

AGENDA

ASSEMBLY BUDGET COMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, APRIL 23

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

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

VOTE-ONLY ISSUE 1: STATEWIDE OVERSIGHT POSITION EXTENSION AND ENVIRONMENTAL ENHANCEMENT AND MITIGATION FUND POSITION AUTHORITY

The Governor's Budget proposes to extend one CEA position that provides oversight and administration for bond measures, and make permanent two, limited-term positions that were funded by bond funds and are now funded by the EEM Fund. These positions are intended to provide necessary oversight for current, future, and past bond expenditures.

VOTE-ONLY ISSUE 2: CALIFORNIA CULTURAL HISTORICAL ENDOWMENT FUNDING

The Governor's Budget proposes to appropriate \$3.4 million (Proposition 40 bond funds) for projects dedicated to cultural and historical preservation. The program is being implemented pursuant to AB 482 (Atkins), Chapter 590, Statutes of 2013, and AB 716 (Firebaugh), Chapter 112, Statutes of 2002 (The California Cultural and Historical Endowment Act).

STAFF COMMENTS

Staff has no concerns with issues 1 & 2.

Staff Recommendation: Approve as Budgeted Issues 1 & 2

3125 CALIFORNIA TAHOE CONSERVANCY

VOTE-ONLY ISSUE 3: BASELINE ADJUSTMENT

The Governor's Budget requests the addition of \$550,000 from the Tahoe Conservancy Fund to its baseline support budget. These funds will allow the Conservancy to restore or resume a portion of its property management capacity, EIP implementation, and other support capabilities lost to funding restrictions and reductions over the past several years. Funding is being generated through the sale of asset land properties under an Asset Lands Program initiated by the Conservancy pursuant to adoption of its June 2012 Strategic Plan.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budget

3340 CALIFORNIA CONSERVATION CORPS

VOTE-ONLY ISSUE 4: WORK PROJECTS

The Governor's Budget requests one-time augmentations of \$1,066,000 in fiscal year (FY) 2014-15, \$568,000 in FY 2015-16, and \$74,000 in FY 2016-17 to the Collins Dugan Reimbursement Account appropriation to allow the California Conservation Corps (CCC) to fund project operating expenses and equipment and to perform project work for sponsoring agencies. Sponsors will reimburse the CCC for all expenses necessary to complete the projects.

VOTE-ONLY ISSUE 5: VEHICLE REPLACEMENT PLAN

The Governor's Budget requests a one-time augmentation of \$540,000 to the Collins Dugan Reimbursement Account appropriation to fund the continuation of the CCC's vehicle replacement plan. The augmentation will fund replacement of 20 crew support trucks and allow the CCC to meet operational needs, minimize health and safety concerns related to crew transportation, and continue its vehicle replacement plan.

STAFF COMMENTS

Staff has no concerns with issues 4 & 5.

Staff Recommendation: Approve as Budgeted Issues 4 & 5

3480 DEPARTMENT OF CONSERVATION

ISSUE 6: CALIFORNIA FARMLAND CONSERVANCY PROGRAM REIMBURSEMENTS

The Governor's Budget requests a four-year, limited-term increase in reimbursement authority of about \$5 million per year (High-Speed Rail funds), to assist the High-Speed Rail Authority by providing services to meet environmental commitments and mitigation with agricultural land conservation.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budgeted

3560 STATE LANDS COMMISSION

VOTE-ONLY ISSUE 7: HUMAN RESOURCES STAFFING

The Governor's Budget requests two positions to augment its current human resources department to accommodate both internal staff, as well as activities for departments who contract with SLC for administration (due to their small size). This would bring the total human resources staffing to 7.5 personnel years for 260 staff positions.

VOTE-ONLY ISSUE 8: REMOVAL OF DENNETT DAM, A RIVER HAZARD

The Governor's budget proposes \$133,000 (Environmental License Plate Fund) to remove Dennett Dam on the Tuolumne River in Stanislaus County. The dam poses a threat to public safety and is a barrier to recreational navigation and migrating salmon. Funding is contingent upon an equal match from local participants.

STAFF COMMENTS

Staff has no concerns with issues 7 & 8.

Staff Recommendation: Approve as Budgeted Issues 7 & 8

3600 DEPARTMENT OF FISH AND WILDLIFE

VOTE-ONLY ISSUE 9: FISHERIES RESTORATION GRANT PROGRAM DATABASE MAINTENANCE STAFF

The Governor's Budget requests two positions (Federal Trust Fund) to operate and maintain the Fisheries Restoration Grant Program Database.

VOTE-ONLY ISSUE 10: LAND MANAGEMENT AGREEMENT REVIEW AND TRACKING

The Governor's Budget proposes \$34,000 (Wildlife Restoration Fund and Federal Trust Fund) and one position to develop and implement a comprehensive process to review and track leases for management of department lands.

VOTE-ONLY ISSUE 11: INTERAGENCY ECOLOGICAL PROGRAM MANAGEMENT SUPPORT

The Governor's Budget request two positions (Reimbursements and Federal Trust Fund) to address the increased demands for the reporting and tracking of obligations and objectives associated with biological opinions and water rights decisions.

VOTE-ONLY ISSUE 12: SANTA ROSA PLATEAU ECOLOGICAL RESERVE MANAGER

The Governor's Budget requests one position (Reimbursements) to assess resource impacts from activities on the reserve.

VOTE-ONLY ISSUE 13: MINOR CAPITAL OUTLAY

The Governor's Budget proposes the following minor capital outlay projects: \$210,000 (Hatchery and Inland Fisheries Fund) for power lines and utilities upgrade at Darrah Springs and \$405,000 for overhead electrical system replacement and upgrade at Fish Springs Hatchery.

STAFF COMMENTS

Staff has no concerns with issues 9-13.

Staff Recommendation: Approve as Budgeted Issues 9-13

3720 CALIFORNIA COASTAL COMMISSION

VOTE-ONLY ISSUE 14: COASTAL AND MARINE EDUCATION WHALE TAIL LICENSE PLATE PROGRAM

The Governor's Budget requests a one-time augmentation of \$295,000 (California Beach and Coastal Enhancement Account and Whale Tail License Plate Account) to increase the funding for grants for coastal and marine education. This proposal is consistent with previous years where one-time funding has been available from the sale of the license plates.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budgeted

3760 STATE COASTAL CONSERVANCY

ISSUE 15: OFFICE MOVE AND INCREASED RENT

The Governor's Budget requests \$1,067,000 (General Fund) for the State Coastal Conservancy (SCC) support budget. The bulk of these funds, \$979,000, is requested to pay for one-time costs associated with moving the SCC into the Elihu Harris State Building in Oakland. The SCC is requesting \$88,000 (General Fund) to pay for increased rent costs (\$140,000 ongoing). Moving the SCC will result in a net savings to the overall state budget by filling currently vacant state office space, but will have very significant costs to the SCC. Because the SCC does not have renewable funding sources available, this move and increased rent is proposed to be funded from the General Fund.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budgeted

3790 DEPARTMENT OF PARKS AND RECREATION

VOTE-ONLY ISSUE 16: PROPOSITION 84 SUPPORT PROGRAMS

The Governor's Budget requests various reversions of appropriation authority and new appropriations from Proposition 84 to provide continued project funding for bond supported programs as part of the Department's Proposition 84 Multi-Year Plan.

