

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE No. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, APRIL 15, 2015

9:00 A.M. - STATE CAPITOL ROOM 447

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VOTE-ONLY**0540 SECRETARY FOR NATURAL RESOURCES AGENCY**

VOTE-ONLY ISSUE 1: California River Parkway Programs – Staffing Extensions

The Governor's Budget requests to extend two positions, and the funding for these positions, for five years, to support the Proposition 84 California River Parkway Program. Savings from previous years will allow this allocation to adhere to the "five percent for administration" rule found in the bond.

STAFF COMMENTS

Staff has no concerns with this request.

Staff Recommendation: Approve as Budgeted

3340 CALIFORNIA CONSERVATION CORPS

VOTE-ONLY ISSUE 2: Auburn Campus: Capital Outlay Improvements

The Governor's budget requests \$2.7 million (Public Buildings Construction Fund) for preliminary plans and working drawings for a new kitchen, multi-purpose room, and dormitory to replace the current facilities at the Auburn Campus. Demolition and replacement of the existing corpsmember dormitory's and Kitchen/Dining hall are included in the funding request.

VOTE-ONLY ISSUE 3: LOCAL CORPS RESIDUAL PROP 40 FUNDING

The Governor's Budget requests a one-time, FY 2015-16, local assistance appropriation of \$275,000 of California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). Approving this proposal would to give the California Conservation Corps the ability to award grants to certified Local Conservation Corps. Local Conservation Corps depend on such grants to further their efforts in achieving the goals set forth in Prop. 40, including the conservation of natural resources, as well as support local corps programs to better serve the environmental, ecological and community needs of the Local Corps' service areas.

STAFF COMMENTS

Staff has no concerns with issues 2 & 3.

Staff Recommendation: Approve as Budgeted Issues 2 & 3.

3360 CALIFORNIA ENERGY COMMISSION**VOTE-ONLY ISSUE 4: VULNERABILITY OF FUELING INFRASTRUCTURE FOR THE TRANSPORTATION SECTOR TO CLIMATE CHANGE**

The Governor's Budget requests one two-year limited-term position and \$1,800,000 in one-time Petroleum Violation Escrow Account (PVEA) funding, for a total request of \$1,985,000 to support an evaluation of the vulnerability of the fuel infrastructure for the transportation sector (e.g., refineries, pipelines, marine terminals, underground storage tanks, and fueling stations) to climate change impacts. Past studies for the electricity sector have shown that this sector is very vulnerable to extreme weather-related events (e.g., wildfires and sea level rise) that would increase in frequency and intensity with climate change. As shown by the recent Rim wildfire, California needs to develop and implement adaptation strategies to ameliorate negative impacts to the electricity system. A similar vulnerability study for the fueling infrastructure for the transportation sector for California has not been done, even though the transportation sector is vital to the state's economy and its citizen's health and safety. As an example of a potential vulnerability of this sector, consider that sea-level rise and storms could damage coastal oil refineries with potential dramatic consequences to the state. For these reasons, this proposed work is needed.

This work will also explore adaptation efforts and will contribute to the Fourth California Climate Change Assessment, which is planned to be released to the Governor and the Legislature in 2018. The project will identify the specific vulnerabilities of California's fueling infrastructure to both extreme weather events (flooding, fire, storms) and other climate impacts (sea level rise, coastal erosion, rising temperatures). This issue was heard and approved by this Subcommittee last year. However, the proposal was rejected in Conference Committee due to Senate concerns that legislation is needed to give clear direction on periodic climate assessments.

VOTE-ONLY ISSUE 5: PGC RAMP DOWN

The Governor's Budget requests the reduction of 25 positions and \$2,324,000 from the Public Interest Research, Development, and Demonstration Fund (PIER), and the Renewable Resource Trust Fund (RRTF), through the Public Goods Charge (PGC) for the Renewable Energy Program and the Public Interest Energy Research Program (PIER). This proposal is in response to the sunset of the authority to collect the Public Goods Charge on January 1, 2012. As a result, the PGC program is undergoing a multi-year phased staff reduction. This multi-year reduction plan is based on the need to retain sufficient staff to complete the remaining workload associated with the existing Renewable Energy Program and PIER Program contracts, grants, loans and other activities.

VOTE-ONLY ISSUE 6: TRAILER BILL LANGUAGE TO SHIFT UNSPENT ARRA FUNDS TO THE DEPARTMENT OF GENERAL SERVICES

The Governor requests fund transfer authority (TBL) to move unspent and under-utilized ARRA funds to the DGS Energy Efficient State Property Revolving Loan Fund. The funds were originally allocated to the Clean Energy Business Financing Program (CEBFP) and ECAA revolving loan program. The CEBFP conducted one loan cycle but has no plans to conduct a second loan cycle. Similarly, ECAA conducted one loan cycle with the ARRA funds but has no plans to conduct a second loan cycle. The Energy Commission believes these funds could be better utilized for energy efficiency retrofits in state buildings. The DGS revolving loan program is oversubscribed and these funds would accelerate energy efficiency retrofits in state buildings throughout the state.

STAFF COMMENTS

Staff has no concerns with issues 4-6.

Staff Recommendation: Approve as Budgeted Issues 4-6.

STATE LANDS COMMISSION

VOTE-ONLY ISSUE 7: ROYALTY RECOVERY AND REVENUE ASSURANCE

The Governor's Budget requests \$472,000 (General Fund) ongoing for the conversion of four limited-term auditor positions to permanent. These positions were provided to address workload needs as identified by a 2010 State Auditor report in its review of Commission revenue operations. Prior audit staffing levels were only able to react on a "crisis" basis which resulted in a large backlog and potentially millions of dollars in underreported royalties. The four expiring auditor positions are necessary to ensure accuracy and timely processing of reported royalties as well as ensuring the State is receiving revenue in accordance with the terms of its leases, contracts and applicable laws. The revenue findings associated with the costs of these auditors is at the very least a 2:1 ratio, bringing at least 1 million dollars to the General Fund annually. The California State Lands Commission's (CSLC) revenue portfolio is nearly ½ billion dollars annually with 95% being General Funds revenue coming from oil and gas income. This request has a positive cash flow impact on the General Fund.

VOTE-ONLY ISSUE 8: LEASE COMPLIANCE AND ENFORCEMENT CONTINUATION

The Governor's Budget requests \$535,000 (General Fund) ongoing for the conversion of five limited-term positions to permanent to continue the implementation of the Lease Compliance, Enforcement and Revenue Recovery program which ensures compliance with lease terms and conditions resulting in increased revenues to the General Fund. Through the first two years of this Lease Compliance and Enforcement staffing, CSLC has generated \$1.5 million annually in increased revenues. Substantial budget cuts and staff reductions (40% General Fund reduction since 1990) created an immense backlog of lease applications and rent reviews and, in most instances, the suspension of lease compliance and enforcement functions. The first two years of

increased staffing has improved compliance with lease terms and conditions, while at the same time generated additional revenue by providing for timely rental payments and rent reviews, updating appraisal rates and benchmarks, and by bringing trespassers and unauthorized improvements under lease. It has also resulted in savings to the State by reducing or eliminating potential personal injury and property damage claims to the State from the use of State lands. This request for making permanent this level of staffing also addresses some of the findings of the August 2011 BSA audit of the CSLC's leasing practices.

STAFF COMMENTS

Staff has no concerns with issues 7 and 8.

Staff Recommendation: Approve as Budgeted Issues 7 and 8.

3790 DEPARTMENT OF PARKS AND RECREATION

VOTE-ONLY ISSUE 9: VARIOUS LOCAL ASSISTANCE PROGRAMS

The Governor's Budget requests funds in the amount of \$56,240,473 from special and federal funds for the Local Assistance Program to provide grants to various agencies. Funds are to be available for encumbrance or expenditure through June 30, 2018.

- **Off-Highway Vehicle Trust Fund, \$26 Million (Grants).** The Off-Highway Motor Vehicle Recreation Act of 1988 enables the allocation of grant funds for the purpose of establishing, maintaining, managing, and rehabilitating off-highway vehicle recreation areas, trails, and facilities in California. Grants are available for acquisition, development, planning, operation, maintenance, and resource management. Funding must be used for areas or trails that were, will be, may be, or are currently dedicated for legal Off-Highway Vehicle use.
- **Recreational Trails Fund, \$5.75 Million** (OHV Grants 1,726,857; Recreational Grants \$4,029,332). The Recreational Trails Program (RTP) is administered at the federal level by the Federal Highway Administration (FHWA) and at the state level by the Department of Parks and Recreation. Remaining funds are allocated to States by (1) 50 percent equally among all eligible States and (2) 50 percent proportionately on non-highway recreational fuel use. For non-motorized trails, 70 percent of the funds received by California will be available on a competitive basis to cities, counties, districts, State agencies, and nonprofit organizations with management responsibilities over public lands. At least one-half of the funds for non-motorized trails will be available only to cities, counties, districts, and nonprofit organizations with management responsibilities over public lands. For motorized trails, 30 percent of the funds will be available on a competitive basis to cities, counties, districts, nonprofit organizations, and State agencies.
- **Federal Trust Fund \$24,484,284** (Division of Boating and Waterways \$9 million, Recreational Grants \$13.8 million, Historic Preservation Grants \$1.7 million). The Land and Water Conservation Fund Program (LWCF) provides funds to federal agencies, and to the 50 States and 6 territories. The money allocated to the States may be used for

statewide planning, and for acquiring and developing outdoor recreation areas and facilities. The National Historic Preservation Fund Program provides funds that may be used for the full range of eligible activities (including acquisition and development) authorized by the National Historic Preservation Act and by the implementing guidelines issued by the National Park Service for State Historic Preservation Grant Programs.

VOTE-ONLY ISSUE 10: CONCESSIONS

The Governor's Budget requests approval to solicit proposals for new concessions or extend existing contracts for the following:

Concessions: Angeles District (Multi-Unit Fee Collections); Lake Perris Marina (Concessions); Hearst San Simeon State Historical Monument (Theatre Concession Contract); and Old Town San Diego State Historic Park (Retail Food Service Concessions)

Operating: Bothe-Nappa Valley State Park and Bale Grist Mill State Historic Park (Operating Agreement); Robert Louis Stevenson State Park (Operating Agreement with Napa County); and San Bruno Mountain State Park (Operating Agreement with San Mateo County)

VOTE-ONLY ISSUE 11: VESSEL OPERATORS' EDUCATION AND CERTIFICATION CARDS

The Governor's Budget requests a transfer of one million dollars from the Harbors and Watercraft Revolving Fund as a loan to the Vessel Operator Certification Account to implement the requirements of SB 941 (Monning), Chapter 433, Statutes of 2014, for two years. Position costs will total approximately \$261,000 annually and operating expenses and equipment cost are expected to total \$241,000. SB 941 prohibits the operation of a motorized vessel in California without a valid vessel operator card developed and issued by the Department of Boating and Waterways (DBW). DBW is tasked with the development, establishment and operation of the Vessel Operator Card Program, including the establishment and consultation of a technical advisory group.

VOTE ONLY ISSUE 12: EMPIRE MINE REMEDIATION

The Governor's Budget requests an ongoing budget augmentation of \$220,000 in General Fund support for the anticipated long term operation and maintenance costs of the Magenta Drain and Treatment System at Empire Mine State Historic Park (SHP) critical to the protection of both public health and safety, along with the protection of natural and cultural resources at the park. This request is necessary as outlined in a settlement agreement that has recently been reached with the Newmont Entities. It has been agreed that the Newmont Entities shall reimburse the Department for past response costs it has incurred at Empire Mine SHP and that the Department shall be responsible for the ongoing operation and maintenance cost of the Magenta Drain and Treatment System.

VOTE-ONLY ISSUE 13: BOATING AND WATERWAYS LOCAL ASSISTANCE PROGRAMS
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The Governor's Budget requests \$41,499,000 in one-time funds for the Division of Boating and Waterways (DBW) Local Assistance Program from the Harbors and Watercraft Revolving Fund, the Abandoned Watercraft Abatement Fund and the Public Beach Restoration Fund for grants to various agencies.

Harbors and Watercraft Revolving Fund (HWRF) \$34,900,000

- Boat Launch Facility Grants - \$15,350,000
 - The grants fund public boat launching facilities (BLF) that are open to the general public and provide boating access to California's waterways.
 - Projects:

San Diego Unified Port District – Shelter Island (BLF):	\$9,350,000
City of Colusa – Colusa BLF:	\$2,900,000
City of Antioch – Antioch BLF:	\$ 400,000
Statewide: Ramp Repair, Non-Motorized BLF, Floating Restrooms	\$2,700,000
Reimbursements Grants	\$1,000,000
Quagga and Zebra Mussel Infestation Prevention Grants	\$5,000,000
Private Loans	\$4,200,000
Boating Operations-Boating Safety and Enforcement	\$11,350,000

Abandoned Watercraft Abatement Fund (AWAF) \$1,750,000

- Abandoned Watercraft Abatement Fund Grants \$1,750,000
 - These grant funds are used for the removal of recreational abandoned watercraft and water hazards on California's waterways. These funds are a transfer from the HWRF to the AWAF.

