; (2) impacts to Amador Agreements; and (3) coordination with contract counties on their increased level of inspection and prevention activities.

ISSUE 4: MAY REVISION: RESTORE UNALLOCATED REDUCTION

It is requested that CDF's general fund budget be increased by \$6.7 million to restore an unallocated reduction that was included in the Governor's budget. Since this reduction was not previously allocated, it is unknown what programs this proposal will restore funding for.

STAFF RECOMMENDATION: Approve restoration of unallocated reduction.

ISSUE 5: LAO RECOMMENDATION: INCREASED OVERSIGHT OF FEDERAL REIMBURSEMENTS

Currently, when CDF provides assistance with fire abatement on lands that are considered a federal responsibility, the department provides the funding for the services from the General Fund and is later reimbursed by the federal government for the costs that it incurred. While the process and timeline for requesting and receiving reimbursements can vary for each fire, once approved the department has expenditure authority to encumber federal funds without petitioning the Department of Finance for authorization through the Section 28 process.

LAO Comments. The LAO has raised issue with the department's use of these funds for uses other than reimbursement of the fire prevention activities originally provided. The LAO recommends that the legislature:

- 1) Require the CDFFP to notify the legislature of receipt of unanticipated funds
- 2) Schedule individual amounts by program area within the department's overall budget bill appropriation item

STAFF RECOMMENDATION: Delete provision 1 of Item 3540-001-0890 and direct finance to schedule individual amounts of the overall budget bill appropriation item by program area.

3720– CALIFORNIA COASTAL COMMISSION

3760 – CALIFORNIA COASTAL CONSERVANCY

ISSUE 1: IMPROVING COASTAL ACCESS AND DEVELOPMENT MITIGATION

The California Coastal Commission was established in 1972 with a primary responsibility 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. In total, there are 1,447 Access OTDs recorded from 1977 through July 2004. Of which, the status of offers are as follows: 379 have not yet been accepted, 49 have been accepted and 19 have expired.

The commission uses nonaccess OTDs as a mitigation option for projects where traditional "access" is not a feasible mitigation alternative. These nonaccess OTDs generally concern conservation areas or environmentally important areas where public access is not the primary goal of the mitigation. For example, a nonaccess OTD might include land offered for habitat, open space, or agricultural protection, or involve a permanent retirement of land from development. Costs to develop nonaccess OTDs typically range from about \$10,000 to \$50,000. According to the Commission, due to personnel and budget constraints the status of over 200 nonaccess OTDs is unknown. Of those non-access OTDs being tracked, the status of offers are as follows: 797 have not been accepted; 232 have been accepted; and 54 have expired.

LAO Comments

Currently there are over a thousand OTDs that have not been accepted and thus are not available for public use. The LAO reviewed these OTDs and examined the question of what can be done to ensure timely acceptance, development, and opening of the existing OTDs that have been recorded in the past and that remain unaccepted. Additionally, looking at the future use of coastal development mitigation tools, the LAO considered how the state could ensure that future permit requirements achieve mitigation in a timely manner and are appropriately funded.

The following are the LAO's comments and recommendations:

Tracking and Reporting of OTDs Can Be Improved. Recognizing that the Commission is moving in the right direction with regards to tracking OTDs, the LAO noted that the Commission should make the tracking of all OTDs a priority and such information should be shared with the legislature. Thus, the LAO recommends that the Commission report to the Legislature by January 1, 2006, on the status location and expiration date of all outstanding OTDs

Facilitate Opening of Outstanding OTDs. According to the commission, the entire process from the conditioning of a coastal development permit with an OTD to the date an OTD is accepted can take anywhere from several weeks to 21 years. In addition, the actual development and opening of the OTD to the public may take several more years beyond the acceptance date. Currently almost 30 percent of the outstanding OTDs are scheduled to expire within the next four years, underscoring the need for an accelerated acceptance process.

Require Development of Plan to Further Acceptance and Opening of OTDs. The LAO recommends the enactment of legislation directing the commission, in conjunction with the State Lands Commission and the State Coastal Commission, to develop a plan to be submitted to the Legislature to facilitate the acceptance, development, and opening of all outstanding OTDs within a specified timeframe to be determined in consultation with the commission and other state agencies. Accordingly, the plan should identify (1) the costs to meet the plan's objective, specifically identifying the costs that would likely be borne by the state (for example, the administrative costs to accept or find accepting agencies for the over 300 OTDs that will expire in the next five years), (2) potential state funding sources (such as Whale Tail License Plate funds), and (3) organizations that could potentially assume the long-term management of the OTDs. For example, if there are several OTD properties in relatively close proximity to an existing local public park or beach, these might be appropriate for transfer to and long-term maintenance by a local government, should it be willing.