VOTE-ONLY ISSUE 17: EMPIRE MINE STATE HISTORIC PARK – ONGOING PARK REMEDIATION

The Governor's Budget requests \$4.95 million (General Fund) for continued evaluation, analysis, and implementation of remedial actions at Empire Mine State Historic Park critical to the protection of both public health and safety, as well as the protection of natural and cultural resources at the park.

VOTE-ONLY ISSUE 18: CAPITAL OUTLAY, OFF-HIGHWAY, AND BOND-FUNDED PROPOSALS

The Governor Budget annually submits proposals for capital outlay, State Vehicular Area projects, and other bond-funded projects within the state system. In the past, the majority of capital outlay and physical infrastructure projects were funded with bond funds and special funds (including Off-Highway Vehicle Trust Fund and the Harbors and Watercraft Fund). In the future, as bond funds are reduced, it is likely the Legislature will see fewer bond-funded projects.

Projects and Programs Proposed:

Park	Project Description	Fund Source	Amount (in thousands)
State Park Development Program and Other Bond Funds			
Fort Ord Dunes	New Campground and Beach Access		19,176
Old Town San Diego Historic Park	Building Demolition and Immediate Public Use Facilities	Prop 84	7,643
San Elijo State Beach	Replace Main Lifeguard Tower	Prop 12	5,014
El Capitan State Beach	Construct New Lifeguard Operations Facility	Prop 84	723
MaKerricher	Replace Water Treatment System	Prop 84	541
Local Assistance	1988 Bond Settlement - Tijuana River	Other	2,100
Local Assistance	Ongoing Funding Programs	Various	56,500
State Vehicular Recreation Areas (SVRAs)			
Carnegie	Vehicle Wash Station	OHVTF*	1,368
Hungry Valley	Vehicle Wash Station	OHVTF	1,064
Hungry Valley	Quail Canyon Special Event Area	OHVTF	612
Onyx Properties	Enforcement and Conservation	OHVTF	1,490
Hollister Hills	Trails Project	OHVTF	879
Oceano Dunes	Visitor Center and Equipment Storage	OHVTF	6,104
Oceano Dunes	Pismo SB Sediment Track-Out	OHVTF	80
Prairie City	Barton Ranch Acquisition	OHVTF	3,500
Various (statewide)	OHV Minor Projects	OHVTF	765
Boating and Waterways			
Angel Island,	Restore East Garrison Mooring Field	HWCF**	31
Bidwell-Sac River	Irvine Finch Ramp Repair and Extension	HWCF	78
McArthur-Burney Falls	Ramp and Boarding Float Replacement	HWCF	45
Various (statewide)	Statewide Minor Capital Outlay Projects	HWCF	2,788

*OHVTF: Off-Highway Vehicle Trust Fund

**HWCF: Harbors and Watercraft Fund

STAFF COMMENTS

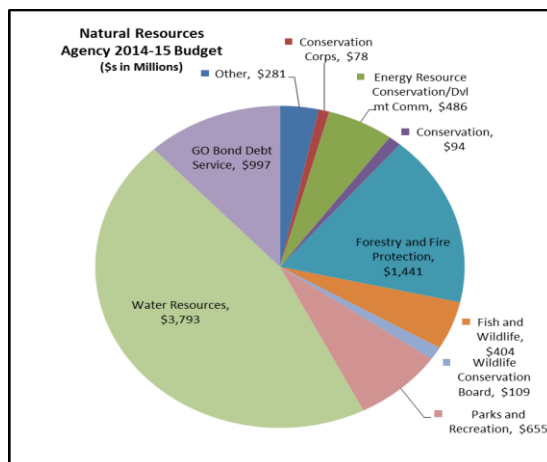
Staff has no concerns with issues 16-18.

Staff Recommendation: Approve as Budgeted Issues 16-18

ITEMS TO BE HEARD

0540 SECRETARY FOR NATURAL RESOURCES

The mission of the Resources Agency is to restore, protect, and manage the State's natural, historical and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration, and respect for all involved communities. The Secretary for Resources, a member of the Governor's Cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 26 various departments, boards, commissions, and conservancies.



The Governor's Budget proposes \$8.3 billion (\$2.2 billion General Fund) and 19,482.8 positions in total spending for the various entities within the Resources Agency. Total proposed state expenditures equal \$4.5 billion. This represents approximately 2.9-percent of the state budget.

ISSUE 1: SECRETARY JOHN LAIRD – OVERVIEW OF THE NATURAL RESOURCES AGENCY BUDGET

Staff Recommendation: Informational Item

ISSUE 2: FOURTH CLIMATE CHANGE ASSESSMENT

The Governor's Budget requests \$5 million from the Environmental License Plate Fund (ELPF) and one position at the California Natural Resources Agency (CNRA), to carry out a fourth climate change assessment. The majority of funds are proposed for contracts to conduct the scientific research needed for the assessment. The assessment would continue to generate data and information needed to support continued climate policy development, planning, and implementation efforts at the state, regional, and local level. The intent is to ensure that efforts to foster resilient communities and businesses are informed by the best available science.

The Governor's proposal also includes trailer bill language that would add the following eligibility language to the ELPF funding allocations:

- "Scientific research on the risks to California's natural resources and communities caused by the impacts of climate change."

BACKGROUND

The State has undertaken three prior climate change assessments. The first assessment, completed in 2006, examined the potential impacts of climate change on key state resources such as water supply, public health, agriculture, coastal areas, forestry, and electricity production and demand. The second assessment, completed in 2009, attempted to provide initial estimates of economic impacts of climate change. The third assessment, completed in 2012, was shaped by the request for more information on vulnerability and adaptation options discussed in the 2009 California Climate Adaptation Strategy.

The proposed fourth assessment will focus on advancing and understanding of extreme weather events and continuing to explore impacts and risks to particular sectors and regions in California. The assessment will be led by the CNRA, working closely with the Climate Action Team Research Working Group (including the California Energy Commission) and capitalizing on California's strong scientific community (including the University of California).