Public Beach Restoration Fund (PBRF) \$4,849,000

- The Beach Erosion Control Program and the Public Beach Restoration Act were established with the intent of preserving and protecting coastal beaches, shoreline, habitat, and public infrastructure impacted by natural and human-induced shoreline instability. Local Assistance requests for these Public Beach Restoration Grants are outlined below:

Cities of Encinitas and Solana Beach in cooperation with the U.S. Army Corps of Engineers requests funds to complete the Proconstruction Engineering and Design portion of the Encinitas-Solana Beach Shore Restoration Project.	\$ 450,000
Beach Erosion Authority for Clean Oceans and Nourishment, a regional joint powers authority, requests funds to restore approximately two miles of degraded coastal shoreline as part of the Ventura County Rincon Parkway Shoreline Restoration project.	\$2,900,000
Cities of Huntington Beach and Newport Beach, the County of Orange, and the Surfside Stormwater Special District in cooperation with the U.S. Army Corps of Engineers requests funds to complete the Proconstruction Engineering and Design portion of the Surfside-Sunset Beach Restoration Project.	\$ 739,000
City of Carpinteria in cooperation with the U.S. Army Corps of Engineers requests funds for the final phase of the Capinteria Shoreline Feasibility Study.	\$ 75,000
Various public agencies requests funds to support the development of the Eureka, San Francisco Open Coast, and Sonoma-Marin County Regional Sediment Master Plans in cooperation with the U.S. Army Corps of Engineers.	\$ 485,000
City of Monterey requests funds to purchase of a Dredge Booster Pump to allow placement of beach-quality sand on sections of eroded public beach the current pump cannot reach.	\$ 200,000

VOTE-ONLY ISSUE 14: CAPITAL OUTLAY PROPOSALS

State Park	Title/Summary	Amount (Dollars in Thousands)
El Capitan State Beach	Construct New Lifeguard Operations Facility. Requests funding for the working drawings phase of this continuing project from available Proposition 84 funds. This existing project will demolish the existing lifeguard tower located in the El Capitan State Beach campground and construct a new lifeguard operations facility adjacent to the existing El Capitan State Beach maintenance facility. The new facility will provide up to 6,500 square feet of office and vehicle/support space.	\$619
Mendocino	Big River Watershed Restoration Project. Requests reimbursement authority from CalTrans and the Mendocino Land Trust for the design and construction phases of this project to remove two failing culvert crossings and an approximate total of 5,000 cubic yards of fill material at mileposts 0.6 and 0.7 on the Big River haul road, Mendocino Headlands State Park. The culvert crossing at the 0.6 mile marker will be replaced with an approximate 75 foot long bridge and the culvert crossing at the 0.7 mile marker will be replaced with an approximate 90 foot long bridge so that both can accommodate emergency vehicles, maintenance vehicles, pedestrians, and bicyclists. This grant-funded project will reduce maintenance, increase safety of the road structure, and improve the primary access route for emergency vehicles, at no additional cost to the state.	1,741
Bidwell-Sacramento River	Irvine Finch Ramp Repair and Extension. Requests funding for the working drawings phase of this continuing project from the Harbors and Watercraft Revolving Fund. This existing project will improve the launching and retrieval of recreational boats by repairing a deep hole at the end of the existing boat ramp, extending the boat ramp, and repairing and armoring eroded embankment around the boat ramp.	53
Angel Island	Immigration Station Hospital Rehabilitation Phase 4. Requests reimbursement authority (for construction only, plans and specs will be gifted to the Department). This project will provide interior building improvements to complete the rehabilitation of the United States Immigration Station Hospital at Angel Island State Park. This project will also include design and build out of state of the art exhibits and conversation space for symposia and educational outreach on the topics of immigration and public health. Previous work for Phase 03 Rehabilitation completed the stabilization and exterior improvements, as well as approximately half of the interior rooms. Phase 04 will complete the unfinished rooms allowing for access to the building by the public. All work completed for Phase 04 Rehabilitation will be paid for with private dollars. These dollars are secured by the fundraising efforts of the Angel Island Immigration Station Foundation, a private 501c(3) non-profit agency working in cooperation with the Department for the restoration and interpretation of the Immigration Station site.	2,952
Angel Island	East Garrison Mooring Field. Requests funding for the working drawings phase of this continuing project from the Harbors and Watercraft Revolving Fund. This existing project will improve safety and convenience of recreational boaters by restoring the abandoned mooring field consisting of 32 buoys at the East Garrison location of the park and will clean up the site by removing old concrete block anchors, chains and debris from the bay floor.	38

State Park	Title/Summary	Amount (Dollars in Thousands)
MacKerricher	Replacement Water Treatment Plant. Requests funding for both the working drawings phase and the construction phase of this continuing project from available Proposition 84 funds. This existing project will upgrade the drinking water collection and treatment equipment at MacKerricher State Park to allow safe and reliable year-round production of potable water for the park. Due to eutrophication of Lake Cleone and coastal erosion, the park is in jeopardy of losing its existing supply of fresh water. A new source of water will be located and the water treatment plant upgraded to provide the park with an adequate and reliable supply of potable water.	\$2,474
Leo Carrillo	<p>Steelhead Trout Barrier Removal. Requests supplemental federal trust fund authority for the construction phase of this continuing project to cover increased project costs, based on actual bids received. This existing project will provide two free span bridges to replace two existing in-stream crossings located on Arroyo Sequit Creek within Leo Carrillo State Park. This project will enhance habitat and increase spawning opportunity for a federally listed endangered fish species and improve impairments to water quality caused by two failing in-stream concrete crossings by removing these crossings and replacing each one with a free span bridge.</p> <p>The Santa Monica Bay Restoration Commission has developed design specifications for this project, with necessary state review and approvals. Funding will be provided by various entities, with a portion coming out of the Federal Land and Water Conservation Fund, for the Department to manage and construct this project.</p>	751
McArthur-Burney Falls Memorial	Ramp and Boarding Float Replacement. Requests funding for the working drawings phase of this continuing project from the Harbors and Watercraft Revolving Fund. This existing project will improve safety and convenience for users by completely reconstructing the dilapidated boat launching ramp and boarding float at this location, both of which have exceeded their intended design lives.	53
Pismo State Beach	Sediment Track-Out Prevention Measures. Requests funding for the working drawings phase of this continuing project from the Off-Highway Vehicle Trust Fund. The project will construct several dirt track-out prevention measures at park exits to help ensure that dirt from vehicles does not track-out from Pismo State Beach on to public roads.	95
Gaviota	Main Water Supply Upgrades. Requests funding from available Proposition 84 funds to develop water supply facilities for the southern portion of the Gaviota State Park to provide a consistent water supply for the public, staff, and fire suppression, to ensure the health and safety of park occupants and avoid significant annual repair costs and intermittent water supply outages. The project includes a new well and water treatment facility or upgrading the existing water supply line, as appropriate.	215
Malibu Creek	New Stokes Creek Bridge. Requests funding from available Proposition 84 funds to replace an existing, undersized arch culvert with a bridge to restore a secondary escape route for park visitors in the event of fire or other emergencies and provide a dedicated service entrance for park staff to access the district office, thereby eliminating the need to travel through the campground. In addition to increasing public safety, this project would also eliminate a significant portion of the park's deferred maintenance backlog, prevent ongoing damage to the existing road and restore the creek to its natural configuration.	232

State Park	Title/Summary	Amount (Dollars in Thousands)
Herber Dunes State Vehicle Recreation Area (SVRA)	Water System Upgrades. Requests funding for preliminary plans and working drawings from the Off-Highway Vehicle Trust Fund for this project to develop a new water treatment and distribution system to: (1) meet current demand for potable water; (2) meet health department standards; (3) provide secure storage to comply with the California Department of Health Services - Drinking Water Field Operations Branch (DHS-DWFOB) water security guidelines; and (4) protect the new water treatment system from the harsh desert climate. The project will address health and safety concerns related to inadequate potable water supply and support continued park operations.	180
Old Sac State Historic Park	Boiler Shop Renovations. Requests funding for the preliminary plans phase of this project from Proposition 84 bond funds. This project covers critical improvements to the historic Boiler Shop in the Downtown Sacramento Railyards (Railyards). This project will address hazardous material abatement, structural seismic stabilization, improvements to the building exterior shell, interior core improvements, and related utilities, as needed to bring the Boiler Shop to a level considered clean and safe.	\$726
South Yuba River	Historic Bridegport Covered Bridge Restoration. The California Department of Parks and Recreation (Department) requests a technical fund swap to shift existing federal funding from design to construction and move an offsetting amount of state funding from construction to design. The new funding, along with the reversion of existing funding, is needed to utilize the federal funds available for this project, as it was recently discovered that the federal funds can only be used for construction costs. This request does not change the total project funding or scope, but does result in a small reduction in overall state funding.	0
Torrey Pines State Natural Reserve	Utility Modernization. Requests funding for preliminary plans and working drawings from available Proposition 84 bond funds to connect the park to the local sewer system to address significant public health and safety concerns, to avoid sensitive habitat degradation, and to reduce deferred maintenance and ongoing repair costs. The project also includes associated upgrades to the aging water and utility infrastructure.	287
Carnegie SVRA	Road Reconstruction. Requests a supplemental appropriation for the construction phase from the Off-Highway Vehicle Trust Fund for this project to address increased costs, mainly attributed to additional environmental mitigation efforts required by regulatory agencies, as well as a reappropriation of existing construction funding to ensure timely project completion. This project will reconstruct and rehabilitate approximately eight miles of unpaved roads at Carnegie State Vehicular Recreation Area (SVRA) to meet current emergency access, water quality, and public use standards. Work on these roads will include grading and re-shaping to allow for proper drainage and cross slopes, road realignment, and road reconstruction and non-paved surfacing. In addition, there will be drainage control measures including culverts of various diameters, diversion ditches and swales, constructed or installed.	1,196

STAFF COMMENTS

Staff has no concerns with issues 9 to 14.

Staff Recommendation: Approve as Budgeted Issues 9-14.

3820 SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION

VOTE-ONLY ISSUE 15: BASELINE ADJUSTMENT FOR RENT INCREASE

The Governor's Budget requests \$85,000 (General Fund) to cover the additional lease costs due to the BCDC office relocation to the Hiram Johnson State Building in San Francisco. The move was prompted by the Department of General Services in order to save overall state funds due to vacancies in state buildings. The Legislature approved this proposal on a one-time basis last year and required BCDC to submit a proposal in January 2015 for a move to the MTC building, including cost estimates. According to BCDC's report, the space in the MTC building will not be available until August of 2016. Therefore, it is not necessary to consider or budget for the move until the 2016/17 budget cycle.

STAFF COMMENTS

Staff has no concerns with issues with this proposal.

Staff Recommendation: Approve as Budgeted

ITEMS TO BE HEARD

**DEPARTMENT OF FINANCE
LEGISLATIVE ANALYST'S OFFICE
3900 AIR RESOURCES BOARD
0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH, STRATEGIC GROWTH COUNCIL**

ISSUE 1: CAP-AND-TRADE UPDATE

The 2014-15 Budget appropriated \$832 million from auction proceeds for investment in low carbon transportation, sustainable communities, energy efficiency, urban forests, and high-speed rail. The Governor's Budget proposes to continue this compliment of investments with an additional \$1 billion of Cap and Trade revenues.

The Governor's Budget additionally requests \$255,000 (Greenhouse Gas Reduction Funds) for two permanent positions to support programs related to coordination of existing Strategic Growth Council (SGC) programs and the SGC's Affordable Housing and Sustainable Communities Program. These staff would directly oversee the administrative requirements associated with transferring, tracking, oversight, audits, and reporting that are required for the grant programs supported by SGC.

The SGC is comprised of ten members representing six State agencies: the Secretaries of the Natural Resources Agency; the California Environmental Protection Agency; California State Transportation Agency; the California Health and Human Services Agency; the California Business, Consumer Services and Housing Agency; and the California Department of Food and Agriculture; as well as the Director of OPR, one public member appointed by the Governor, one member appointed by the Senate Rules Committee, and one member appointed by the Speaker of the Assembly.

The 2014-15 Budget and Governor's 2015-16 Budget directs \$200 million to the SGC for grants and loans projects that reduce vehicle miles traveled and greenhouse gas emissions (GHGs) by creating more compact, infill development patterns, integrating affordable housing, encouraging active transportation and mass transit usage, and protecting agricultural land from sprawl development. The Council's responsibilities include developing guidelines, reviewing applications, and providing funding as part of greenhouse gas reduction efforts associated with cap-and-trade funds.

BACKGROUND

The goal of the state's climate plan is to reduce Greenhouse Gas (GHG) emissions to 1990 levels by the end of this decade. The Cap and Trade program, a key element in this Administration's plan to achieve these goals, sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. The Cap and Trade program places a "cap" on aggregate GHG emissions from entities responsible for roughly 85 percent of the state's GHG emissions. To implement the Cap and Trade program, the Air Resources Board (ARB) allocates a certain number of carbon allowances equal to the cap. Each allowance equals one ton of carbon dioxide equivalent. The ARB provides some allowances for free, while making others available for purchase at auctions. Once the allowances have been allocated, entities can then "trade" (buy and sell on the open market); in order to obtain enough to cover their total emissions for a given period of time. As part of its program, the ARB will give free allowances to the state's large industrial emitters, as well as the state's electric utilities, in order to reduce the economic impact of the Cap and Trade program.

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

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

The Cal-EPA developed a tool called CalEnviroScreen to identify disadvantaged communities for investment. Through the Office of Environmental Health Hazard Assessment (OEHHA), the tool was developed to assess areas that are disproportionately affected by multiple types of pollution and areas with vulnerable populations. Using this tool, the Cal-EPA provided guidance to state agencies administering all cap-and-trade auction revenues in order to meet the provisions of SB 535.

In November 2014, the ARB released its first SB 535 guidance to agencies and included estimated auction revenue appropriations expected to benefit disadvantaged communities. The table below shows the funding and allocations with their respective benefits to disadvantaged communities. As shown, the Administration is planning to invest at least 33 percent of funds in areas benefiting disadvantaged communities, mainly from low-emission vehicle rebates, incentives for low-emission vehicles, and grants for weatherization and solar installation. For funding specifically targeted to disadvantaged communities, the majority is from the weatherization program and a small amount from the urban forestry program at CalFIRE.

**2014-15 Investment in Disadvantaged Communities
As of November 2014**

Department	Activity	2014-15 (in millions)	% Targeted to DAC	Total Benefiting DAC	Total Located in DAC
High-Speed Rail Authority	Construction of the Phase 1 blended system for high-speed rail	\$250	n/a	n/a	n/a
Strategic Growth Council	Affordable housing and sustainable communities	130	50%	\$65	n/a
Transportation Agency	Transit and intercity rail capital	25	25%	\$6	n/a
State Transit Assistance	Low carbon transit operation	25	32%	\$8	n/a
Air Resources Board	Low-emission vehicle rebates and incentives for low emission vehicles	200	50%	\$100	n/a
Community Services and Development Department	Grants for weatherization and solar installation including the Low-Income Home Energy Assistance Program	75	100%	\$75	\$75
Department of Forestry and Fire Protection	Fire prevention and urban forestry	42	n/a	n/a	\$10
Department of Fish and Wildlife	Wetlands restoration (state and local assistance)	25	n/a	n/a	n/a
Department of Resources Recycling and Recovery	Waste diversion	25	10%	\$3	n/a
Department of General Services	Energy efficiency upgrades in state buildings	20	n/a	n/a	n/a
Department of Food and Agriculture	Reducing agricultural waste	15	n/a	n/a	n/a
Totals		\$832	33%	\$275	\$85
				33%	10%

(n/a): As of the time of reporting (November 2014), this information is not available.

STAFF COMMENTS

Additional Revenue Likely Available. According to the LAO, future revenues are subject to substantial uncertainty. The amount of future auction revenue will depend on two basic factors: the number of state allowances purchased and the selling price of the allowances. Both of these factors are uncertain because they can be affected by many factors that are difficult to predict, including overall economic activity, covered entities' costs of emission reduction alternatives, market expectations about future allowance prices, industry expectations about future statutory or regulatory changes, and the degree to which other AB 32 policies reduce emissions. The figure below illustrates a range of potential revenues in 2014–15 and 2015–16 based on the

LAO's use of different assumptions about the proportion of state allowances sold and the average price of allowances sold.