Consider Requiring State Agency to Accept Expiring Nonaccess OTDs. Lastly, similar to how SB 1962 is preventing public access OTDs from expiring and being lost to the public for future use, the Legislature may wish to consider enacting similar legislation for the nonaccess OTDs. Such legislation could require a state agency—such as SLC or the Wildlife Conservation Board—to accept nonaccess OTDs that are about to expire.

It should be noted that while there are no direct costs when an OTD is accepted, the acceptance of outstanding OTDs (most of which expire in the next five years) will create some administrative costs in the short term for the accepting agencies.

Staff Comments. The commission has indicated that it would take additional staffing resources to report on the universe of OTDs and that this information could be gathered by the end of the calendar year. The commission also indicated that a plan for accepting and opening pending OTDs could be developed in the same time frame. According to the Commission they need approximately 5 new positions to completely update their tracking database and files, prioritize OTDs for acceptance, get OTDs accepted more quickly, and increase monitoring of already accepted OTDs.

Coastal Commission Permit Fees. Staff finds that the commission's current permit fees have not been increased since 1991 and that its fees are considerably lower than comparable fees at local governments. The commission has the authority to increase its fees without action by the

Legislature. However, staff finds that the commission would prefer intent language that directs the commission to increase its fees. If the commission raised its fees to cover approximately 50 percent of its current permitting program it would raise approximately \$2.3 million. This issue was discussed at length during the 2004 budget discussions. Current law requires that the commission fees be transferred to the State Coastal Conservancy for coastal access projects.

STAFF RECOMMENDATION. Staff recommends that the Subcommittee:

- Adopt trailer bill language stating legislative intent that the commission raises its fees to generate approximately \$2.3 million in the budget year.
- Adopt trailer bill language that allocates \$1 million of the permit fees annually to the State Coastal Conservancy for coastal access projects, including accepting and opening OTDs. The remainder of the fee revenues (\$1.3 million) should be deposited in the General Fund.
- Augment the budget \$600,000 General Fund to establish 5 new positions (2 permanent and 3 three-year limited term) to address the backlog of work related to tracking, accepting, and opening OTDs.
- Adopt the following supplemental report language:
 1. *On or before January 10, 2006, the California Coastal Commission, with assistance from the State Coastal Conservancy, shall report on all offers to dedicate, described in Public Resources Code Section 31402.1, that have not yet been accepted by a third party, including those offers to dedicate whose acceptance status is currently unknown. The report shall include the type of offer to dedicate (public accessway, conservation easement, or open-space easement), status, location, expiration date, names of potential entities to accept the offer and assume long-term management thereof, and date the commission plans to begin working on getting the offer to dedicate accepted.*
- Adopt supplemental report language that requires the commission to report annually on its progress in addressing the backlog of OTDs (to be drafted by staff).
- Adopt trailer bill language that designates the State Coastal Conservancy as the default agency to accept non-access OTDs set to expire and exempt this process from the Department of General Service process (similar to the current process for accepting access OTDs).

3720– CALIFORNIA COASTAL COMMISSION

ISSUE 1: ENERGY AND OCEAN RESOURCES UNIT

In the Governor's proposed 2005-06 budget the Coastal Commission's budget is proposed to be reduced by \$517,000. The breakdown of this reduction is as follows:

2005-06 Proposed General Fund Reductions	2005-06 Proposed Federal Coastal Zone Management Act Reductions
Unallocated Reductions	\$152,000
Unfunded Pers Costs	50,000
TOTAL	\$202,000
Reduction of Coastal Commission Share of CZMA Funding	\$54,000
Reduction of Coastal Commission's Share of Nonpoint Source Program	317,000
TOTAL	\$371,000

Along with budget year proposed reductions, since 2001-02, the Coastal Commission's budget has been reduced by a total of \$3.7 million and 33.7 positions -- placing upon the commission considerable staffing pressures that have drastically affected the commission's ability to perform its core activities.

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. With the loss of one permanent Coastal Program Analyst position in 2003-04, the Commission currently has two analysts and one manager to review all OCS, LNG, power plant, desalinization, wave and wind energy, aqua culture, fiber-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:

Federal Consistency Review of 36 Outer Continental Shelf (OCS) Leases. Pursuant to the court's decision in California's successful litigation against the Federal Government, the Commission must review 36 requests for OCS lease extensions and prepare staff recommendations for the Commission's consideration by the June 2005 meeting. Substantial workload on these leases will continue into FY 2005-06 with potential litigation, potential re-submittals, and future consistency and permit reviews for exploratory and development plans and ongoing compliance issues if lease suspensions are approved.

The Commission anticipates that additional work on the OCS issues in FY 2005-06 will be equivalent to at least one full time position above current Energy Unit staffing.