STAFF COMMENTS

Climate science and knowledge about climate impacts continues to evolve, both through improvements in impact modeling and direct observations of the changing climate over time. In order for the State to remain at the forefront on climate policies, it is important to invest in regionally-relevant climate science that is complimentary to local, federal and international climate science efforts.

The CNRA has published a report entitled, "Safeguarding California: Reducing Climate Risk." The report provides policy guidance for state decision makers, and highlights climate risks to nine sectors in California, from agriculture to energy, and forestry to ocean ecosystems. This Safeguarding California Plan updates the 2009 California Climate Adaptation Strategy.

The Agency should address the following questions in their opening statement.

- Specifically, how have the previous three assessments informed the state's policy and funding of decisions on climate adaptation?
- Describe the "Safeguarding California" report and how this assessment will contribute beyond the current climate adaptation plan.

Staff Recommendation: Approve as Budgeted

3480 DEPARTMENT OF CONSERVATION
3900 AIR RESOURCES BOARD
3940 STATE WATER RESOURCES CONTROL BOARD

ISSUE 1: IMPLEMENTATION OF SB 4 (PAVLEY) – HYDRAULIC FRACTURING

The Governor's Budget includes proposals in three departments for workload related to the regulation of hydraulic and acid matrix fracturing. In total, the Administration requests \$20.5 million from the Oil, Gas, and Geothermal Administrative Fund (OGGAF) and 85 positions in 2014-15. Of this total, \$19.9 million and 80 positions are proposed to be ongoing. The Governor's budget reflects an increase of \$23 million in OGGAF revenue, based on an assumed increase in the regulatory fee administered by Division of Oil, Gas, and Geothermal Resources (DOGGR) within the Department of Conservation, to pay for these additional costs. Specifically, the Administration proposes adjustments for the following departments.

- **DOGGR.** The Governor's budget requests 60 permanent positions, five limited-term positions, and \$13 million in 2014-15 (\$9.2 million ongoing) for DOGGR to regulate well stimulation techniques. The bulk of these positions would be used for engineering and geological workload, such as monitoring compliance with state regulations at extraction sites.
- **State Water Resources Control Board (SWRCB).** The Governor's budget requests \$6.2 million and 14 positions in 2014-15 for SWRCB to develop the groundwater monitoring criteria and plan, as well as to evaluate compliance by well owners and operators who develop their own groundwater monitoring plans. It also includes funding for contracts to perform groundwater monitoring. The request for SWRCB would increase to \$9.4 million in 2015–16, which is primarily due to additional costs related to groundwater monitoring contracts.
- **Air Resources Board (ARB).** The Governor's budget requests six positions and \$1.3 million for ARB to conduct air emissions monitoring, perform air quality modeling and risk assessments, and to develop regulations to control and mitigate GHG emissions, "criteria pollutants," and toxic air contaminants resulting from well stimulation.

The Governor's Budget also proposes budget trailer legislation to address what the Administration describes as an inconsistency in SB 4 related to groundwater monitoring. Specifically, sections of SB 4 varied in whether it required SWRCB to "review" or "approve" groundwater monitoring plans developed by well owners and operators. The proposed legislation would specifically require SWRCB to review—rather than approve—monitoring plans. According to the Administration, this change is necessary in order to clarify DOGGR's role as the lead state agency responsible for preparing environmental impact reports.

BACKGROUND

Hydraulic fracturing and acid matrix stimulation are two types of well stimulation techniques used to increase the production of oil and gas. Typically, hydraulic fracturing relies on injecting a mixture of high-pressure water, sand, and chemicals deep into underground geologic formations. Acid matrix stimulation utilizes the injection of one or more acid mixtures into an underground geologic formation. Of the roughly 42,000 active wells in California, it is estimated that on average between 1,000 and 2,000 wells will likely undergo one or more of these types of well stimulation activities each year.

SB 4 (Pavley), Chapter 313, Statutes of 2013, requires the regulation of oil and gas well stimulation treatments such as hydraulic fracturing. The legislation requires, among other things, the development of regulations, a permitting process, and public notification and disclosure of wells that will undergo hydraulic fracturing and acid matrix stimulation and the types of chemicals used for these processes. The legislation also states that workload associated with its implementation can be funded by OGGAF. The OGGAF is funded through a fee administered by DOGGR. The fee is designed to recover the Division's costs to regulate oil and gas extraction in the state.

Within the last five years, four budget change proposals for DOGGR have been approved: one for AB 1960 (Nava), which provided the Department authority over oil field facilities; and three to increase the underground injection program. Funding for these is from an across-the-board assessment on all operators.

The fee is currently assessed at \$0.14 per barrel of oil produced or 10,000 cubic feet of natural gas produced in the state. Current law provides for an assessment upon wells for the support and maintenance of DOGGR. SB 4 expanded this provision to allow the assessment to be used by other entities for conducting rulemaking, studies, inspections, and monitoring.

The Department has decided that an across-the-board assessment is the most efficient and cost effective for the Department and operators. If oil production increases to a point where the Department receives more revenue than authority, the Department can adjust the assessment downward in subsequent years.

Among its regulatory requirements, SB 4 requires DOGGR to adopt rules and regulations by January 2015, regarding the construction of wells and well casings, as well as the disclosure of the composition and disposal of well stimulation fluids. As part of the regulations, DOGGR must require well operators to apply for a permit prior to performing well stimulation activities, which must be posted on a publicly accessible portion of DOGGR's website. The regulations must also include provisions for random inspections by DOGGR during well stimulation activities.

SB 4 also requires that groundwater monitoring be performed in areas that have well stimulation activity, in order to detect if groundwater is contaminated. Specifically, the legislation requires the SWRCB to (1) provide guidance to DOGGR on the development of regulations for wells where groundwater could be affected, (2) develop criteria specifying requirements for groundwater monitoring in areas with well stimulation activities and a plan for monitoring groundwater based on those criteria by July 1, 2015, and (3) begin monitoring groundwater by January 1, 2016. SB 4 also requires well owners and operators to develop groundwater monitoring plans if they are in an area which is not monitored by SWRCB. In addition, SB 4 requires DOGGR to enter into formal agreements with multiple departments (including ARB and

Department of Toxic Substances Control [DTSC]), in order to delineate roles and responsibilities related to its implementation.

LAO RECOMMENDATION

The Governor's proposals raise several issues for legislative consideration...It appears that the SWRCB request for contract funding in 2014–15 is premature. As indicated above, SWRCB is not required to complete the development of its criteria and monitoring plan until July 1, 2015. In addition, SWRCB cannot begin monitoring groundwater until the criteria and plan are developed. Thus, funding for groundwater monitoring is not needed until 2015–16.