Range of Estimated Annual Cap-and-Trade Revenue
(In Billions)

	Governor's Budget	LAO Scenarios		
		Low Revenue	Moderate Revenue	High Revenue
2014–15	\$0.7	\$1.3	\$1.5	\$2.8
2015–16	1.0	2.0	2.3	4.9
Totals	\$1.7	\$3.3	\$3.7	\$7.7

To the extent revenues exceed the amount assumed in the budget, those programs that are continuously appropriated specified percentages of auction revenue would receive more funding in 2015–16 than is identified in the Governor's budget. Under the Governor's proposal, any unanticipated revenue in 2014–15 above the \$650 million assumed in the budget, as well as 40 percent of revenue above \$1 billion collected in 2015–16, would remain unallocated.

The Legislature could use additional auction revenue—relative to what is assumed in the Governor's budget—in many different ways. These options include: (1) waiting to spend funds until future years, (2) allocating funds to existing GGRF programs in 2015–16, and (3) allocating funds to other programs in 2015–16.

Staff Recommendation: Approve Strategic Growth Council proposal as Budgeted

3900 AIR RESOURCES BOARD**ISSUE 1: SOUTHERN CALIFORNIA CONSOLIDATION PROJECT****LAO BACKGROUND AND ANALYSIS**

Mobile Source Regulations. *Mobile sources, such as automobiles, are a large portion of the state's overall emissions. For example, 83 percent of statewide nitrogen oxide emissions—a major contributor to ground-level ozone—come from mobile sources. Under the federal Clean Air Act, California is authorized to adopt motor vehicle emissions standards that are more stringent than the federal standards. While California has made progress in reducing air pollution in recent years, it still faces significant air quality challenges. For example, the federal government has designated two of the state's air districts—the South Coast and the San Joaquin Valley—as the two areas with the highest ozone concentrations in the nation. These districts are required to achieve the most stringent federal ozone standards by 2031.*

As part of ARB's mobile source regulatory activities, it administers emissions testing and research activities that are used for such things as developing regulations, researching new emission control technologies and vehicles, evaluating the effects of different fuels on engine emissions, and developing methods for measuring emissions.

Existing Southern California Testing and Research Facilities. *Most of the ARB's mobile emission testing and research occurs at facilities in Southern California. The state-owned Haagen-Smit Laboratory (HSL), located in El Monte and built in 1971, is ARB's primary testing and research facility. The state also leases five buildings adjacent to the HSL for additional testing and office space. In addition, ARB currently conducts heavy-duty testing—such as testing of large diesel truck emissions—at the Metropolitan Transit Authority (MTA) facility about ten miles away in Los Angeles. The various testing facilities use specialized equipment, such as dynamometers (equipment used to simulate road conditions) and chambers specifically designed to measure emissions from vehicles and other engines (known as Sealed Housing for Evaporative Determinations, or SHEDs). Staff at these various facilities conduct vehicle testing, laboratory analysis, regulatory development, and enforcement activities.*

Budget Proposal. *The budget requests \$5.9 million to begin the process to consolidate and relocate the ARB's existing motor vehicle and engine emission testing and research facility. Funding includes \$3.8 million (Motor Vehicle Account), \$1.2 million (Air Pollution Control Fund), and \$0.9 million (Vehicle Inspection Repair Fund). The Governor proposes the following:*

- 1. Consolidation of Existing Southern California Testing and Research Facilities.** *The Administration proposes to consolidate and relocate the existing Southern California testing and research facilities. The exact location of the property for this project is unclear, but the Administration indicates that it expects that the new facility would be located on a piece of state-owned land in Pomona. The ARB is considering various possible sites, including land owned by the California State University, Pomona and the site of the recently closed Lanterman Developmental Center. According to the Administration, the existing Southern California facilities do not meet current and future emission testing needs. Some of the main concerns include:*

- *The MTA facility is too small to meet heavy-duty testing needs.*
- *The HSL property is too small and cannot be adapted to accommodate the equipment needed for current and future testing operations.*
- *Some of the equipment at the HSL has reached the end of its service life and will need to be replaced soon.*
- *The distance that staff have to travel between the MTA facility in Los Angeles and the El Monte facilities result in inefficiencies.*

As shown in the figure below, the Administration is proposing to more than double the amount of building space and triple the amount of total space (including parking). The new facility would include testing centers, a chemistry laboratory, offices, space for Administrative services (such as receiving and shipping and storage areas) and a parking structure. The Administration proposes to use a design-build procurement process for this project.

Size Comparison of Existing and Proposed Air Resources Board Testing and Research Facilities

Thousand Square Feet

	Existing Facilities	Proposed Facilities	Percent Change
Testing facilities	50	160	222%
Chemistry laboratory	17	48	177
Offices	55	73	32
Administrative services	10	18	84
Total Building Space	132	299	127%
Parking and outside facilities	58	311	440%
Total Space	190	610	222%

Requests \$5.9 Million to Evaluate Site and Develop Performance Criteria. *As discussed above, the Administration requests a total of \$5.9 million, in 2015-16, to assess the suitability of a proposed new site (\$200,000) and develop performance criteria (\$5.7 million). The Administration will use the performance criteria to develop documents that will then be used to solicit bids. These three funds are currently used to support the operations of the existing facilities. After the performance criteria have been approved by the Public Works Board, the Administration plans to proceed to bid in mid-2016, award a contract in mid-2017, and complete the project by early 2020.*

The total cost of this project is estimated to be \$366 million. This amount includes (1) \$5.9 million for site evaluation and development of performance criteria (as proposed in the Governor's budget), (2) \$258 million in other planning and construction costs, and (3) \$102 million for equipment. The administration indicates that it intends to use the same fund sources that are currently used to fund the operations of the existing facilities. The proposal does not identify future ongoing operating costs for the new facility.

LAO Assessment. *Given the state’s regulatory authority over mobile sources of emissions and continuing significant air quality challenges in certain parts of the state, a significant amount of mobile emission testing and research activities will likely continue into the future. In addition, given the current condition and size of ARB’s existing facilities and equipment, at least a portion of the existing Southern California facilities will likely need to be renovated, upgraded, or replaced in the coming years. While the Administration’s proposal could potentially be the preferred approach to addressing ARB’s future air quality regulatory needs, the Administration’s proposal lacks several critical components. Specifically, the proposal lacks (1) a clear justification for the size and scope of the project, (2) a complete analysis of alternatives, and (3) a clear strategy for long term funding. At a minimum, the administration should address these issues before the Legislature considers approving such a project—particularly one of this size, scope, and cost. In addition, the administration has not provided an adequate justification for the \$5.9 million cost estimate for site evaluation and developing performance criteria. We discuss each of these issues in more detail below.*

No Clear Justification for the Size and Scope of the Project. *While the Administration identifies a wide variety of future testing and research activities that will be conducted as vehicles and fuels evolve, it has not provided a clear analysis of future workload that justifies the size and scope of the proposed project. For example, the Administration’s proposal includes three chassis dynamometers to conduct over 860 heavy-duty tests per year beginning in 2020. However, it is unclear how the Administration arrived at an estimate of 860 tests. Furthermore, the proposed project is scheduled to be completed in 2020, but the Administration does not provide estimates of the future workload and needs beyond 2020. As a result, it is difficult to evaluate whether the size and scope of the proposed project is appropriate.*

Lack of Complete Analysis of Alternatives. *To the extent possible, the Legislature should have a clear understanding of the advantages and disadvantages—including the net fiscal effects—of reasonable options prior to moving forward with capital outlay projects. While the ARB’s proposal includes a limited discussion of some alternatives, the administration does not provide an adequate analysis of these alternatives. For example, at the time of this analysis, the administration had not provided an analysis of renovating the HSL and building or leasing a separate space that could accommodate additional testing needs.*

No Clear Strategy for Long-Term Project Funding. *Prior to moving forward with a project, the Legislature should have a clear understanding of how the project will be funded in the long-term. The Administration has not provided a long term funding plan for this project. The \$5.9 million to evaluate a potential site and develop performance criteria would be funded from the MVA, the APCF, and the VIRF. According to the Administration, it also intends to rely on these three funds—in roughly the same proportion—to pay for the debt-service on the bonds that will be issued to fund the construction and equipment. If the bonds were repaid over a 25-year period at a five percent interest rate, the annual debt-service payments would be about \$26 million. If the annual debt-service payments were divided in roughly the same proportion as the current funding amounts, the annual costs would be as follows: \$17 million from the MVA, \$5 million from the APCF, and \$4 million from the VIRF. It is currently unclear whether these funds could support the additional costs in the long term. For example, the Governor’s budget includes other proposals to use the MVA for capital outlay projects that would increase cost pressures on the fund. If the Administration intends to use the three existing fund sources, it should provide (1) a description of how the project costs will affect the long-term condition of these funds and (2) if the additional costs are*

found to jeopardize the solvency of the fund condition, what programmatic reductions or revenue increases would be needed to maintain solvency.

No Adequate Justification for \$5.9 Million Cost Estimate. *At the time of this analysis, the Administration has not provided a detailed justification for the \$5.9 million cost estimate for site evaluation and developing performance criteria. For example, the Administration estimates that it will cost \$1.1 million for project management activities. However, it is unclear how the Administration developed such an estimate.*

LAO Recommendation. Direct Administration to Provide Additional Information. *“In view of the above concerns, we recommend that the Legislature direct the Administration to provide a more detailed analysis of the needed size and scope of the project, a more complete analysis of reasonable alternatives, more specific information about how the identified funds will support the long-term project costs, and a more detailed justification for the \$5.9 million cost estimate. Until the Administration provides such information, we find that the proposal is premature.”*

ARB Response to LAO Assessment. The Legislative Analyst’s Office (LAO) Assessment of the Air Resources Board’s (ARB) proposed Southern California Consolidation Project identified four areas where additional information was needed. ARB has met with the LAO on three occasions, provided written responses to the questions, and conducted a tour of the existing Southern California facilities for LAO staff. Below is a truncated version of ARB’s response to these four issues.

Justification for the Size and Scope of the Project. *ARB must continue to address emissions from motor vehicles and engines if the State is to meet existing mandated federal air quality standards, mandated State climate change requirements, and various other State air quality and climate change goals...There are several pressures on ARB’s existing testing programs that necessitate the upgrade and expansion of its testing facilities. First, ARB’s responsibilities have increased since the current laboratory was first established in 1971. Most notable was the passage of AB 32 in 2006. Second, the type and complexity of vehicle and fuel technologies has evolved and expanded over time. We must maintain current testing services for existing internal combustion engines, while ramping up and expanding the scope of testing needed to support the development and deployment of the new generation of energy efficient vehicles and associated diversified fuel sources.*

With respect to our testing needs for heavy-duty vehicles specifically, the current testing capabilities for heavy-duty vehicles are inadequate to meet our current or future needs. ARB has no capacity at the El Monte facilities to conduct heavy-duty vehicle emissions testing or research...On the light-duty side, the current testing is also inadequate...Due to limitations in space and equipment at the El Monte facilities, ARB must prioritize its testing activities to only those extremely high priority projects. As a result, there are important programs that are not even operating at a minimum level of testing.

Overall, the lack of testing capabilities impacts ARB’s ability to develop appropriate regulations to meet federal air quality and climate change mandates, ensure that manufacturers are meeting new and in use existing emission standards, and provide a sound basis for the development and support of the federally required State Implementation Plans.

To meet these current and future needs, ARB is proposing to consolidate and relocate our existing Southern California facilities. In support of this effort, ARB conducted an extensive analysis of testing and equipment needs. This analysis formed the basis of the recently completed feasibility study conducted in 2014, which identified the needed size and scope of

the project and informed the capital outlay budget change proposal (COBCP). In determining the size and scope of the project, ARB assessed the workload and priorities associated with testing all types of motor vehicles and engines.

As noted in the LAO analysis, the proposed size of the new facility is approximately twice the size of the existing facilities. ARB's existing facilities are almost exclusively dedicated to testing of vehicles and engines other than heavy duty vehicles. As discussed above, ARB operates just a limited 4,000 square foot heavy-duty test facility at MTA. The new facility proposes to increase the heavy-duty vehicle test facility capabilities to about 62,000 square feet. This will allow for a focused and concentrated testing effort to support the necessary reduction in emissions from heavy-duty vehicles.

Other space increases are necessary to enhance light-duty testing, improve the chemical laboratory, increase the capabilities to test motorcycles and other smaller engines, provide space for staff that meets DGS guidelines, and support the general testing activities. LAO also noted that parking and outside facilities increases from 58,000 square feet to 311,000 square feet. It is important to note that over half of this increase is simply due to the local code requirements for staff and visitor parking. The existing facilities have very limited dedicated parking for staff. The balance of parking and outside services includes, but is not limited to, general site circulation, secured surface parking, hazardous waste storage, and fuel pumps and underground fuel storage tanks.

The preferred alternative balances the need for testing with the practical considerations of staffing, facility, and equipment costs. The preferred alternative allows for at least a minimum level of testing in all program areas, while providing flexibility to enhance testing for high priority activities such as research and regulatory development. This additional testing includes, but is not limited to, expedited technology and regulatory development, improved emissions inventories, reduced excess emissions associated with non-compliant vehicles and engines, advanced test procedures, reduced cost of compliance (e.g., OBD and smog check), and greater assurance that new vehicles and engines meet emission standards.

Analysis of Alternatives. *ARB evaluated several alternatives as part of the COBCP. In addition, ARB has now conducted and provided LAO with an analysis of two additional alternatives. These two alternatives generally involve the construction of new facilities, while retaining the capabilities of the existing State-owned Haagen-Smit Laboratory and leased facilities. Based on the analysis of these alternatives and the alternatives listed in the COBCP, ARB maintains that the preferred alternative is the most effective option for the State considering all of the factors. Both of these alternatives create operational and management difficulties for ARB, require the unnecessary duplication of testing support, administrative, and laboratory functions, maintain an aging and energy inefficient State-owned facility, and continue to require the payment of ongoing leases to a private party that has no long term benefits to the State.*

Strategy for Long-Term Funding. *The fiscal year 2015-2016 budget request of \$5.9 million only addresses the site suitability assessment and the development of Performance Criteria. Appropriate budget proposals and funding justifications for long-term funding will be submitted in future years when the Administration puts forward a request for construction appropriation authority along with a proposal for long-term financing funding.*

Justification for \$5.9 Million Cost Estimate. *The budget request includes \$5.7 million for the development of Design Guidelines and Performance Criteria (Criteria) and \$0.2 million for site assessment. The site assessment work involves ensuring that the proposed site is suitable for*

the project. The focus of this discussion is on the development of the Criteria and is critical to the success of the project. The Department of General Services (DGS) is the lead agency for this phase. DGS hires a Master Architect, Construction Management Consultant, and CEQA Consultant. In coordination with DGS and ARB, the Master Architect develops the Criteria that extensively define the level and expectations related to multiple requirements of the building's performance.