Liquefied Natural Gas (LNG). The Coastal Commission is the only state agency with regulatory authority over all four proposed LNG terminals either through its permitting or federal consistency review authority. The Commission staff (the Energy Unit Manager) has been actively participating in the LNG working group facilitated by the Energy Commission. In FY 2005-06, the Commission will be reviewing the following four LNG projects with the possibility of a fifth LNG proposal in Northern California.

- BHP Billiton: Offshore Ventura County (*Fall 2005 through end of 2006*)
- Sund Energy Solutions: Port of Long Beach (*Fall 2005 through end of 2006*)
- Crystal Energy: Platform Grace (*Late 2006 through 2007/2008*)
- Chevron/Texaco: Proposed new construction of an offshore island off Camp Pendleton (*Late 2006 through 2007/2008*)

According to the Commission, staffing levels are inadequate to support this increased workload. Depending on the timing of the LNG submittals, the department anticipates that additional work on LNG in FY 05-06 will be equivalent to at least 1-2 full time positions above current Energy Unit staffing.

Power Plants. The Energy Commission estimates that 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, for a dry cask storage facility at the Humboldt Bay Power Plant, and for the disposition of the SONGS outfall and intake line offshore SONGS units 1 and 2. The Commission estimates that increased workload associated with power plant work will take two full time positions.

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 2005-06 and into FY 2006-07 and review and compliance follow-up is estimated by the Commission to take 1-2 full time positions.

Staff Recommendation. Staff recommends that the Subcommittee augment the budget \$350,000 General Fund to establish 3 new positions to address increasing workload in the energy unit.

3790 – DEPARTMENT OF PARKS AND RECREATION

ISSUE 1: APRIL 1 FINANCE LETTER – EMPIRE MINE POLLUTION MITIGATION STUDY

In an April 1 Finance letter, the administration is proposing to augment the department's budget by \$500,000 (General Fund) to provide for a pollution mitigation study of the Empire Mine State Historic Park. The study would include a human risk assessment, storm water pollution and prevention plan, and an implementation strategy to mitigate identified contaminants.

Potential pollution problems at the Empire Mine have only recently gained attention. The site includes large piles of mine tailings which may hold asbestos and other toxic materials.

LAO Comments. The LAO has expressed concern that the General Fund might not be the appropriate funding source for this proposal. Instead, they suggest that the Surface Mining and Reclamation Account (SMARA) is an appropriate alternative to the General Fund. Because under current law, SMARA funds are only available to remediate abandoned mines that were operational *after 1976*, if the subcommittee wishes to use the SMARA account for the Empire Mine study, a "notwithstanding" clause could be added to the budget bill (since the Empire Mine was closed in 1956).

Staff Comments.

The majority of revenues of the SMARA account originate from the federal land royalties earned through mining operations. A portion of these royalties are deposited into the SMARA account annually. The amount deposited is statutorily triggered so that when combined earned federal royalties total \$20 million or greater, \$2 million is deposited in to the SMARA. Subsequently, when federal royalties total less than \$20 million, only \$1.2 million is deposited. Because of this drastic trigger, year to year, the fund balance of the SMARA is dependent on an oscillating source of revenue – creating an unstable funding situation for the programs dependent on the SMARA. In the budget year, the fund balance for the SMARA is projected to be \$2.1 million.

When looking at funding this proposal directly from the SMARA, the subcommittee may wish to consider the following statutory changes to readjust the trigger that controls deposits into the account. This could possibly provide some stability in the revenue flow into the SMARA from Federal Lands Royalties.

STAFF RECOMMENDATION. Approve LAO recommendation to use \$500,000 from the Surface Mining and Reclamation Account on a one-time basis to fund this request instead of General Fund. In addition, approve Trailer Bill language that removes the Federal Mining Royalties Revenue trigger and provides that \$2.1 million be deposited into the SMARA account from federal mining royalties revenues.

0555– SECRETARY FOR ENVIRONMENTAL PROTECTION 3900 – AIR RESOURCES BOARD

ISSUE 1: APRIL 1 FINANCE LETTER – HYDROGEN HIGHWAY

April 1 Finance Letter Proposal. In an April 1 Finance Letter, the Administration is proposing an augmentation of \$12.2 million (Motor Vehicle Funds and Energy Resources Programs Account) and the following activities to implement the Hydrogen Highway Network Blue Print Plan Program:

Hydrogen Stations. Co-fund the installation of 11 hydrogen refueling stations throughout the state. Hydrogen fueling stations are expected to cost \$1 million each, with the state share of the cost being \$500,000.

Vehicle Incentives and Placement Assistance. Provide \$10,000 cash incentives to purchase hydrogen fuel cell vehicles in order to promote the use of hydrogen vehicles within government fleets. The current estimated cost for a single hydrogen vehicle is \$1 million.