SWRCB's groundwater monitoring and other activities will vary based on a variety of factors, such as how many wells are stimulated, where the stimulated wells are located, and whether well operators/owners perform monitoring themselves. These factors will depend on the criteria and monitoring plan developed by SWRCB. Thus, while SWRCB will almost certainly have workload associated with monitoring and ensuring compliance by well owners and operators in 2015–16, the extent of that workload is unknown until the criteria and monitoring plan are developed. Thus, the number of positions needed to complete that workload in 2015–16 is currently unknown.

While we agree with the administration's contention that current law regarding SWRCB's role in reviewing or approving monitoring plans is somewhat inconsistent, the proposed trailer bill language is a policy change that would affect which agency is responsible for approving groundwater plans, as well as who is the lead agency for preparing environmental impact reports. Therefore, the Legislature will want to make sure the proposal reflects its intentions for how groundwater monitoring is carried out.

Finally, the administration's proposal to provide ARB with positions and contract funding to develop regulations to control and mitigate GHG emissions, criteria pollutants, and toxic air contaminants related to well stimulation raises questions regarding legislative intent and workload justification. Senate Bill 4 only requires monitoring of air quality in areas where well stimulation occurs. The legislation does not explicitly direct ARB or any other agency to develop regulations to control or mitigate emissions resulting from well stimulation. Thus, it is unclear if the proposed funding and positions for ARB are consistent with the intent of SB 4. We also note that, under state and federal authority, local air districts currently regulate emissions from wells. In fact, it appears that some air districts are already monitoring emissions that occur with well stimulation, potentially resulting in some duplication of effort between ARB and local boards. In addition, it is unclear why the Governor's budget is proposing to provide ARB with ongoing resources for activities that primarily constitute one-time workload in developing regulations.

With regards to the administration's hydraulic fracturing request, we recommend that the Legislature:

Approve DOGGR Request. *The Governor's request for additional positions for DOGGR to implement SB 4 is justified on a workload basis. We therefore recommend that the Legislature approve 60 permanent positions, 5 limited-term positions, and \$13 million in 2014–15 (\$9.2 million ongoing) to regulate well stimulation techniques.*

Ensure Proposals Are Consistent With Legislative Intent. *As described above, certain aspects of SB 4 are unclear. The Legislature will want to review these budget proposals to determine whether the administration's interpretations of the requirements in SB 4 are consistent with legislative policy intent. Specifically, the Legislature will want to determine...if*

SWRCB should review or approve well owners' groundwater monitoring plans and...what activities it wants ARB and local air districts to perform in implementing SB 4. The Legislature may want to approve legislation to clarify its intent in some of these cases. In addition, if the Legislature decides that ARB's role should be more limited than is proposed, we recommend ARB's proposal be reduced or rejected to reflect that role.

Reduce SWRCB Request. *We recommend that the Legislature deny the request to fund groundwater monitoring contracts (\$3.5 million in 2014–15 and \$7 million in 2015–16) and direct SWRCB to request funding in the 2015–16 budget once its criteria and monitoring plan are complete. In addition, we recommend that the Legislature approve SWRCB's request for 14 positions on a two–year limited–term basis. This would allow SWRCB and the Legislature to reevaluate the need for positions depending on actual workload data following the first year of implementation of the groundwater monitoring plans and other activities.*

STAFF COMMENTS

The SWRCB countered LAO's concerns/recommendations with the following:

Due to workload issues, we are requesting that eleven (11) positions be permanent and three (3) positions be limited term for FY 14/15 and 15/16 . The three staff are needed to help develop the memorandum of agreement and regulations with DOGGR. These staff will be needed for these initial tasks, but will be needed to transition into future tasks associated with other work. Hiring high quality staff is necessary for this technical work and limited term positions will make it challenging to find qualified staff.

We concur with the LAO that contract dollars in FY 14/15 for Regional Groundwater Monitoring may be premature, since the monitoring criteria will not be finalized until July 1, 2015. However, we need FY 14/15 contract dollars for GeoTracker data upload task and associated expert panel costs totaling \$700,000.

Requiring an additional or new BCP for monitoring funds after the groundwater monitoring criteria will place the regional groundwater monitoring implementation behind schedule. In addition, waiting will not place us in a better position to estimate costs since the BCP will be due before the model criteria are completed. Our current estimate of regional groundwater monitoring costs of \$7 million is a reasonable estimate due to our experience with the statewide Groundwater Ambient Monitoring and Assessment (GAMA) Program implementation (from 2003 to present). In addition, the regional groundwater monitoring will require costs associated with very deep well installation and sampling, access agreements, and associated health and safety issues. The funds for regional groundwater monitoring will be required in FY 15/16 and future years.

In discussions with the ARB, staff understood the following rebuttal to LAO's concerns:

- SB 4 requires that the formal agreements specify what public agency is responsible for air quality monitoring associated with well stimulation. Given the statewide nature of SB 4, it is appropriate for ARB to be this agency, in coordination with the relevant local air districts. ARB has expertise in ambient air monitoring, source specific air emissions testing, air quality modeling, and health risk assessments. Furthermore, SB 4 also provides that OGGAF monies may be used for "air and water quality sampling, monitoring, and testing performed by public entities."

- The Legislature previously gave ARB authority and responsibility to control harmful air emissions, including GHGs, air toxics, and criteria pollutants. In particular, H&SC section 39666 directs ARB to “adopt airborne toxic control measures to reduce emissions of toxic air contaminants from nonvehicular sources”. These responsibilities are not reiterated in SB 4 but provide guidance to ARB to consider the potential toxic and other contaminant emissions from well stimulation and to reduce those emissions through measures as necessary.
- With appropriate resources ARB would utilize monitoring data to conduct modeling, and risk assessments to determine the potential impact of well stimulation events. Additionally, ARB would develop regulations based on the results of the monitoring program under its existing authority and responsibility. Therefore, ARB’s BCP is consistent with ARB's responsibility under current law.

Staff concurs with LAO that DOGGR's need for position authority to evaluate and enforce well stimulation practices is justified. While the SWRCB agreed with LAO's recommendation to eliminate the \$3.5 million for monitoring contracts in FY 2014-15, its counter arguments with regard to only making three of the 14 requested positions limited-term are reasonable. Finally, staff shares the Administration's interpretation that ARB's activities to monitor and control air pollution from well stimulation pursuant to SB 4 and existing legal authorities should be supported by the per barrel production fee. Senator Fran Pavley, author of SB 4, concurs with this interpretation in a letter submitted to the Subcommittee urging the support for ARB and SWRCB budget proposals. According to Senator Pavley, "To deny either BCP is to deny the specific legislative intent of SB 4 and delay providing the answers to the public about air and water contamination from well stimulation."