The Criteria are based on program needs and guided by established professional codes, reference standards, and guidelines. The Criteria are presented to the Public Works Board for approval. Once approved, the findings of this effort are then incorporated into a Request for Proposal (RFP).

Concurrently, DGS issues a Request for Qualifications (RFQ). Potential qualified design build teams respond with their Statement of Qualifications based on the RFQ. The top five teams are interviewed to further evaluate their qualifications. The top three teams are invited to respond to an RFP. A Selection Committee consisting of the Master Architect, Project Consultant, and State representatives score the RFPs and select the top team. The agreement will be awarded based on the best value to the State.

DGS estimated the costs associated with each of these steps in the process based on their experience with other projects. The costs are in line with other large-scale State projects.

Staff Comments. ARB's response to the LAO's concerns are thorough and convincing. ARB has done an extensive analysis of current and future testing needs. The need for a new site was initially identified in 2006 when the first site feasibility study report was commissioned. The second feasibility study conducted in 2014, identified the needed size and scope of the currently proposed replacement project based on additional federal and state air quality mandates, and informed this capital outlay budget change proposal. In determining the size and scope of the project, ARB assessed the workload and priorities associated with testing all types of motor vehicles and engines to meet federal requirements.

Issues related to the site selection process of ARB's new testing facility are not the subject before the Subcommittee. Issues of procurement are under the purview of the Department of General Services. This proposal only deals with the site assessment and the development of Design Guidelines and Performance Criteria. Appropriate budget proposals and funding justifications for long-term funding for future potential bond-financed construction costs will be submitted with the request for those funds, in future years, consistent with the customary capital outlay design/build funding process.

Staff Recommendation: Approve as Budgeted

ISSUE 2: SB 1371 – NATURAL GAS LEAKAGE ABATEMENT**LAO BACKGROUND AND ANALYSIS**

Current law requires ARB to develop and maintain an inventory of GHG emissions. The GHG emission inventory is used to monitor California's progress in meeting the state's carbon emission reduction goals. Emission estimates rely on regional, state, and national data sources and facility-specific emissions data reported from large emitters.

SB 1371 (Leno), Chapter 525, Statutes of 2014, requires the CPUC, in consultation with ARB, to adopt rules and procedures governing the operation and maintenance of natural gas pipeline facilities in order to achieve two primary goals: (1) minimize safety concerns associated with leaks, and (2) advance the state's goals of reducing GHGs. Among other things, these rules and procedures must:

- Provide for the maximum technologically feasible and cost-effective avoidance, reduction, and repair of leaks in gas pipelines.
- Establish procedures for the development of metrics to quantify and track the volume of emissions from leaking gas pipelines, which will then be incorporated into state emissions tracking systems, such as the ARB's GHG emission inventory.
- Require gas pipeline owners to report to CPUC and ARB an estimate of leaks from their pipelines—including data and methods used to estimate leakage—and periodically update this estimate.

The CPUC began a proceeding to develop these rules and procedures in January 2015.

Budget Proposal. The budget requests a total of \$670,000 in 2015-16 from the Public Utilities Reimbursement Account to implement SB 1371. This includes \$370,000 annually for two positions, and a one-time allocation of \$300,000 for contract funding to independently collect additional pipeline emission data and examine additional methods to estimate emissions. The requested positions would consult with the CPUC on its proceedings, analyze pipeline emission data, and help develop future regulations and policies related to pipeline emissions. (The Governor's budget provides \$550,000 and four positions for CPUC to administer the proceeding and develop the rules and procedures.)

Inadequate Justification for ARB Resources. The Administration has not adequately justified the need for additional ARB resources at this time. Our findings are based on the following factors:

- **SB 1371 Does Not Require ARB to Collect Additional Data.** SB 1371 requires CPUC, in consultation with ARB, to develop rules and procedures for utilities to measure and track pipeline emissions data, which will be provided to ARB to incorporate into its emissions inventory. It does not require ARB to collect additional data beyond what will be provided by the utilities.
- **Premature to Request Resources to Analyze and Collect Additional Data.** The request for resources to collect and analyze emissions data is premature. The data that will be submitted by utilities should inform ARB's emissions inventory. If the ARB

ultimately determines that the data—after it is submitted by the utilities—is insufficient for its purposes, it could then request additional resources for data collection. Additionally, it is unclear what the ongoing workload associated with analyzing utility data and incorporating it into the inventory is actually going to be until the new rules and procedures are finalized. Therefore, it is unclear what additional staff, if any, would be necessary for these purposes given that ARB currently has staff responsible for monitoring statewide GHG emissions.

- **Need for Additional Position to Consult on Proceeding Is Unclear.** *While assisting with CPUC will result in additional workload for the ARB, it is not clear that this additional workload will require one full-time position. Much of ARB's current activities involve coordination with other state agencies (including CPUC) on issues related to GHG emissions. The LAO finds that it would be reasonable for ARB to absorb this additional one-time workload with existing resources.*

LAO Recommendation. Reject ARB Request. *“We recommend the Legislature reject the ARB request for funding and positions. The request for resources and positions to collect additional leakage data and analyze the new pipeline emissions data is premature. After the data is submitted, if the ARB determines that the data provided by utilities is inadequate or requires a significant additional analysis, the ARB can request additional resources at that time. In addition, it is not clear that the additional workload to assist CPUC on the proceeding requires additional position authority.”*

ARB Response to LAO Analysis of Workload Justification. *The ARB's provided additional workload justification to LAO and Subcommittee staff. The following is a truncated version of ARB's arguments in support of this proposal.*

ARB has expertise in and is responsible for accounting for and mitigating greenhouse gas emissions and meeting the State's AB 32 goals. ARB is responsible for the annual reporting and verification of GHG emissions data. In addition, ARB produces an annual inventory essential to monitoring California's progress toward reaching that goal. Providing expertise in these areas is key to the success of the bill.

California-specific data is limited and existing national level data on pipeline leaks is from the 1990s. Given the importance of the emission estimates in determining appropriate mitigation, a more robust analysis using internationally accepted emission estimation techniques is necessary. The utility data will provide additional data particularly on where and when leaks occur but since their focus is safety, the type of data necessary to quantify emissions accurately is unlikely. Estimates that can be derived from that data will need to be cross-checked with field measurements and accepted emission estimation methodologies.

ARB's expertise in emission quantification will be key in establishing best practices, protocols, procedures and metrics for quantifying and evaluating leaks, resulting emissions, and reductions over time. The bill specifically mentions the inclusion into ARB's Mandatory Reporting Regulation as well as direct IOU reporting to ARB. ARB will use that data to ensure proper quantification of emissions and reductions. This will also help ensure that the reduction necessary for meeting AB 32 goals are met and that the progress outlined in the bill is being achieved.

Staff Comments. *SB 1371 does not identify specific tasks that ARB is required to undertake. Further, the Legislative analysis did not include the addition of ARB positions, nor ongoing costs. Specifically, costs of the bill were identified as follows:*

- One-time costs *to the CPUC* of approximately \$400,000 from the Public Utilities Reimbursement Account (special fund) for the required proceeding.
- Ongoing costs *to the CPUC* of approximately \$160,000 from the Public Utilities Reimbursement Account (fund) to perform ongoing evaluations, audits and enforcement.

However, the ARB provided staff with additional detail regarding the provisions of the bill that create workload which may be appropriate given the climate objectives of SB 1371 and ARB's expertise in measuring greenhouse gas emissions and developing appropriate control measures. LAO suggests evaluation of the effectiveness of this program after one year would allow the Legislature to consider any gaps that need funding, including ongoing ARB costs. The ARB should be prepared to address LAO concerns and explain why the proposed activities are not within the current scope of the ARB's work with greenhouse gas reduction program.

Staff Recommendation: Hold Open

0540 SECRETARY FOR NATURAL RESOURCES AGENCY**ISSUE 1: ENVIRONMENTAL LICENSE PLATE FUND (ELPF) SHORTFALL**

According to the Administration, revenues in the ELPF are not likely to meet budgeted projects by as much as \$3 million in both the current year (2014-15) and the budget year (2015-16). The shortfall occurred mainly because the Administration over-estimated revenues. Revenues from ELPF have historically averaged between \$39 to \$41 million per year. The Administration raised the revenue estimate in 2014 to \$45 million. Additional cost pressures include salary adjustments required by the “like-pay for like-work” initiative.

The Administration proposes a series of actions to address the shortfall. In the current year (2014-15), the solutions include:

- Delay the beginning of the 4th Climate Assessment from the current year to budget year (\$2.5 million).
- Delay the Climate Ready grants from current year to budget year (\$1.3 million).
- Shift expenditures in CDPR and DFW to special funds (\$1.1 million).
- Other, targeted reductions.

In 2015-16, the proposed solutions include:

- Moving the remaining 4th Climate Assessment funding out one year (\$2.5 million).
- Shifting \$3.3 million in CDPR to the State Parks and Recreation Fund.
- Shift \$7.2 million in DFW to Fish and Game Preservation Fund.
- Introducing trailer bill language to increase plate fee by five percent (estimated new revenue of \$1 million).
- Additional targeted reductions to departments (\$1.1 million).

BACKGROUND

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

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

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

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

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

Conservancies—Funding Baseline Expenditures. In recent years, the ELPF has been used to backfill state operations expenses at state conservancies where bond funds have been exhausted. In most cases, this consists of state operations of less than \$500,000. However, certain conservancies receive a greater proportion (such as the Tahoe Conservancy) due to statutory requirements and ties to specific license plates. The coastal agencies receive funding directly from the Whale Tail license plate in another fund.

LAO COMMENTS

Important Information Not Included With Governor's Budget. *The Governor's budget does not include details of ELPF spending by program. While the Administration provided some details on the programs funded by ELPF upon request, more detailed information on spending (such as identification of and funding levels for ELPF-supported programs and projects) is needed. In addition, providing this information in the Governor's annual budget proposal—as was done in the past—would be more timely and helpful for legislative decision making. The lack of detail regarding ELPF expenditures makes it difficult for the Legislature to evaluate the degree to which ELPF spending is being used for the most effective programs and is consistent with legislative priorities.*

Governor's Proposal Offers One Reasonable Option to Address Shortfall. *In the current year, the state has only limited options for addressing the ELPF shortfall. It would be difficult to raise much revenue with only a few months remaining in the fiscal year, and many departments would likely have difficulty implementing budget reductions without significantly*

affecting their programs. Most savings achieved by the administration's proposal are from delaying one-time spending until the next fiscal year. Therefore, this option is the least disruptive and achieves the needed savings to avoid a shortfall in 2014–15.

The proposal also provides a reasonable approach to addressing the shortfall in 2015–16 without major funding disruptions to supported programs. Yet, it has trade-offs. Under the proposal, the costs of the budget-year shortfall would be borne mostly by special funds that support the activities of DPR and DFW. While these funds have sufficient balances to support this one-time shift without reducing the departments' activities, they would not be able to sustain the shifts. Additionally, the proposal only offers a solution through the budget year. A long term solution would still need to be found for 2016–17 and beyond.

There Are Other Alternatives Available. *The Legislature has several choices regarding how to address the ELPF shortfall, both for the budget year and thereafter. For the budget year, the Legislature could choose from a variety of options: (1) reduce funding from the other programs supported by ELPF, (2) reduce or eliminate one-time spending, (3) increase the license plate fee beyond the level proposed by the Governor, or (4) backfill ELPF with other special funds. For example, if the Legislature did not want to use State Parks and Recreation Fund, and Fish and Game Preservation Fund, to backfill ELPF, a cut of about 20 percent to all programs would achieve the same savings level in the budget year. Likewise, increasing the plate fee by more than the five percent proposed would reduce the need to cut spending in 2015–16 and beyond. We also note that many conservancies are getting large funding increases from Proposition 1 (2014 water bond), and may no longer need to rely as heavily on ELPF.*

In the long-term, the ongoing deficit—about \$8 million annually—is smaller than the budget-year shortfall, and therefore may be addressed with less drastic action. The Legislature could reevaluate statutory priorities for the ELPF to ensure that activities of the highest priority continue to be funded. Narrowing the definition of some uses or eliminating uses would result in savings to the fund. A greater increase in the plate fee, as noted above, could also address the ongoing deficit.

STAFF COMMENTS

Given the shortfall in the ELPF, the Administration's proposal seems reasonable and will help the Fund remain solvent through the current year and proposed budget. The one-year delay in funding for the 4th Climate Assessment and the Climate Ready Grants, along the five percent license plate fees increase and fund shifts will allow existing programs funded by the ELPF to avoid cuts. The Administration acknowledges that this is not a long-term fix and purports to be working on such a fix for inclusion in next year's budget.

Staff Recommendation: Approve as Budgeted and proposed trailer bill language to increase license plate fees by five percent.

ISSUE 2: MARINE PROTECTED AREAS MONITORING

The Governor's budget requests \$2.5 million (Proposition 84), one-time, to continue to support monitoring to inform the ongoing management of the network of marine protected areas (MPAs). The budget does not specify a long-term funding source for monitoring of the MPAs, and specifically states that, "as the OPC's appropriation of Proposition 84 bond funds draw to a close, a new source of funding is needed to continue monitoring the MPAs." The proposal further states that "the annual cost of ongoing monitoring will be lower than the cost of the baseline characterization. As such, this request can be seen as a decrease in requested funds."

BACKGROUND

The California Natural Resources Agency (CNRA) is responsible for implementation of the Marine Life Protection Act (MLPA). Under the MLPA, California completed a science-based statewide network of MPAs in 2012. The MPAs were designed, created, and managed through extensive public-private partnerships that continue to play an important role in MPA implementation. The new MPA network, covering 16% of California state waters, is designed to meet conservation, science, and recreational goals and improve the sustainability of marine species and habitats. The MPA Monitoring Enterprise, a project of the California Ocean Science Trust, has developed scientific monitoring plans for the state MPAs to assess progress towards meeting the MLPA's statutory goals. The Ocean Protection Council (OPC), within the CNRA, invested \$16 million in Proposition 84 bond funds to create a comprehensive baseline characterization of ecosystem status for MPAs statewide and ongoing monitoring will compare future changes to this baseline information.