Public Private Partnership. Establish a Public Private partnership to realize the goal of establishing 50-100 hydrogen fuelling stations by 2010.

Codes and Standards Development. Develop codes and standards to streamline the permitting and safety issues around hydrogen station placement.

Site Specialists. Work with stakeholders, station operators/builders and communities to address all of the issues related to installing hydrogen infrastructure.

Public Education. Provide public outreach and education on hydrogen energy technology.

Research. Provide research that addresses the societal benefits and costs of utilizing hydrogen and the expected demand for hydrogen vehicles.

Biennial Review. Provide a biennial review by all of the stakeholders to ensure that rapid progress is being made in the constructing hydrogen infrastructure.

LAO Comment: The federal government provides broad discretion as to the use of these funds. The Legislature, therefore, should ensure that the use of the funds is consistent with its priorities.

Staff Comments: As an emerging green technology, hydrogen as a fuel sources has a long term potential to possibly alleviate much of our dependency on fossil fuels for energy consumption. Though hydrogen technology is considerably developed and is being implemented currently to fuel automobiles on a very limited scale, the widespread use of the technology is obstructed by the following issues:

Affordability and Availability. Today's estimated cost of a fuel cell powered vehicle is approximately \$1 million. This high cost can be attributed to a minimal production volume that is largely hand made and limited to experimental and prototype use.

Infrastructure. In the State currently there are 4 hydrogen fueling stations, none of which are open to the public. In order for statewide use of hydrogen-powered automobiles to be truly viable, there would need to be some type of network – statewide or regional - of hydrogen fueling stations in place to support hydrogen vehicles. The proposal calls for the construction of 11 additional fueling facilities throughout the state.

A Reliable "Green" Source of electricity. Because electricity is needed to extract hydrogen from other chemical compounds and the majority of electric generation is dependent on either fossil fuels or natural gas, the net sum of pollutants emitted from the time hydrogen is created to when it is consumed makes it a non "zero-emission" fuel source in today's energy landscape. In order to attain a truly "zero-emission" classification, an increased supply of "green" power would be needed to replace the state's and nation's fossil fuel dependent power generation facilities. This obstacle of providing "green" power sources is compounded with the current overall scarcity of electric generation in the state and the long term stresses that are expected on the energy landscape due to population increases and limited construction of new power generation plants in the state.

Though hydrogen fuel cell technology has potential to help our country alleviate our dependence on fossil fuel consumption, when looking at the obstacles stated above it is questionable whether the Administration's proposal and the fiscal commitment associated with it will result in adequate short term and long term environmental gains to justify the investment at this time. Because of these issues, the proposal set forth in the Finance Letter may be premature. Rather, the subcommittee may wish to direct funding for this proposal towards research oriented activities instead.

Staff Recommendation. Staff recommends that the Subcommittee approve \$4.1 million to fund a portion of this proposal. Specifically staff recommends approving the following components of the proposal:

1. \$154,000 (ERPA) for 1 position at the Office of the Secretary for Cal-EPA to coordinate research related to Hydrogen.
2. \$380,000 (ERPA) for 3 positions at the Air Resources Board to conduct research related to Hydrogen, including environmental impacts of a hydrogen highway and specific impacts to low-income communities.
3. \$1 million (\$220,000 ERPA and \$780,000 MVA) for contracts for continued research on environmental impacts, safety and other related issues related to the implementation of a hydrogen highway.
4. \$2.6 million (\$1.3 million ERPA/\$1.3 million MVA) for other programs detailed in the administrations' proposal.
5. Adopt the following budget bill language

Item 3900-001-0465

Provision 1. Any funds from this item that are intended for use for hydrogen vehicle incentive programs shall be used only be used for hydrogen vehicle leasing programs.

3960– DEPARTMENT OF TOXIC SUBSTANCES

ISSUE 1: APRIL FINANCE PROPOSALS

The administration is proposing the following in an April 1 Finance Letter:

1. BKK Hazardous Waste Landfill Site Maintenance

\$8.5 million (General Fund) augmentation to provide emergency response and essential site operations at the BKK hazardous waste landfill facility in West Covina. In addition, budget bill language is being proposed that would require Toxics to take all reasonable actions to recover post-closure costs from potential responsible parties, and that the amounts received be paid to the General Fund.

2. Stringfellow Pretreatment Plant

\$1.1 million reappropriation for the purpose of preparing preliminary plans for the construction of a new pretreatment plant at the Stringfellow Federal Superfund Site. The funding was originally earmarked for Stringfellow remediation activities. This reappropriation is consistent with the purpose of the original appropriation.

STAFF RECOMMENDATION: Approve April Finance Letter requests.