Staff Recommendation: Approve the DOGGR and ARB requests. Deny SWRCB request to fund groundwater monitoring contracts \$3.5 million in 2014–15, but approve request for \$7 million in 2015–16. Approve SWRCB’s request for 11 permanent and three two-year, limited-term positions.

3480 DEPARTMENT OF CONSERVATION**ISSUE 1: ALQUIST-PRIOLO FAULT ZONING FUNDING**

The Governor's Budget requests \$1.4 million (Strong-Motion Instrumentation and Seismic Hazards Mapping Fund) to reinvigorate the Alquist-Priolo Earthquake Fault Zoning Act. This is a proposal to evaluate, over the next six years, the faults in California believed to be active that have not been included in previous evaluations. Trailer bill language is proposed to increase fees for this proposal from building permits at a rate of \$10 to \$13 per \$100,000 for residential permits and \$21 to \$28 for non-residential permits.

BACKGROUND

In 1972, in response to the San Fernando Earthquake that killed 65 people, injured over 2,000, and caused property losses of \$505 million, the Legislature enacted the Alquist-Priolo (A-P) Fault Zoning Act. The purpose of the Act is to prohibit the location of most structures for human occupancy across the traces of active earthquake faults. Under the Act, the State Geologist is required to delineate "Earthquake Fault Zones" along known active faults in California. Cities and counties affected by the zones must regulate certain development projects within zones.

To date, A-P zones have been placed on over 5,000 miles of active surface faults in 105 cities and portions of 36 counties, 553 maps have been produced to cover these areas. An estimated 2,000 miles of active surface faulting remain to be evaluated in California, 600 to 800 miles of which could affect developed and developing communities.

STAFF COMMENTS

California is the most seismically active and geologically diverse State in the nation. One of the greatest hazards affecting the State's economy and the life and safety of its citizens is the threat of earthquake-induced damages. For the first 30 years of the program, A-P was sustained with General Fund monies. However, due to cuts in funding, no A-P Fault Zone maps were published between 2004 and 2011. With the current process of funding with small amounts of General Fund dollars that become available on a non-predictable basis, it will take about 300 years to complete the remaining A-P zone maps.

Approving this proposal will provide the ongoing funding necessary to evaluate the State's first priority potentially active faults over the next six years. This information will provide cities and counties much valued advice in their planning to avoid development on active faults.

Staff Recommendation: Approve as Budgeted

3600 DEPARTMENT OF FISH AND WILDLIFE

The mission of the Department of Fish and Wildlife (DFW) is to manage California's diverse fish, wildlife, and plant resources, and the habitats upon which they depend, for their ecological values and for their use and enjoyment by the public. This includes habitat protection and maintenance in a sufficient amount and quality to ensure the survival of all species and natural communities. The Department is also responsible for the diversified use of fish and wildlife including recreational, commercial, scientific, and educational uses.

The Budget includes \$403.3 million (\$63.6 million General Fund) and 2,616.2 positions for the Department. Decreases in federal and "other" funds are the result of DOF's effort to align reimbursements with historical expenditures. Reductions in bond expenditures are due to the near depletion of available bond funds.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$61,058	\$63,546	\$63,617	\$71	0%
Federal Funds	58,837	62,523	62,228	(\$295)	(0%)
Fish and Game Preservation Fund	92,309	115,844	113,252	(\$2,592)	(2%)
Bond Funds	26,335	76,992	16,135	(\$60,857)	(79%)
Oil Spill Prevention and Administration Fund	26,069	29,903	36,719	\$6,816	23%
Other	\$70,404	\$107,138	\$111,396	\$4,258	4%
Total Expenditure	\$335,012	\$455,946	\$403,347	(\$52,599)	(12%)
Positions	2,361.50	2,541.20	2,616.20	75	3%

ISSUE 1: GHG EMISSIONS REDUCTIONS THROUGH WETLAND RESTORATION

The Governor's Budget requests \$30 million in 2014–15 and 2015–16 to support DFW's wetland restoration efforts. The proposed funding would support grants for ecosystem restoration throughout the state—including in the Delta, on the coast, and in mountain meadows—which would increase the amount of land that can naturally capture and store carbon. The proposed funding would also support measures to reduce the energy needed to transport water to wetlands currently managed by DFW. Of the total amount requested, the Governor proposes \$2.2 million in 2014–15 to support 17 new positions (increasing to \$3 million and 27 positions in 2015–16) for program implementation.

BACKGROUND

This proposal is part of the Governor's \$850 million Cap-and-Trade Expenditure Plan to invest of cap-and-trade auction proceeds to support existing and pilot programs that will promote GHG reductions and meet SB 535 (de Leon), Chapter 830, Statutes of 2012, goals.

This proposal does not include a specific GHG reduction target, nor is it intended to contribute to the SB 535 goal of investing in disadvantaged communities. However, it does include metrics for measurement of reduction of GHGs through carbon uptake, measured in carbon per acre. Specifically, the budget proposal provides the following information to support the GHG emission reduction benefits of the activities proposed for funding:

- Restoring Delta and coastal wetlands reduces GHGs through carbon uptake, measured in C/acre, by Delta vegetation and soils. Estimates of carbon sequestration from the scientific literature will be applied to the acreage of wetlands restored.
- Carrying out large-scale, comprehensive projects that establish broad, healthy wetlands, and floodplains and connect them to river, bay and ocean ecosystems is the only effective means of reducing GHGs in the Delta and coastal wetlands.
- Restoring key mountain meadows habitat will improve carbon sequestration and water efficiency on DFW lands. The soil complex in mountain meadows throughout California stores large amounts of carbon. Retaining it in a form not available to the atmosphere contributes to carbon sequestration.

LAO RECOMMENDATION

As noted previously, in the Subcommittee's March 19th Cap-and-Trade Expenditure Plan hearing agenda, the LAO stated:

In order to minimize the negative economic impact of cap-and-trade, it is important that auction revenues be invested in a way that maximizes GHG emission reductions for a given level of spending. In reviewing the Governor's proposed expenditure plan for cap-and-trade auction revenue, we find that there is significant uncertainty regarding the degree to which each investment proposed for funding will achieve GHG reductions. This uncertainty is the result of several factors, including there being only limited data and analysis provided by the administration, as well as the fact that the level of emission reductions achieved would depend on the specific projects funded by departments. Consequently, it is very difficult for the Legislature to have assurance that the specific package of programs proposed by the administration would achieve the greatest reduction per dollar invested possible, or whether a different set of programs might yield better outcomes in a more cost-effective manner.