The California Department of Fish and Wildlife has primary authority for management and enforcement of the MPAs; however, California's MPA network benefits from collaborative partnerships among state agencies, California tribes and tribal communities, fishermen, recreational ocean users, academic institutions, federal and local governments, and non-profits. This partner-based MPA management has been formalized in the "California Collaborative Approach: Marine Protected Areas Partnership Plan," adopted by both the OPC and the Fish and Game Commission in late 2014. The Partnership Plan outlines how partner organizations can and do help the state with outreach and education, compliance, research and monitoring tasks. For example, over the past two years, county-based MPA Community Collaboratives have been established in 14 coastal areas to engage with the state on MPA management issues of local priority. A number of state agencies have also signed a Memorandum of Understanding formally agreeing to assist with MPA management. The partnership approach is designed to help the state to leverage existing resources to effectively manage MPAs.

State support for core ongoing MPA monitoring can help generate both in-kind and direct financial contributions from federal agencies, academic institutions, philanthropic foundations, local communities, and volunteer citizen science efforts – bolstering a wide range of activities that help monitoring California's MPAs at low cost to the state. For example, in the past few years, the Department of Defense has contributed \$2 million towards monitoring projects around the Channel Islands, the National Science Foundation made a grant of nearly \$900,000 to support evaluation of larval dispersal, and the Southern California Bight Regional Marine Monitoring (Bight Program), funded by local agencies throughout Southern California,

has invested over \$1.3 million in assessing MPAs as part of the most recent Bight Program surveys in 2013-14. Finally, the MPAs themselves provide important research sites for studying a range of ocean issues including fisheries management, water quality, ocean acidification and climate change.

LAO COMMENTS AND RECOMMENDATION
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Bond Funds Not Appropriate for Ongoing Operational Costs. “We find that the proposed monitoring activities seem reasonable. The activities are consistent with the MLPA, and the proposed funding amount is actually somewhat less than the amount described in the monitoring plan adopted by the Fish and Game Commission in 2010. That plan included a range of activities and associated costs to conduct monitoring in the North Central Coast region, with the costs varying depending on the level of monitoring. The lowest cost option identified estimated total costs of \$4 million (\$1 million annually over four years).”

“As a general principle, however, bond funds should be used only for capital improvements or activities that provide benefits over many years to taxpayers who finance the bonds. The state should not conduct long-term borrowing for day-to-day maintenance or operations costs. If bond proceeds were used for operations costs, it would mean that taxpayers in the future would be paying for today’s activities. In addition, the state pays more in the long run when it relies on bond debt, about \$1.30 (when adjusted for inflation) for each \$1 borrowed. Therefore, covering operational expenses with bond funding is more expensive than using other funding sources. Since monitoring MPAs is an ongoing operational activity, bond funds are not an appropriate source of funding.”

LAO Recommendation. “We find the proposed MPA monitoring activity and funding level to be reasonable. However, we recommend that the Legislature reject the Governor’s proposal to use Proposition 84 bond funds for this purpose. Instead, we recommend that the Legislature choose a more appropriate funding source for an ongoing operational activity than bond funds. In determining the appropriate fund source, the Legislature should first consider who is most appropriate to bear these costs—for example, general taxpayers or users of these areas. Second, the Legislature should consider the competing demands for available funding sources and weigh the relative merits of using these funds for MPA monitoring versus other possible uses.”

STAFF COMMENTS

Bond funds should be used primarily for capital improvements or activities that provide benefits over many years to taxpayers who finance the bonds. As noted above, covering day-to-day operational expenses with bond funding is more expensive than using other funding sources. Since monitoring MPAs is an ongoing operational activity, bond funds are not an appropriate source of funding. Staff recognizes that the design of California’s MPA network involved significant social and economic investment by the state and others and that continued financial support for monitoring will ensure these areas reach their goals while leveraging collaborative partnerships and external funds. Thus, staff suggests the Subcommittee consider directing the Agency to come back during the May Revision with a more appropriate, long-term funding source.

Staff Recommendation: Hold Open. Request CNRA come back during May Revision with an alternative, long-term funding source for this proposal.

3340 CALIFORNIA CONSERVATION CORPS

ISSUE 1: TAHOE BASE CENTER: ASSISTANCE STORAGE FACILITY

The Governor's Budget requests \$2.5 million in lease-revenue bonds to construct an equipment storage facility of 12,500 square feet to serve the Tahoe Base Center. The proposed storage facility would be built by purchasing and renovating the entire 5,100 square foot storage space that is currently being leased by the CCC. It is estimated that the debt-service payments on the bonds would be around \$180,000 annually.

BACKGROUND

The CCC's Tahoe Base Center (Center) is a residential and operational facility for corpsmembers. The center, which was completed in 2013, includes administrative offices, dorm rooms, and a multipurpose kitchen building. In addition to the center, the CCC also leases and owns two separate storage facilities with a total of 8,600 square feet of storage space. These storage facilities hold various equipment that is used by the corpsmembers at the center. The storage space includes 5,100 square feet which is leased by the CCC as well as 3,500 square feet at a former CHP facility that is currently owned by the CCC.

LAO COMMENTS

"Proposal Raises Concerns. We find that the proposed project provides some benefits to CCC. However, it is unclear that the proposal provides a necessary and cost-effective approach for two reasons. First, CCC has not identified specific problems with the amount of storage space it currently has available or why it requires a 45 percent increase in storage capacity. Second, the proposal would result in substantially greater long term costs than the status quo. Lease costs— currently about \$43,000 annually—are significantly lower than the \$180,000 annual debt-service costs for the project. In addition, the estimated annual costs to operate and maintain the new facility (about \$10,000) are greater than at the current facilities (about \$6,000). We find that the proposed facility remains significantly more costly than the current storage facilities even when taking into account other factors, such as inflation and the sale of the CCC-owned facility. We also note that the proposed facility would be significantly more costly per square foot than the existing facilities."

STAFF COMMENTS

Staff shares LAO concerns related the overall annual costs of the project and the lack of justification for the additional storage space. Given the issues raised by LAO, Staff recommends holding this item open for further review.

Staff Recommendation: Hold Open

3360 CALIFORNIA ENERGY COMMISSION**ISSUE 1: ECAA PROGRAM SUPPORT**

The Governor's Budget requests baseline authority for \$1,485,000 and 6 permanent and 5 limited term positions (Energy Conservation and Assistance Account [ECAA]) to support the ECAA Program. This proposed budget change would provide positions to support the additional work which comes to the ECAA Program as a result of an additional \$56 million from the California Clean Energy Jobs Fund for K-12 and community college districts, and \$20 million from the GHGRF specifically for state owned buildings, University of California, and California State University campuses. The \$76 million in funds will be for zero percent and low percentage interest rate loans for building retrofits and provide grants for services via technical assistance contractor grants.

BACKGROUND

The Energy Commission's existing ECAA Program is a revolving loan fund which provides low interest rate loans to local governments, special districts, public schools, universities, and public institutions (including hospitals) for the installation of cost-effective energy efficiency and renewable energy projects. The existing ECAA Program limits loans to \$3,000,000 per applicant. Under ECAA statute, 10% of the funds can be used for grants of technical assistance such as energy audits.

Since the program's inception in 1979 through June 2014, the Energy Commission has loaned more than \$327 million to over 800 recipients. ECAA continues to be a program in high demand by public agencies and currently offers three subfund programs: Standard ECAA, ECAA-Ed and ECAA-GHGRF. Standard ECAA is currently oversubscribed. Applications for Standard ECAA are placed on a wait list and eligible project funds are loaned as the Energy Commission receives repayments two times per year.

In 2013-14, SB 73 (Committee on Budget and Fiscal Review), Chapter 29, Statutes of 2013, gave the Energy Commission the responsibility to lead the development and implementation of the statutorily defined program for energy efficiency and clean energy generation projects for over 2,000 K-12 school districts, county offices of education, charter schools, and state special schools, known as local educational agencies (LEAs).

SB 73 also allocated \$28 million in fiscal year 2013-14 to the Energy Commission's existing ECAA Program, a self-sustaining revolving loan fund that provides zero or low percentage interest rate loans for energy projects. LEAs and community college districts (CCDs) are eligible for loans and technical assistance funded by the Clean Energy Jobs Fund (Proposition 39), known as ECAA-Education Subaccount. The Governor's Budget for 2014-15 allocated an additional \$28 million to ECAA-Education Subaccount from the Clean Energy Jobs Fund. The ECAA-Education Subaccount loans fund the installation of energy efficient measures such as lighting, heating, ventilating and air conditioning (HVAC) systems, controls, motors, and energy generation projects. Financing is structured so loans are repaid from energy cost savings.

The 2014-15 Budget Act authorizes the transfer of \$20 million from the Greenhouse Gas Reduction Fund (GGRF) to fund ECAA loans.

STAFF COMMENTS

Staff has no concerns with this proposal. Authorizing use of ECAA funds as proposed would provide the additional resources needed to administer the additional \$76 million loan and technical assistance funding added to the ECAA program in last year's budget.

Staff Recommendation: Approve as Budgeted

ISSUE 2: INCREASE ALTERNATIVE AND RENEWABLE FUEL AND VEHICLE TECHNOLOGY PROGRAMS STAFF RESOURCES

The Governor's Budget requests baseline authority for 15 permanent positions and \$2,061,000 from the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVT), to support the Alternative and Renewable Fuel and Vehicle Technology Program (ARFVTP) and the Zero Emission Vehicle (ZEV) Action Plan.

BACKGROUND

Currently, the state has aggressive policies, through statute and executive order, for expediting the development of clean, alternative and renewable fuels and vehicle technologies to help in meeting the state's environmental goals.

AB 32 (Núñez), Chapter 488, Statutes of 2006 requires California to reduce its greenhouse gas emissions to 1990 levels by 2020, a reduction of 15 percent below emissions expected under a "business as usual" scenario. Executive Order S-3-05 established a goal of reducing greenhouse gas emissions to 80 percent below 1990 levels by 2050. Because nearly 40 percent of California's emissions come from the transportation sector, significant changes to the state's fuel and vehicle profiles will be needed to meet these goals. The ARFVTP is crucial in helping the state meet these and related policy goals, annually providing up to \$100 million of state funds and leveraging additional public and private funds to develop and deploy clean, efficient, and low-carbon alternative and renewable fuels and vehicle technologies.

AB 118, subsequently amended by AB 109 (Nunez), Chapter 313, Statutes of 2008, AB 1314 (Wieckowski), Chapter 487, Statutes of 2011 and extended to January 1, 2024 by AB 8 (Perea), Chapter 401, Statutes of 2013 mandates the Energy Commission "provide competitive grants, revolving loans, loan guarantees, loans, or other appropriate funding mechanisms, to public agencies, vehicle technology entities, businesses and projects, public-private partnerships, workforce training partnerships and collaboratives, fleet owners, consumers, recreational boaters, and academic institutions to develop and deploy innovative technologies that transform California's fuel and vehicle types to help attain the state's climate change policies." Implementing the ARFVTP requires developing an annual investment plan update, releasing competitive solicitations for public funding, making awards based on those solicitations, managing subsequent grant agreements and contracts, and conducting ongoing program, technology and market research, analysis, and evaluations.

ARFVTP activities are designed to support alternative fuels and vehicle technologies that will transform California's transportation markets to help attain the state's ambitious climate change goals. The alternative and renewable low-carbon fuels eligible for funding include electricity, hydrogen, ethanol, biodiesel, renewable diesel, natural gas, and biomethane. The eligible alternative zero- and low-emission vehicle technologies include electric drive cars, trucks and buses; hydrogen fuel cell electric cars, trucks and buses; and car and truck drivetrains that are developed to use alternative, low-carbon fuels such as biodiesel, ethanol, natural gas, and biogas.

AB 8 extended to 2024 the ARFVTP and vehicle-related, state and local fees and surcharges to fund vehicle-related air quality, greenhouse gas (GHG) and related programs administered by the Energy Commission. AB 8 also codified the Energy Commission's role in establishing and

supporting a network of up to 100 hydrogen fueling stations in California by requiring 20 percent of the annual ARFVTP funding be allocated to support construction of hydrogen refueling infrastructure.

ARFVTP is required to implement major aspects of the Governor's March 23, 2012 Executive Order B-16-2012 and the 2013 Zero Emission Vehicle (ZEV) Action Plan which directs state government to transform California's transportation sector by helping accelerate the market for Zero Emission Vehicles. Three major milestones in the Action Plan include:

- By 2015: California's major metropolitan areas will be able to accommodate ZEV's through infrastructure plans and streamlined permitting;
- By 2020: California's ZEV infrastructure will be able to support up to 1 million vehicles; and
- By 2025: Over 1.5 million ZEV's will be on California roadways and their market share will be expanding.

STAFF COMMENTS

This proposal contains strong workload justification. The request demonstrates that existing staff resources are not currently sufficient to effectively implement the ongoing responsibilities and increasing workload of the ARFVTP as well as the 2013 ZEV Action Plan activities. Thus, staff supports the increase in staffing levels to effectively and efficiently implement these interrelated programs.

To date, the Energy Commission has invested nearly \$590 million of ARFVTP funding for over 22,000 projects managed in 431 agreements. The funded projects span the ARFVTP technology spectrum and include alternative and renewable vehicle technology, fuel, infrastructure, and workforce projects. The cumulative workload demands of this mature program now require additional staff resources to effectively and efficiently administer the ARFVTP.

Further, the 2013 ZEV Action Plan assigns the Energy Commission as the lead agency for numerous specific tasks including action items to: increase heavy-duty ZEV charging infrastructure; provide public chargers for light-duty charging; develop state-funded hydrogen stations that are open to the public; facilitate coordination amongst the regional planning groups; and fund research activities that will support the emerging ZEV markets. This proposal addresses the necessity of a buildup of the ARFVTP staff resources to accommodate the increasing workload and increasing complexity of an expanding portfolio of projects and associated responsibilities.

Staff Recommendation: Approve as Budgeted

3790 DEPARTMENT OF PARKS AND RECREATION**ISSUE 1: BASE FUNDING - MAINTAIN OPERATIONS**

The Governor's Budget requests a one-time increase of \$19,724,000 in spending authority in 2015-16 from the State Parks and Recreation Fund to sustain its operations and maintain its base support budget.

This request also includes funding for the following specific purposes:

Los Angeles State Historic Park Support Funding: \$1,238,000 in support of the newly constructed Los Angeles State Historic Park. Since 2001, the Department has invested over \$150 million in bond funds and countless staff resources to implement the Department's Urban Strategic Initiative in Los Angeles; this effort includes Los Angeles State Historic Park. A \$20.8 million Capital Outlay Budget Change Proposal (COBCP) was approved for the LASHP as part of the FY 2013-14 Budget Act with the understanding that the park would be self-sustaining through revenue generated on-site and represent no impact to the General Fund.

Construction of the 34-acre site began in April 2014, using Proposition 40 dollars earmarked for this project, with an estimated completion date of late spring 2015. After 12 years of planning and public input, this project will accomplish the full development of the LASHP and include wetland habitat, multi-use plazas with flexible space, a great lawn featuring a sloped amphitheater and stage, and interpretative paths and portals for engaging historic themes and content. The Special Event Concert Program at the park has generated in excess of \$1 million per year and there are expectations that revenue generation will increase once construction has been completed at the park.

Hearst Castle Ground Transportation Funding: \$1,000,000 for the increased cost of the ground transportation contract at Hearst Castle within Hearst San Simeon State Historical Monument. Each visitor to Hearst Castle must be transported by bus approximately five miles each way between the Visitor Center and the hilltop site for a total of ten miles round trip. In 2006, the Department established a reimbursable account into which a surcharge of one dollar from the regular tour fee was deposited. This reimbursable account was used to fund the increased cost of the transportation contract. However, based on the recent audit findings, the Department realizes this was not the correct mechanism to use to fund the additional costs of the contract. The Department is seeking a permanent augmentation for these costs which will generate more revenue by transporting additional visitors each year. If this proposal is not approved, it could result in a stagnation or reduction of tours at Hearst Castle, reduce the amount of revenues and possibly result in the Department being out of compliance with the Deed of Gift. In addition, revenue in the last five years alone has increased approximately \$2,859,000.

Donner Memorial State Park Interpretive Visitor Center: \$424,000 to support the new Donner Memorial State Park Interpretive Visitor Center. In 1996, the State along with the Federal Highway Transportation Department began discussing the need for a facility that would identify and interpret the ways in which people traveled. In 2003 the Donner Memorial State Park General Plan identified the location of this new visitor center to be located at Donner Memorial State Park. In 2011 construction of the new Donner Memorial State Park Interpretive Visitor Center began and was completed in April of 2014, and cost approximately \$9.6M to

construct with funding from Proposition 84, the Federal Highway Administration and other grant sources.

Subaccount Project Shift: Designing the Dream Tour Hearst Castle Subaccount Project (\$209,780), Colombia SHP Lodging Program Subaccount Project (\$116,485), Silverstrand RV Hookup Subaccount Project (\$109,520). The Department is requesting ongoing base funding for three successful revenue generation projects. These three projects were funded in the early years of the revenue generation program and have proven to be profitable projects. The proposal requests ongoing funding to maintain this revenue. By funding these three projects in base funding, it removes dependence on revenue generation dollars and free those funds up for additional projects to continue to increase the Department's revenue.

- *Designing the Dream Tour Hearst Castle Project:* Two additional tours for the Casa del Sol and New Wing have been highly successful and demand has been high for these additional tours.
- *Colombia SHP Lodging Program Project:* The Department started funding the Columbia City & Fallon Hotels and Cottages are currently through the Revenue Generation program when the Concession/Operator ceased operations on December 31, 2013. This base funding would provide for minimal staff including full time additional staff during weekends and holidays to cover busy visitation.
- *Silverstrand RV Hookup Project:* Revenue Generation funding was used to install RV hookups at Silver Stand SB. These additional hookups have brought in an additional \$500,000 in revenue the first year. Base funding is needed to support the parking operations, including additional maintenance, visitor service and aquatic seasonal staff in the off-season as well as funds for the additional utilities of the new hookups. Attendance during off season increased 40% due to the additional hookup installation. This has affected the demand for additional kiosks and gate operational hours, repair and maintenance of the hookups and grounds, and safety of ocean users.

BACKGROUND

The Department has faced budget reductions in recent years, including a \$22 million reduction to its General Fund appropriation. While the support budget has diminished, legislation forbade the Department from closing parks in FYs 2012-13 and 2013-14. In order to meet the legislative mandate to keep all parks open to the public, the Department entered into operating agreements with various entities. Many of these operating agreements expired at the end of FY 2013-14 or are set to expire before FY 2015-16.

In FY 2013-14, the Department's support appropriation of \$403.9 million (including budget act and non-budget act funding) was allocated across the Department. The assumptions in building the allocations were that spending would be held at the FY 2012-13 levels. However, it was soon determined that the support appropriation was not sufficient to provide the Department's Districts and Divisions with a budget that could support operational costs. The Department was able to offset the operational shortfall with one-time funding in FY 2013-14. Recognizing this deficiency, the Governor and the Legislature granted a one-time appropriation of \$14 million in FY 2014-15 from the State Parks and Recreation Fund to close that gap on a one time basis.

In response to ongoing and serious funding problems discovered within the Department, the California Legislature passed both the California State Parks Stewardship Act of 2012 (AB 1589) and AB 1478. These pieces of legislation each call for the formation of a multidisciplinary advisory council to conduct an independent assessment of the current State Parks System and make recommendations to the California Legislature and Governor on future management, planning, and funding proposals that will ensure the long-term sustainability of the State Parks System. The Parks Forward Commission was created to fulfill these directives.

While the Parks Forward Commission has drafted an initial report, it has not completed the report nor has it addressed where funding for the Department should be realized. The Department hopes that this information will materialize in the final version in the report, but it is unclear how long before final recommendations will be made or when a funding mechanism would be realized. The Administration's proposal would again provide basic funding for operations while the Parks Forward Commission finds alternative sustainable funding solutions.

STAFF COMMENTS

The funding imbalance the Department is currently facing is exacerbated by many of its operating agreements that are expiring. When the Department initially faced the \$22 million reduction and legislation forbade it from closing parks, the Department's solution was to enter into numerous operating agreements. Many of these operating agreements expired at the end of FY 2013-14 or are set to expire prior to FY 2015-16. These expiring operating agreements lead to base funding deterioration.

Without this increase to its State Parks and Recreation Fund appropriation, the Department will continue operating within a structural deficit, and not have sufficient funds to support its core operations. Additional funding is necessary now in order to keep the Department at a level that it can sustain basic operations. Once a funding strategy is identified by the report, the Department hopes it will be able to grow its operational capacity to appropriate levels.

The Administration is immediately establishing a "Transformation Team", which will include a team of experts whose charge is to further develop and lead the Department in executing structural and sustainable reforms over a two-year period. The Team will include experts from inside and outside the Department who will commit their broad collective experience and talents to setting in motion the actions necessary to strengthen the Department. The Team will focus on areas including the Department's budget, maximizing partnerships, further improving internal administrative practices, enhancing the marketing program, setting up a structure for more innovative revenue generation opportunities, better identifying programs for broader populations and diverse communities.

Staff Recommendation: Approve as Budgeted

3885 DELTA STEWARDSHIP COUNCIL

Governor's Budget. The Governor's January budget includes \$25 million (mostly General Fund), an increase of \$7.2 million. The increase is mainly due to a proposal to implement the Delta Plan.

ISSUE 1: DELTA PLAN IMPLEMENTATION

The Governor's budget requests three new positions, and \$9.25 million (\$6.6 million General Fund, \$850,000 reimbursements, and \$1.7 million federal funds) to continue its existing programs and to fulfill the Delta Plan implementation requirements for the following areas:

- Delta Science Program. A total of \$8 million—of this amount, \$5.35 million is General Fund for science contracts and grants (\$1 million of which is one-time), \$850,000 is Proposition 1E bond funds to support three existing positions through an interagency agreement (reimbursements), and \$1.7 million is federal funds.
- Planning, Performance and Technology. \$1.2 million (General Fund) and two positions, including \$1 million for one-time consultants.

BACKGROUND

The council was created in 2009 as an independent state agency to guide the state's goals of: (1) providing more reliable water supply through the Delta and, (2) restoring the Delta. The Delta Plan, adopted in 2013, is both a regulatory document and a series of recommendations for state and local agencies operating within the Delta. The Delta Plan must, by law, be incorporated into the Bay Delta Conservation Plan (BDCP) when it is completed and permitted—and the council is required to hear appeals of the BDCP approval. The council also manages the Delta Science Program, designed to provide unbiased scientific information to inform water and environmental decision-making in the Delta.

The proposal seeks new general fund for three functions required by the Delta Reform:

1. Maintenance of the Delta Independent Science Board and other core functions of the Delta Science Program, including resumption of funding for critical science investigations and research;
2. Incorporation of the BDCP, if it is approved by the Director of Fish and Wildlife, into the Delta Plan; and
3. Submittal of the Delta Plan for approval pursuant to the federal Coastal Zone Management Act, including implementation of the federally approved Delta program.

According to the Administration, there is no state special fund suitable to replace the General Funds sought this year, because of limitations on the other funds' uses. Because the Council's programs are ongoing State functions rather than one-time expenses and because they provide wide benefits to all Californians, the General Fund is an appropriate source of new funds. Funds received from other State and federal agencies can complement core General Fund support. The additional Federal receivable authority proposed in the budget provides the opportunity to seek federal contributions to match state science funding, but will be of limited use without a core of state funding.

STAFF COMMENTS

Staff has no concerns with this proposal. This proposal comports with the implementation requirements of the Delta Reform Act. Prior year BCPs report that in 2011 the draft Delta Plan estimated that implementing the Plan would require \$35 million annually: \$27 million for the Delta Science Program, including the Delta Independent Science Board, and \$8 million for the Council's other duties. The Delta Reform Act imposes substantial duties on the Council to develop and begin carrying out the Delta Plan. The sums sought are modest in relation to both the value the Council provides in coordinating, informing, and overseeing agencies' actions in the Delta and in relation to the water supply, ecosystem restoration, and other programs the Council guides.

Staff Recommendation: Approve as Budgeted

8660 PUBLIC UTILITIES COMMISSION

The Public Utilities Commission's Budget is \$1.5 billion, which represents a 14 percent increase from last year. This increase is primarily due to anticipated increases in demand for the Universal Lifeline Telephone Service Program and the California Teleconnect Fund, programs for underserved populations. The Commission receives no General Funds.

ISSUE 1: ZERO BASED BUDGET

Pursuant to the 2013-14 Budget Act, the CPUC submitted a zero-based budget for its programs on January 10, 2015.

BACKGROUND

After a number of fact-finding hearings in the past two years, the Legislature took a series of actions to increase controls and oversight of the CPUC. On March 6, 2013, the Subcommittee held an oversight hearing to discuss the Department of Finance Office of State Audits and Evaluations' (OSAE) audit of CPUC's budget process for developing the 2012-13 and the 2013-14 Governor's Budgets. The OSAE audit found "widespread weaknesses within CPUC's budget operations which compromise its ability to prepare and present reliable and accurate budget information." The audit revealed: ineffective management over budgeting functions; budget forecasting methodologies and monitoring needed improvement; fiscal management practices needed improvement; and non-compliance with statutory requirements specified to the Office of Ratepayer Advocates (ORA).

On April 17, 2013, the Subcommittee discussed a report, commissioned by the CPUC, that revealed significant cultural problems related to safety at the CPUC and strongly suggested that safety concerns are not a top priority at the Commission.

The serious breakdown of fiscal controls at the CPUC revealed at the hearing and at subsequent hearings plus concerns about CPUC's safety culture led to a number of actions by the Legislature, including directing the CPUC to conduct a zero-based budget for all of its programs by January 10, 2015 to allow the Legislature to reevaluate the base funding requirements of all CPUC program implementation.

The intent of the exercise was to enable the Legislature to better control the overall size and direction of the CPUC's programs, including how funds are allocated and prioritized for particular programs and functions, as well as how expenditures ensure that safety is integrated into every aspect of the CPUC's activities.

LAO COMMENTS

Recent Legislative Concerns About CPUC's Operations. In recent years, several incidents and reviews led to legislative concerns about CPUC's operations. For example, in 2010, a gas transmission pipeline owned and operated by Pacific Gas and Electric (PG&E) ruptured in San Bruno, killing eight people and injuring many more. A federal investigation found that CPUC—the state entity responsible for regulating PG&E—failed to detect deficiencies in PG&E's pipeline management program. In addition, a December 2012 audit conducted by the Office of State Audits and Evaluations at the DOF identified significant weaknesses with CPUC's budget operations. Some of the deficiencies identified were ineffective assignment of budget duties, insufficient staff training, and inadequate fund balance reconciliations.

Legislature Requires CPUC to Provide ZBB. In response to these concerns, the Legislature approved budget-related legislation in 2013 (Chapter 356, Statutes of 2013 [SB 96, Committee on Budget and Fiscal Review]), which included a requirement that CPUC conduct a ZBB for all of its programs by January 10, 2015.

What Is a ZBB? Generally, the term ZBB refers to a system of budgetary review that requires analytical justification for each program or activity proposed in the budget. In contrast to typical budgeting practice, ZBB involves review and approval of part or all of an organization's budget, rather than just the incremental, year-over-year changes. In practice, ZBBs have evolved over time and currently take many different forms. Some of the different forms or alternatives used by governments include:

- **Standard ZBBs.** Under standard ZBBs, agencies are divided into decision units (such as a division). Each unit identifies many different "decision packages," each of which identifies a specific program or service level, as well as the level of funding needed to support that program or service level. For example, one decision package might identify the amount of funding necessary to provide a sufficient number of pipeline inspectors to meet minimum statutory or regulatory requirements. Other decision packages might identify funding necessary for additional inspectors to perform more frequent inspections. Each decision unit then ranks decision packages based on organizational priorities. A budget control agency, such as the DOF, then uses those rankings to develop a proposed budget. Generally, standard ZBBs are used to help clarify: (1) the minimum level of funding needed to continue to operate a program and (2) the trade-offs between additional funding levels and service levels. Standard ZBBs are very rare, primarily because they are extremely time-consuming.
- **Zero Line-Item Budgeting.** The method that most people envision when they think of ZBBs is zero line-item budgeting. Agencies are required to rebuild their budgets from the ground up, justifying each spending item, including a detailed analysis of the level of inputs (such as staff time) needed to produce a given level of output (such as frequency of inspections). It attempts to identify the minimum level of resources needed to provide a given service level. For example, a department might be required to analyze the minimum number of positions needed to process a given number of claims or inspect a certain distance of train tracks. Zero-line item budgets tend to focus on the minimum amount of resources needed to operate a program.
- **Alternative Budgeting.** Alternative budgeting is a simplified version of standard ZBBs that involves less time and effort. Agencies are directed to develop budget scenarios based on specific amounts relative to their existing funding levels (for example, 90 percent and 110 percent of existing funding). The agencies then analyze the effects each of those spending

levels would have on their programs and levels of service. Relative to standard ZBBs and zero–line item budgeting, there is less emphasis on determining the minimum level of funding needed for the program to continue to operate. Rather, the emphasis is on clarifying the trade–offs between different funding levels and services.

- **Periodic Agency Review.** Periodic agency reviews are a planning method that is sometimes used as an alternative to ZBBs. Periodic agency reviews are conducted every several years and they are generally used when policy–makers want to examine the overall mission and level of services being provided by the agency. These typically include a comprehensive review of the agency’s mission, legal requirements, organizational charts, and whether the agency’s allocation of resources reflects its mission and priorities. The goal might be to eliminate programs or activities that are not central to the core mission of the agency.