Given these concerns, we recommend that the Legislature direct ARB to develop metrics for departments to use in order to prospectively evaluate the potential GHG emission benefits of proposed projects, as well as direct the board to establish a set of guidelines for how departments should incorporate these metrics into their decision-making processes. Having such metrics to use as part of departments' decision-making processes when determining how program funding will be spent would provide greater certainty regarding the potential GHG emission reductions of projects being considered for funding.

STAFF COMMENTS

Due to the "*significant uncertainty regarding the degree to which each investment proposed for funding will achieve GHG reductions,*" noted by the LAO, staff recommended, in its March 19th Subcommittee hearing agenda, directing the Air Resources Board (ARB) to develop metrics for departments to use in order to evaluate the potential GHG emission benefits of proposed projects. While this requirement could delay getting funding "out the door" at first, staff noted that it would be worthwhile if the result is that the state could better ensure that the most beneficial projects are being funded. Staff also suggested that the Legislature may also wish to consider directing the administration to establish GHG reduction goals for each program funded by auction revenue. Thereby, allowing departments and the Legislature to evaluate the effectiveness of these programs relative to what was expected at the time of legislative approval.

This proposal contains no metrics for the measurement of GHG reduction or reduction targets and does not contribute towards benefits to disadvantaged communities.

The Director should address the following questions in his opening remarks:

- Can you quantify the estimated annual GHG emission reductions benefit for the activities being proposed and describe the metrics used to conduct this work?
- Can you discuss the near-term and/or the long-term GHG reduction benefits of the proposed activities?
- Under the proposal, the department is responsible for developing its own criteria to determine how to spend its GGRF allocation. Do you have in-house staff with experience evaluating GHG emissions reduction programs?
- What front-end metrics will the department use to guide investment decision-making?
- Under the current proposal, how soon do you anticipate getting funding out-the-door?
- Has the Department established GHG reduction goals for each program funded by auction revenues?
- If not, how will the department evaluate the effectiveness of these programs relative to what was expected at the time of legislative approval?
- How will the Department fund ongoing maintenance of lands restored with these funds?
- Will state conservancies be eligible for funding?

Staff Recommendation: Hold Open

ISSUE 2: STATEWIDE OIL POLLUTION PROGRAM (MARINE AND INLAND)

The Governor's Budget proposes statutory changes to maintain the Oil Spill Prevention Administrative Fund (OSPAF) fee at 6.5 cents per barrel on an ongoing basis, as well as expand the fee to all oil entering California refineries, including oil transported by rail and pipelines. The Administration projects that the proposed fee increase would increase revenues by \$6.6 million in 2014-15 (\$12.3 million annually when fully implemented) compared to current-year revenues. The Governor's budget for 2014-15 proposes to increase ongoing spending by \$8.7 million, as follows:

- \$6.2 million and 38 permanent positions to support the proposed expansion of the Office of Spill Prevention and Response's (OSPR) activities, to include inland prevention activities, as well as allow the office to respond to all inland spills. According to the Administration, the proposed expansion is necessary because the amount of oil transported over land (by rail or pipeline) is expected to significantly increase in coming years.
- \$2.5 million to support the Oiled Wildlife Care Network (OWCN) and change the program's fund source from the Oil Spill Response Trust Fund (OSRTF) to the OSPAFA. The proposed amount reflects an increase of \$500,000 for the program relative to the current-year funding level.

BACKGROUND

The Office of Spill Prevention and Response (OSPR) within DFW is responsible for preventing, preparing for, and responding to oil spills. OSPR activities include reviewing oil spill contingency plans, performing inspections and investigations, tracking spills, and directing spill response and cleanup efforts. OSPR has statutory authority to regulate prevention of marine spills (through activities such as reviewing oil spill contingency plans and conducting drills). That authority, however, does not extend to inland prevention activities. Statute further designates OSPR as the primary agency responsible for responding to both inland and marine spills. Currently, OSPR responds to only about half of inland spills because of funding limitations. The 2013-14 budget included \$44 million to support OSPR activities, including 190 positions.

OSPR is principally funded by the Oil Spill Prevention Administrative Fund (OSPAFA), which is primarily supported by a fee of 6.5 cents on each barrel of oil brought into California over marine waters. This fee is currently collected by the Board of Equalization from marine terminals and marine pipeline operators. The fee generates approximately \$38 million in revenues annually. In the current fiscal year, the state is projected to spend \$43 million from OSPAFA, resulting in a structural deficit of about \$5 million. Under current law, the OSPAFA fee will decrease to 5 cents on January 1, 2015.

In addition, the Department supports a statewide system of facilities throughout the state, called the Oiled Wildlife Care Network (OWCN), to rapidly respond to and treat wildlife that have been affected by an oil spill. OWCN is operated by the University of California but receives \$2 million in support annually from DFW, using interest from the Oil Spill Response Trust Fund (OSRTF). However, the interest from the OSRTF is no longer sufficient to fund OWCN as a result of a loan made to the General Fund and low interest rates.

Response to inland spills has historically been funded out of the Fish & Wildlife Pollution Account (Fund 0207), which has never had a dedicated funding source. Fund 0207 is supported by cost recovery and the collection of fines and penalties from responsible parties. These mechanisms have never been able to support the program. Consequently, the Fund achieved a negative fund balance in September 2012. To adjust for this decline, the Inland Response Program has been reduced over a ten year period from 23 positions to a current staffing level of zero. Minimal response to inland spills have been funded on a very limited basis from other CDFW funds.

LAO RECOMMENDATION

Given the potential environmental damage that can be caused by inland spills, as well as the projected increase in inland oil transportation, we find that the intent of expanding prevention activities to land is reasonable. Thus, we recommend that the Legislature approve the Administration's proposal to expand the OSPAF fee to all oil entering California refineries to ensure that parties that transport oil inland (and therefore pose a spill risk) pay for some prevention and readiness activities...We further recommend that the Legislature approve the requested funding for OWCN from OSPAF.

We also recommend that the legislation authorize the department to charge the fees to generate total revenue up to the amount authorized for oil spill prevention and response in the annual state budget.

STAFF COMMENTS

With the projected dramatic increase in oil exploration and production within other states and California, oil spills from railroads, production facilities, pipelines, and trucks increasingly threaten the State's surface waterways, sensitive habitats and special status species. DFW is the only state agency with the capability as First Responders to react to, and cleanup, oil spills in state surface waters. In addition, largely through OWCN, DFW is the only agency able to address wildlife rescue and treatment.

The depletion of Fish & Wildlife Pollution Account has resulted in no dedicated program remaining to respond to inland oil spills. The lack of a formal inland spill prevention and response program could have devastating impacts for natural resources at risk from inland oil spills. The Governor proposal to expand the existing oil spill program to address the increased risk of inland oil spills by supporting prevention, emergency response preparedness, cleanup, and enforcement measures is prudent.