In practice, there is often not a clear line that distinguishes these different forms of budgeting and planning. Governments might use a combination of these approaches. The method is generally driven by the types of questions being asked.

ZBBs Intended to Analyze Government Activities and Spending. Governments have different motivations for using ZBBs. For example, they may develop ZBBs with the goal of eliminating ineffective programs; reallocating resources from lower priority to higher priority activities; or simply fostering discussion of an agency’s key challenges, mission, and priorities. While the goals and methods for ZBBs might differ, ZBBs generally share at least one common characteristic: an analysis of government activities, resources, and priorities that can inform decisions about how to allocate resources more effectively and efficiently.

CPUC Budget Report

Provides Description of Commission’s Requirements, Activities, and Resources. In January 2015, the CPUC submitted a document to the Legislature entitled “Informational Zero–Based Budget to Provide Transparency Into Operations of the California Public Utilities Commission.” This budget report describes: (1) CPUC’s statutory requirements and regulatory authority, (2) the types of activities it conducts to fulfill its responsibilities, and (3) the current level of resources allocated to these different types of activities.

The report is generally organized by regulated industry, rather than by CPUC’s different divisions. For example, the energy section of the report describes the requirements, activities, and resources related to the regulation of energy utilities (such as electricity and natural gas). This includes estimates of staff resources devoted to energy regulation activities that come from other divisions within the CPUC, including the Division of Administrative Law Judges and the Safety and Enforcement Division. The number of positions from each division that are assigned to a particular industry area is based on an estimate of the proportion of time those staff devote to activities related to that industry. For each industry area, the report also includes a further breakdown of staff by activity within each industry. For example, out of the 312 positions in the energy industry, 62 are assigned to work on issues related to electric power procurement and generation, including 12 assigned to work on renewable portfolio standard implementation. Figure 18 provides an overview of CPUC’s authorized positions in 2014–15, by industry area.

Figure 18

CPUC Authorized Positions by Industry Area

2014–15

	Positions	Percent of Total
Energy	312	29%
Administration	207	19
Office of Ratepayer Advocates	162	15
Rail and transit	112	10
Communications (regulation)	82	8
Customer service	69	6
Transportation carriers	48	4
Water	41	4
Universal service communications programs	38	4
Totals	1,071	100%

CPUC = California Public Utilities Commission.

Overall, the report describes the total CPUC budget of \$1.3 billion in 2014–15. Of this amount, about \$1 billion (77 percent) is local assistance. These funds are spent for on programs for low-income residents, energy efficiency programs, and research programs. The remaining \$307 million (23 percent) is used for state operations. Energy (\$691 million) and telecommunications (\$543 million) are the industry areas with the most funding. Most of the funding for the energy industry is related to the natural gas surcharge (\$586 million)—revenue collected from natural gas users that is used to fund utility programs such as low-income assistance, energy efficiency, and research and development. Most of the funding for telecommunications (\$526 million) is for local assistance and operating expenses associated with programs that provide subsidies for services to underserved populations and areas.

CPUC Findings. Based on the report, the CPUC makes several conclusions about its current activities and the level of resources allocated to these activities. Such conclusions include:

- Areas with significant levels of staff resources (such as safety activities, energy efficiency, and renewable portfolio standard efforts) “make sense” in light of state policy priorities.
- A relatively low number of staff were assigned to electricity and natural gas ratemaking activities. As a result, CPUC shifted resources to ratemaking activities from other program areas where it determined there would be no negative impact on program outcomes. (This resource shift is not reflected in the report.)
- The state might want to consider how shared responsibilities are allocated between agencies. For example, there might be opportunities to move some of its current regulatory responsibilities, including transportation licensing and enforcement activities and energy efficiency program oversight, to other state agencies.

LAO Assessment

Report Offers Insight Into Breadth of CPUC Responsibilities and Activities. The report generally answers the following questions:

- What are CPUC’s legal requirements and responsibilities?
- What types of activities does the commission conduct to fulfill its responsibilities?

- *How many resources are allocated to the different types of activities?*

Given the breadth of responsibilities and activities within CPUC, such information can help the Legislature better understand what CPUC does and how many resources it has devoted to various activities. For example, someone interested in CPUC activities related to electric power procurement and generation—such as the state’s renewable portfolio standard—could use the report to learn more about CPUC’s regulatory authority and how many staff are assigned to different types of activities related to oversight of electric procurement and generation.

Report Lacks Analysis of Activities and Resources. *Based on our understanding of the various types of ZBBs, the CPUC report is not a ZBB. As discussed above, a common goal of most ZBBs is to encourage government agencies to analyze their existing resources in an effort to determine whether resources could be deployed in a more efficient and cost-effective manner. While the report includes a description of current activities and resources, it lacks a comprehensive analysis of these activities and resources. The report does not provide an analysis of the minimum level of funding needed to achieve current service levels or an analysis of the degree to which having higher or lower funding levels would affect the amount or quality of services provided. Without such an analysis, the report provides relatively little information to inform the Legislature about potential changes to the level or distribution of resources provided to CPUC.*

Basis for CPUC Findings Is Unclear. *In the few instances where the CPUC concludes that existing resources are either adequate or inadequate, the basis for these findings is unclear. For example, the CPUC found that the number of staff working on ratemaking activities was too low and determined that resources needed to be shifted from other activities. However, the CPUC does not provide an analysis of the minimum amount of staff time needed to perform different ratemaking activities and, therefore, it is still unclear whether the current level of staffing for these activities is appropriate. Furthermore, to address the perceived staffing shortfall, the CPUC shifted resources from other program areas where it determined that resources could be spared without negative impacts on program outcomes. It is unclear how CPUC determined that such a shift would have no negative impact on program outcomes.*

The basis for CPUC’s finding that staffing levels for certain activities, such as energy efficiency and renewable portfolio standards, make sense in light of state public policy priorities is also unclear. First, the CPUC does not provide an analysis of the optimal level of resources needed to conduct the activities related to these programs. Second, while these activities may be state priorities, the Legislature may have other priorities that are of equal or greater priority. Without an analysis of the levels of resources needed to perform different activities, the report provides limited information that can be used to determine whether the existing resource allocations are appropriate or if an alternative level or distribution of resources could achieve greater benefits.

Issues for Legislative Consideration

The report includes a significant amount of descriptive information about CPUC’s current operations and activities, but very little analysis of current resources and activities. The Legislature will need to determine what, if any, additional analysis it wants. The Legislature may want to consider some of the following issues when weighing its different options.

Be Clear About Goals and Expectations. *Chapter 356 did not include detail about the Legislature’s goals and expectations for the ZBB. If, going forward, the Legislature wants CPUC*

to provide additional information or analysis, it would be helpful to provide more specific guidance on its goals and expectations. Some potential goals include: (1) identifying the minimum level of funding needed to conduct current activities, (2) identifying different options for funding and service levels, or (3) determining whether CPUC's current activities and resources are in line with its core mission and priorities.

Goals and Expectations Should Drive Additional Direction to CPUC. If the Legislature determines that it would like additional analysis or information, its goals and expectations should help inform what type of additional analysis or information it needs. For example, the Legislature could provide the following types of direction:

- **Identify Minimum Funding Levels Needed for Current Activities.** If the Legislature is most interested in identifying the minimum level of funding needed for CPUC to maintain its current level of services, it could require something similar to a zero line-item budget. For example, for each activity conducted at the CPUC, the Legislature could require a detailed description of the workload associated with those activities and an estimate of the number of personnel staff hours needed to complete each activity. Such an analysis could be used to determine the minimum staffing levels needed for CPUC to perform its existing level of services.
- **Identify Trade-Offs Between Funding Levels and Service Levels.** If the Legislature wants to better understand the trade-offs associated with different funding levels, it could require something similar to an alternative budgeting analysis. For example, the Legislature could require the CPUC to develop a budget at four different funding levels—80 percent, 90 percent, 100 percent, and 110 percent of current funding. At each level of funding, the CPUC could describe the level of services that CPUC would provide. Service levels could be the proportion of underserved populations that obtain telephone service as a result of subsidies or the miles of rail track inspected each year.
- **Identifying Whether Current Activities Support the Core Mission.** If the Legislature is interested in examining how the agencies' current activities and resource allocations reflect its core mission, it could require something similar to a periodic agency review. For example, the Legislature could require the CPUC to assess the degree to which each activity or position supports its core mission and priorities. Such an analysis would not have a budgetary focus. However, it could help inform potential legislative actions to streamline government operations by reducing, eliminating, or transferring activities that are less aligned with the CPUC's core mission.

Weigh Expected Benefits and Costs. The Legislature will want to weigh the expected benefits and costs of requiring additional analyses of CPUC activities. In theory, the benefits of further analyses could be significant if it results in changes that improve efficiency or better aligns CPUC activities with its mission and legislative goals. In practice, however, the benefits would depend on the quality of the analysis produced. The quality of the analysis could be affected by many different factors, including the availability of reliable data and what entity is conducting the analysis, as discussed in more detail below.

Depending on the scope and type of analysis required, the costs of additional analysis also could be significant. To minimize some of these costs, the Legislature may want to consider requiring more focused analyses limited to specific parts of the CPUC that are of greatest interest or concern. For example, it could require a ZBB-type analysis for the energy area, which has the largest number of positions. It could also require an analysis of resources devoted to ratemaking activities—an area that the CPUC identified as being understaffed. This

would allow the Legislature to evaluate the degree to which the CPUC's activities and resource allocations reflect legislative goals. The Legislature could then require further analyses of other areas of CPUC based on its interests, as well as its determination that the benefits of additional analyses were likely to outweigh the costs.

Consider Appropriate Entity to Conduct Analysis. *If the Legislature determines it would like further analysis of CPUC activities, it should consider which entity is best suited to conduct the analysis. The appropriate entity will depend on many factors, including the type of analysis being conducted and the degree to which any potential entity is committed to conducting a critical analysis. If, for example, the Legislature is interested in better understanding how the CPUC can better prioritize its existing resources to achieve its core mission, the CPUC may share a similar goal and might be more likely to provide a meaningful analysis. On the other hand, if the CPUC is not committed to the same goals, then the analysis produced will likely have less value. For example, if the Legislature's goal is to reduce the CPUC's budget, then the CPUC is likely to have little incentive to provide a critical analysis of its workload and the minimum staffing levels needed. In that case, the Legislature could have an outside entity conduct the analysis.*

STAFF COMMENTS

Staff concurs with the LAO analysis that **"the CPUC report is not a ZBB...** The report includes a significant amount of descriptive information about CPUC's current operations and activities, but very little analysis of current resources and activities. Without such an analysis, the report provides relatively little information to inform the Legislature about potential changes to the level or distribution of resources provided to CPUC."

A February 23, 2015, report titled, "Gas Safety and Reliability Branch Management and Operations Review," commissioned by the CPUC and conducted by Crowe Horwath LLP, identified twelve challenges facing CPUC's natural gas regulatory program, including the following:

- "Lack of consistency, focus, organization, depth and rigor, adequate recordkeeping, clear expectations, and follow-through in utility inspection practices;
- "Delays in completion of incident investigation reports and lack of follow-through on violations, recommendations, observations and concerns";
- "Inability to analyze trends, risks, and other safety-related concerns across incidents, utility inspection findings, self-reported violations, and complaints."

CPUC's core mission is to ensure the provision of "safe, reliable utility service and infrastructure at reasonable rates..." Given this latest report and Legislative concerns that ensuring safety has not been the top priority of the CPUC, staff recommends requiring an analysis of CPUC's current activities and resources to determine the extent to which they are in line with its core mission and priorities, similar to a "periodic agency review" discussed above. The analysis should provide recommendations as to how resources might be better allocated to achieve core mission objectives. Such an analysis could help inform potential legislative actions to streamline government operations by reducing, eliminating, or transferring activities that are less aligned with the CPUC's core mission.

To minimize some of the costs of such an analysis, the Legislature may want to consider requiring a more focused analyses limited to specific parts of the CPUC that are of greatest interest or concern. Thus, staff recommends requiring such a ZBB-type analysis for CPUC's energy area (as outlined in the CPUC's ZBB report), which has the largest number of positions and includes the natural gas regulatory program discussed above. The Legislature could then require further analyses of other areas of CPUC based on its interests, as well as its determination that the benefits of additional analyses were likely to outweigh the costs.

LAO suggests that if the Legislature determines it would like further analysis of CPUC activities, it should consider which entity is best suited to conduct the analysis. "The appropriate entity will depend on many factors, including the type of analysis being conducted and the degree to which any potential entity is committed to conducting a critical analysis." Thus, staff suggests that any further analysis be conducted by an independent, third party to ensure impartiality of results.

Staff Recommendation: Require the Department of General Services, using CPUC funds, to contract with an independent, outside consulting firm to assess the degree to which each activity and position within the energy area of the CPUC supports the core mission of the CPUC and make recommendations as to how resources might be better allocated to achieve core mission objectives. Require the selected contractor to provide monthly reports to the Joint Legislative Budget Committee and the Department of Finance on the progress of this report. This review shall be submitted to the Legislature by April 1, 2016.

ISSUE 2: AUDIT POSITIONS

The Governor's Budget includes four proposals requesting positions and funding related to CPUC auditing activities:

Fiscal Audits. The Governor requests \$81,482 (various Special Funds) and one position to audit submitted User Fee Statements against utilities' financial records to ensure utilities are remitting correct fees in relation to their revenue.

This request supports the mandates of two state fiscal control agencies. The absence of an audit protocol has been highlighted in audit reports during the 2013-2014 Fiscal Year by both the Bureau of State Audits and the Office of State Audits & Evaluations (OSAE).

Internal Audits. The Budget proposes \$178,000 for one position to provide a detailed work plan based on a charter, initial risk assessment, and other foundational documents to support and justify the role and overall resource needs for a newly-created internal audit function within the Executive Division of the CPUC. This function will conduct independent audits of internal CPUC programs, processes, fiscal administration, and other administrative responsibilities. The proposed unit will act as an independent internal audit team that reports directly to an audit subcommittee of the full Commission. The unit will conduct internal audits authorized by the audit subcommittee, with a focus on safety compliance.

Weaknesses identified in several audits, and more recently in the CPUC's own internal zero-based budget assessment, are addressed by this proposal. According to the Administration the focus of this request is on "getting our house in order", and thus implementing and institutionalizing organizational controls and improving upon weaknesses the new unit may identify internally, and in response to valuable external audit findings and recommendations.