There is a clear nexus between the fee collected for pollution prevention, and OSPR's role and responsibility for inland oil spills. Further, combining inland and marine oil spill program personnel and functions under one umbrella program makes fiscal sense in terms of efficiencies.

As stated above, LAO recommends "that the legislation authorize the department to charge the fees to generate total revenue up to the amount authorized for oil spill prevention and response in the annual state budget." In other words, the LAO is concerned that setting a specific fee of 6.5 cents per barrel fee may not appropriate to meet the needs of the program, especially as the state reacts to newly emerging issues with oil transportation by rail. Therefore, it may be more appropriate to authorize the department to establish the fee in a similar way that the Department of Conservation determines its fees for its oil and gas regulatory responsibilities.

Staff Recommendation: Approve requested funding and positions. Approve expanding the Oil Spill Prevention Administrative Fund (OSPAF) fee to all oil entering California refineries. Deny proposed statutory changes to maintain the OSPAFA fee at 6.5 cents per barrel on an ongoing basis and instead authorize the Department to charge the fees to generate total revenue up to the amount authorized for oil spill prevention and response in the annual state budget.

ISSUE 3: FISH AND GAME COMMISSION SUPPORT**BACKGROUND**

In 2010, AB 2376 (Huffman) required a review of how the Fish and Game Commission (Commission) and the Department of Fish and Wildlife (DFW) conduct business relative to their mandates. The review was conducted through an extensive public stakeholder process overseen by policy-makers. The results included a series of recommendations that suggested creating a Commission structure and function that is better suited for improved public dialogue, creative problem solving, and transparent decision-making. More specifically, expanding the use of committees and holding issue-specific public workshops was recommended to provide greater opportunities for productive stakeholder input, increased understanding of what are often complicated issues, and more thoughtful exploration of potential solutions prior to decision-making.

The Commission embraced this advice and has implemented as many of the recommendations as possible given a limited budget and staffing, including creating a more inclusive and transparent process for evaluating petitions for regulatory change. The core of the Commission's response has been to establish committees where commissioners and the public can fully engage in an active discussion of issues and potential solutions. For a number of years, the Commission has had a clear statutory mandate for a marine resources committee, and a staff member to support that committee; however, the Commission did not have similar statutory authority for a wildlife resources committee until late last year, and that authority did not include additional funding or staffing.

In 2013, AB 497 (Chesbro), formally established the wildlife resources committee to the Commission, recognizing the value of increased public dialogue about wildlife-related issues. Similar to the marine resources committee, the wildlife resources committee is charged with reporting to the Commission on its activities, making recommendations on all wildlife resource matters considered by the Commission, and attending meetings of Department staff, including meetings with interested parties. However, this committee is significantly hampered in its efforts without a staff member to support its important and mandated work.

Historically the Commission has one of the most substantial regulatory workloads of all state agencies that promulgate regulations, yet it has the smallest staff and funding level of all those agencies. Commission staff has been notably creative in its ability to accomplish a remarkable quantity and quality of work in cooperation with DFW staff, other state and federal agencies, and the public; however, staff are working beyond capacity to support the Commission, which is not sustainable.

STAFF COMMENTS

Position authority and funding are essential for the Fish and Game Commission to comply with its mandate to sustainably manage California's wildlife resources in a manner that significantly improves stakeholder participation and access. Unfortunately, AB 497 did not provide funding or position authority to make the wildlife committee functional. In order to fulfill the vision of AB 2376 and AB 497, the Commission may wish to consider approving a senior environmental scientist and funding to support the position, cover the cost of travel and conducting meetings, and supporting associated public outreach. The senior environmental scientist could advise the Commission on a broad range of relevant wildlife management issues, lead discussion about and participate in developing new and innovative approaches to wildlife resource management, organize and conduct Commission Wildlife Resources Committee meetings, and collaborate with Commissioners, DFW staff, Commission staff, a wide range of state and federal government officials, and the public.

Staff Recommendation: Approve funding and position authority (Fish and Game Preservation Fund) to hire a senior environmental scientist to staff the Commission's Wildlife Resources Committee.

ISSUE 4: EXISTING RESTORATION GRANT PROGRAMS**BACKGROUND**

Prior to 2013, the state's timber harvest review program was funded by the General Fund. The program had experienced General Fund cuts for several years, which eliminated positions, delayed the approval of timber harvest plans, and compromised the integrity of the environmental review process. To remedy the situation, the Legislature passed AB 1492 (Committee on Budget, Chapter 289, Statutes of 2012), which, among other things, created a one percent assessment on the sale of lumber and engineered wood products (lumber products assessment). The revenue generated from this assessment is deposited into the Timber Regulation and Forest Restoration Fund (TRFR Fund).

AB 1492 was supported by a diverse group of stakeholders, ranging from the timber industry to environmentalist groups. One of the main reasons for this broad support coalition was the prescriptive funding structure contained in the bill. Under AB 1492, the monies in the TRFR Fund are to be spent according to the following four-tiered funding structure (each tier must be funded before the next can receive funding):

- 1) The first tier is required to fund: a) the Board of Equalization's costs associated with the lumber products assessment; b) refunds to lumber product retailers for overpayment; and c) "the activities and costs of the [timber harvest review agencies]...associated with the review of projects or permits necessary to conduct timber operations."
- 2) The second tier is required to create a \$4 million reserve to support first tier activities if funding falls short at any time.
- 3) The third tier is required to fund: a) the California Forest Improvement Program (CFIP), which is an assistance program for smaller nonindustrial landowners, and b) "existing restoration grant programs."
- 4) The fourth tier is required to fund: a) fuel treatment grants and projects under the Wildland Fire Protection and Resources Management Act and b) grants to public and private entities to reduce cost of wildland fire suppression, reduce greenhouse gas emissions, promote adaptation to climate change, improve forest health, and protect homes and communities.

Conservative projections of the TRFR Fund for fiscal year 2014-15 show approximately \$3 million available after the first and second tiers are funded. Under AB 1492, these available funds should go to the programs identified in the third tier: CFIP and "existing restoration grant programs." With regard to "existing restoration grant programs," AB 1492 does not list specific programs that should receive funding; however, according to the bill's intent language, the lumber products assessment is to "(c)reate a funding source for the restoration of the state's forested lands and [to] promote restoration of fisheries and wildlife habitat and improvement in water quality."