Review of Balancing Accounts. The Governor requests two three-year limited term positions in the Energy Division and \$224,944 from the Public Utilities Commission Utilities Reimbursement Account (PURA) to conduct in-depth reviews of entries in utility balancing accounts in light of a March 2014 State Auditor findings. Balancing accounts are used to balance revenues collected from ratepayers against expenses authorized by the CPUC. Balancing Accounts help to ensure that ratepayers only pay CPUC-authorized amounts and that regulated entities will be able to recover the amounts needed to support revenue requirements or costs. There are 115 electric balancing accounts and 95 gas balancing accounts as of December 31, 2013.

In a March 2014 report, the California State Auditor determined that the CPUC lacks adequate processes to provide sufficient oversight of utility balancing accounts. The State Auditor recommended that the CPUC should employ a systematic, risk-based review process to ensure that the transactions recorded in the balancing accounts are for allowable purposes, and supported by appropriate audit-trail documentation, such as invoices.

The Energy Division previously relied on the audits of utility accounts performed by the Office of Ratepayer Advocates (ORA) as part of their work on General Rate Cases (GRCs). As a matter of practice, ORA had not previously conducted systematic, detailed reviews of energy utility balancing accounts at the invoice level. The State Auditor has determined that the CPUC needs to have a systematic process using a risk-based approach to ensure that the transactions

recorded in the balancing accounts are for allowable purposes, and are supported by appropriate documentation, such as invoices. The State Auditor recommends that balancing account reviews must be done at a substantive in-depth detail level, and must require thorough documentation of the review procedures.

Regulatory Audits. The Budget proposes seven additional audit positions (three-year limited term) within the small water and energy audit sections and \$754,768 from PURA to enhance the CPUC's regulatory audit capacity in light of criticism from recent audits and analysis of internal risks.

The new positions will be assigned to the small water audit and the energy audit. Three of the positions will be assigned to the audits of the books and accounts of energy utilities for compliance with Public Utility Code §314.5, and energy efficiency program expenditures for the energy utilities in California. Two of the new positions will be assigned to conduct financial audits of water utilities. Lastly, one position is needed to ensure proper supervision of the proposed staff in the small water and energy audit sections. If approved, the number of Financial Examiners for both sections will increase from their current level of 11 to 17.

At this time, audits conducted on water companies lag behind the §314.5 statutory requirement that audits be conducted every five years. The water audits are essential for setting just and reasonable rates when the utilities file for rate increases which are generally through the advice letter process. The State Auditor highlighted this point in its report.

The State Auditor noted that the CPUC has relied on reviews performed by the Office of Ratepayer Advocates (ORA) to meet its §314.5 obligations for energy utilities, and found this practice insufficient to meet its statutory obligations.

The CPUC has also mandated in various decisions that annual audits of utility energy efficiency investments of roughly \$1 billion per year occur. The results of past audits have resulted in disallowances of millions of dollars and informed corrective actions and directives to the utilities on managing these funds and also informed CPUC's decision on granting shareholders incentive payments.

STAFF COMMENTS

All of the requested positions relate back to various audit recommendations. Due to the inadequacy of the ZBB submitted by CPUC, staff reluctantly supports the funding and position request for internal and fiscal audits. However, while acknowledging the need for the work outlined in the "Review of Balancing Accounts" and "Regulatory Audits" requests, staff questions the need for additional positions. Public Utilities Code §314.5 requires the CPUC to audit the books and records, including balancing accounts, held by the entities it regulates at least every three years.

Section 314.5. (Amended by Stats. 1999, Ch. 1005, Sec. 9.)
Cite as: Cal. Pub. Util. Code §314.5.

The commission shall inspect and audit the books and records for regulatory and tax purposes (a) at least once in every three years in the case of every electrical, gas, heat, telegraph, telephone, and water corporation serving over 1,000 customers, and (b) at

least once in every five years in the case of every electrical, gas, heat, telegraph, telephone, and water corporation serving 1,000 or fewer customers.

This statutory requirement has been on the books since 1999. The Subcommittee may wish to ask the CPUC if it ever received positions to implement this requirement and if so, were those staff re-directed to other duties.

Further, the Subcommittee may wish to adopt budget bill language prohibiting the redirection of positions and resources without prior notification and approval of the JLBC.

Staff Recommendation: Approve positions and funding for Internal and Fiscal Audits. Hold Open positions and funding for the Review of Balancing Accounts and Regulatory Audits. Adopt BBL to prohibit the redirection of positions and resources without the prior notification and approval of JLBC.

ISSUE 3: 2014 LEGISLATION IMPLEMENTATION

The Governor's Budget includes position and funding requests for various new statutory requirements as follows:

Gas Leak Abatement. The Budget proposes \$550,000 from the Public Utilities Commission Reimbursement Account and three limited term positions and one permanent position to implement SB 1371, Chapter 525, Statutes of 2014, which relates to procedures governing the leak management of gas pipeline facilities. This proposal would support one, two-year limited term Administrative Law Judge, one, two-year limited term Administrative Law Judge support staff, one, two-year limited term Public Utilities Counsel IV, and one ongoing Senior Utilities Engineer-Specialist, and related travel and operating costs, to perform activities pertaining to adopting rules and procedures governing the leak management of gas pipeline facilities.

Electrical Grid Security. The Budget proposes \$551,000 from the Public Utilities Commission Reimbursement Account for three limited term positions and one permanent position to implement SB 699, Chapter 550 (Statutes of 2014). SB 699 directed the CPUC to develop rules and procedures to assess security measures at electric companies and develop baseline standards. This proposal would support one, one-year limited term Administrative Law Judge, one, one-year limited term Administrative Law Judge support staff, one, one-year limited term staff counsel, and one ongoing Senior Utilities Engineer-Specialist, and related travel and operating costs to perform activities pertaining to adopting rules to address physical grid security.

Modified Limousine Regulation. The Governor requests \$227,000 from the Public Utilities Transportation Reimbursement Account for three, two-year limited term positions to implement SB 611, Chapter 860 (Statutes of 2014). SB 611 directed the CPUC to survey 12,000 carriers and annually develop a list of modified limousines and transmit to the California Highway Patrol (CHP). This proposal would support two, two-year limited term positions to survey 12,000 carriers, annually develop a list of modified limousines and transmit to the CHP, and prepare decals and one, two-year limited-term position to assist the CPUC's formal process to implement SB 611, update the relevant General Orders, paper application forms, online documentation, database entries, training staff on new procedures, and communicating with carriers about the new requirements.

STAFF COMMENTS

Staff has no concerns with these proposals. The funding and positions requested seem to comport with new statutory requirements.

Staff Recommendation: Approve as Budgeted

ISSUE 4: VARIOUS OTHER BUDGET PROPOSALS

The Governor's Budget also requests a number of other augmentations as follows:

Deaf and Disabled Telecommunications Program (DDTP). The Governor requests \$1.5 million from the DDTP Administrative Committee Fund to address increased costs to administer the program due to projected increases in expenses related to contracts and personal services, and equipment purchases. One of the DDTP major contracts provides contact center, distribution center, and tracking system services (Equipment Processing Center – EPC). The current contract started in July 2010 and is set to expire at the end of FY 14/15 and a new contract is anticipated to be in place at the start of FY 15/16. There are other contracts, including the California Relay Service, where expenses are projected to be higher in FY 15/16, but this EPC contract is a primary driver for the cost increase in contracts and personal services. The new EPC contract to provide the services described above is expected to exceed the value of the existing contract. This projection was based on analysis of historical contract expenses, projection of future program growth, and estimate of future labor costs.

Universal Lifeline Telecommunications Program. The Budget proposes \$142.8 million for Local Assistance from the Universal Lifeline Telephone Service Trust Administration Fund to address a new and increased subscribership for wireless service plans by California Lifeline participants. The additional funding would allow eligible households to subscribe to discounted, affordable, and sustainable wireless service plans that include voice, text, and Internet access.

Additionally, the Commission requests that the following provision be added to the 2015-16 Budget Bill for the Universal Lifeline Telephone Service Trust Administrative Committee Fund to allow for increased flexibility in budgeting:

Notwithstanding any other provision of law, upon request of the Public Utilities Commission, the Department of Finance may augment the amount available for expenditure in this item to pay claims made to the Universal Lifeline Telephone Service Trust Administrative Committee Fund. The augmentation may be made no sooner than 30 days after notification in writing to the chairpersons of the committees in each house of the Legislature that consider appropriations and the Chairperson of the Joint Legislative Budget Committee. The amount of funds augmented pursuant to the authority of this provision shall be consistent with the amount approved by the Department of Finance based on its review of the amount of claims received by the Public Utilities Commission from telecommunications carriers.

California Teleconnect Fund. The Governor requests an incremental increase to the appropriation for the California Teleconnect Fund (CTF) of \$40,460,000 to ensure adequate funding for increased claims in light of external factors such as the education initiatives set forth in the Governor's fiscal year (FY)14/15 Budget and changes in the E-rate program, the federal schools and libraries counterpart to the CTF program, as well as for general program growth

The FY 14/15 Local Assistance portion of the CTF is \$104.605 million. For the CTF FY15/16 budget, the CPUC requests an augmentation of \$40.460 million. The Governor's FY14-15 Budget authorized improvements in Internet Access and associated infrastructure for the education sector. When qualifying schools, libraries, and community colleges, which are also CTF participants, purchase CTF eligible services such as Internet Access under the Governor's

initiatives, there also will be a corresponding draw on the CTF. The anticipated impact of the education technology programs on the CTF is \$13.1 million.

The E-rate program is phasing out voice service over a five year period beginning with FY 2015. Also in that fiscal year, E-rate will eliminate wireless data plans. Since CTF discounts are applied after the federal E-rate discounts, reductions in E-rate discounts for voice service and data plans will result in higher CTF discounts. The total impact of the E-rate changes on CTF is forecasted to be \$21.756 million.

CTF program continues to grow with new participants and higher demand for services, especially by schools for higher bandwidth services, which are likely to be used for the Common Core Computer Based Adaptive Testing. Program growth for FY 2015-16 is expected to increase the fund by \$5.604 million.

California High Cost Fund A Program. The Governor requests an incremental increase to the appropriation for California High Cost Fund-A (CHCF-A) of \$3,975,000 to ensure adequate funding for increased claims in light of forecast increases to basic service telephone rates and the resulting subsidy claims that are paid by the fund. Resolution T-17400 adopted a FY 14/15 forecast of \$37.838 million in local assistance payments to CHCF-A recipient (Small ILECs). For FY 15/16, local assistance payments to recipient Small ILECs are forecasted to increase by \$3.975 million.

The proposed increase is primarily due to expected aggregate changes in carriers' net differentials between revenue at present rates charged for basic service provided to ratepayers, and carriers' respective revenue requirements adopted through CD review and CPUC approval of filed General Rate Cases (GRC). The adopted revenue requirement also gives a carrier the opportunity to earn a CPUC-authorized rate of return as the only landline carrier offering service within its respective territory, while requiring Carrier of Last Resort status for each Small ILEC area. The CHCF-A subsidy also helps to promote universal service in remote rural areas by subsidizing telephone rates, which enhances the safety of customers in those areas by providing access to 911 and other emergency services. The CHCF-A also promotes customer access to broadband.

Speech Generating Devices. The Governor requests \$408,097 to continue 4.5 positions for an additional two-year limited term to administer the Speech Generating Device program. The CPUC was authorized 4.5, two-year limited term positions in FY 12/13 as the CPUC had no staff assigned to work in this area when Public Utilities Code §2881d was first enacted. In FY 14/15, the CPUC was granted authority to extend 5.0 positions for one year. As mandated, the CPUC adopted rules to implement the program by January 1, 2014; however, additional work to refine the program will continue beyond the expiration of the limited term positions in June 2015.

The Administration states that the CPUC will not be able to continue distributing SGDs without staff. The CPUC has been receiving and approving applications for constituents needing SGDs. This BCP will allow continued staffing to fulfill Public Utilities Code §2881d to support deployment of the devices.

STAFF COMMENTS

In general, these proposals support telecommunications public purpose programs that help low-income/under-served populations. Staff has no specific concerns with this request. Further, the staff recommendation in the previous item regarding audit positions will help ensure that the funding and positions requested are not redirected to other purposes.

Staff Recommendation: Approve as Budgeted

3820 SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION**ISSUE 1: STABLE BASELINE FUNDING**

The Governor's Budget requests additional baseline General Fund (GF) to fully fund the core functions of the BCDC's existing staff, to fill its vacancies, and to enable it to begin a rulemaking process to increase its permit fees to supplement GF funding. In addition, BCDC requests that the State establish a special fund into which the additional annual permit fee collections will be placed that exceed the past eleven-year average of annual permit fee collections. Funds from the special fund would be allocated to BCDC through the budget process to augment BCDC's GF. Assuming that BCDC can increase its permit fees, which the Commission will take up in FY 15-16, the \$1,000,000 Stable Base Funding may be offset by up to \$320,000 in future years.

BACKGROUND

BCDC is a State agency responsible for comprehensively managing the conservation and use of San Francisco Bay and its shoreline and of the Suisun Marsh. The Commission carries out this responsibility under the McAteer-Petris Act, the policies of the San Francisco Bay Plan, the Suisun Marsh Preservation Act, the Suisun Marsh Protection Plan, and the Suisun Marsh Local Protection Program. The BCDC regulatory program was created in 1965 to review applications for BCDC permits.

Virtually any public or private concern requires BCDC regulatory and/or planning authorization to begin any development within the Commission's jurisdiction. In addition, under AB 2094 (2008), BCDC is the State agency responsible for leading the development of Bay Area preparedness for, and resilience to, rising sea level, tides, and storm surge to protect both State and other assets within BCDC's jurisdiction and beyond.

STAFF COMMENTS

BCDC is primarily a GF agency; approximately 66.5 percent of funding is GF. Permit fees are charged by BCDC to process applications but, unlike many other State agencies, all these permit fees go directly to the GF. In addition, because development permits ensure public access to the Bay, which is a public benefit, permit fees can only fund a small portion of BCDC's regulatory program. Absent deficit spending, BCDC does not have adequate General Fund dollars to fund its existing staff, as well as three vacant positions (General Counsel, Records Manager, and Legal Secretary). Each staff position performs State-mandated work. While some regional, State and federal grant funds supplement the GF, these grants are almost entirely for special planning projects with specific requirements and often require a State match. The Planning section is almost entirely funded by these narrowly defined grants and contracts. Federal grants are both diminishing and becoming increasingly project specific, and, other than a small proportion, do not allow BCDC to use such grant funding for regulatory purposes.

BCDC's small size (42 people), does not allow it to absorb GF shortfalls without either finding substitute funds or reducing staff. Yet, not filling or eliminating a position leaves a big hole in agency operations. There is no redundancy in the Administrative staff duties, so eliminating even a single position would cripple the ability to support the agency's mission. The other GF positions cannot be cut as they are all also critical to implementing BCDC's State-mandated responsibilities.

Staff Recommendation: Approve as Budgeted.