STAFF COMMENTS

Since funding is now available to third tier programs, it may be appropriate to adopt trailer bill language that specifically identifies which "existing restoration grant programs" should receive priority for AB 1492 funding. In addition, it may also be appropriate for the budget to allocate funding to CFIP and existing restoration grant programs.

Programs that would be appropriate to receive funding under AB 1492's existing restoration grant programs' provision are the Department of Fish and Wildlife's Fisheries Restoration Grant Program and grant programs administered by state conservancies, such as the Coastal Conservancy's Resource Enhancement Program. These programs provide grants that are consistent with AB 1492's intent language regarding restoration.

Staff Recommendation: Approve trailer bill language that amends the AB 1492 "existing restoration grant programs" provision by specifying that funding priority shall be given to the Department of Fish and Wildlife's Fisheries Restoration Grant Program and restoration grant programs administered by state conservancies.

**3600 DEPARTMENT OF FISH AND WILDLIFE
3940 STATE WATER RESOURCES CONTROL BOARD****ISSUE 1: MARIJUANA RELATED ENFORCEMENT**

The Governor's Budget requests \$1.5 million (\$500,000 General Fund, \$500,000 Timber Regulation and Forest Restoration Fund, and \$500,000 Waste Discharge Permit Fund (WDPF) and seven positions for DFW and \$1.8 million (WDPF) and 11 positions for SWRCB to implement a task force to address issues with marijuana cultivation. Specifically, this task force program has four elements: permitting, enforcement, education and outreach, and coordination with other agencies. The DFW proposes shifting \$500,000 from the general enforcement budget to the marijuana task force and backfilling those funds with Fish and Game Preservation Fund.

BACKGROUND

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

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

STAFF COMMENTS

Staff has concerns with the request for \$1.5 million for DFW, especially as it relates to the \$500,000 from the Timber Harvest Regulation and Restoration Fund. This fund was created in 2012 by AB 1492 (Committee on Budget, Chapter 289, Statutes of 2012), which, among other things, created a one percent assessment on the sale of lumber and engineered wood products (lumber products assessment). AB 1492 was supported by a diverse group of stakeholders, ranging from the timber industry to environmentalist groups. One of the main reasons for this broad support coalition was the prescriptive funding structure contained in the bill. AB 1492 only allows DFW to directly receive AB 1492 fund for "activities and costs...associated with the review of projects or permits necessary to conduct timber operations." The Governor's Budget request is strictly related to marijuana grows and does not involve activities or costs that are associated with the review of projects or permits necessary to conduct timber operation. Additionally, appropriating money to programs not specified in AB 1492 will be to the detriment of other programs expecting lumber products assessment funding, such as grants for forest improvement projects, fisheries and wildlife restoration, and fuel treatment.

Staff Recommendation: Hold Open

3790 DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation (DPR) operates the state park system to preserve and protect the state's most valued natural, cultural, and historical resources. The park system includes 280 parks, beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites. It consists of approximately 1.56 million acres, including over 315 miles of coastline, 974 miles of lake, reservoir and river frontage, approximately 15,000 campsites and alternative camping facilities, and 4,249 miles of non-motorized trails.

The Budget includes \$554.3 million (\$115.9 million General Fund) and 3,949.6 positions for the Department. Reductions in bond expenditures are due to the near depletion of available bond funds.

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$110,295	\$117,623	\$115,938	(\$1,685)	(1%)
Off-Highway Vehicle Trust Fund	72,436	88,381	84,357	(\$4,024)	(5%)
Harbors and Watercraft Revolving Fund	1,683	51,661	53,637	\$1,976	4%
State Parks & Recreation Fund	117,140	141,492	169,746	\$28,254	20%
State Park Contingent Fund	4,688	10,000	10,000	\$0	0%
State Parks Revenue Incentive Subaccount	11,835	11,000	4,340	(\$6,660)	(61%)
Bond Funds	162,649	128,050	10,270	(\$117,780)	(92%)
Other	59,235	116,704	106,021	(\$10,683)	(9%)
Total Expenditure	\$539,961	\$664,911	\$554,309	(\$110,602)	(17%)
Positions	3,514.70	3,930.00	3,949.60	19.60	0%

ISSUE 1: DEFERRED MAINTENANCE PROPOSAL

The Governor's budget for 2014-15 proposes a total of (one-time) \$40 million from the General Fund for deferred maintenance at state parks. By comparison, DPR estimates a \$1.2 billion backlog of deferred maintenance. The budget does not identify specific deferred maintenance projects to be completed with the additional funds. Instead, the Governor proposes budget control language requiring that the Administration report to the Joint Legislative Budget Committee the list of deferred maintenance projects that will be funded 30 days prior to the allocation of funds.

The Department of Finance (DOF) submitted a draft deferred maintenance lists to the Subcommittee on April 11th. The DOF noted that the list does not constitute submissions pursuant to the budget control section's JLBC notification requirement. It also stated that the draft lists and the dollars/projects could change, to the extent the Department identifies higher priority projects not included on the list, construction schedules changes, and/or budgets are refined. All projects listed are expected to be encumbered by June 30, 2016.

BACKGROUND

Many state departments own and operate their own facilities and other types of infrastructure. Department of Parks and Recreation (DPR) has large amounts of property and physical assets. This includes thousands of miles of trails and tens of thousands of campsites and other facilities spread over 1.6 million acres of park land.

Department of Parks and Recreation Key Assets Maintained

Holdings	Quantity (in acres)
Museum objects, archaeological specimens, and archival documents	More than 6,000,000
Acres of land	1,600,000
Campsites	14,421
Archeological sites	10,271
Picnic sites	7,647
Miles of non-motorized trails	4,456
Historic buildings	3,375
Overnight non-camping facilities	709
Park units	280

It is the responsibility of the Department to maintain their infrastructure. Maintenance needs are driven by the number, age, types, and uses of a department's infrastructure. The maintenance needs for DPR are significant because they have a large quantity of diverse assets, and many of their facilities were built a long time ago. For example, many facilities were not designed for the amount and type of use required of them today. For example, the older park units operated by DPR were designed for far fewer visitors when they were constructed. Additionally, today's parks accommodate recreational vehicles and many more group campers than the number for which they were designed. This contributes to deterioration and damage of many park properties and facilities, thereby necessitating more frequent repairs and modifications.

Frequently, preventive and routine facility maintenance does not occur as scheduled. When this happens, it is referred to as “deferred maintenance.” This typically happens due to a lack of funding or resources, the diversion of maintenance funding to other priorities, and growth in maintenance costs. If maintenance is routinely delayed, a backlog of deferred maintenance forms and grows. Deferred maintenance is problematic because when repairs to key building and infrastructure components are delayed, facilities can eventually require more expensive investments, such as emergency repairs (when systems break down), capital improvements (such as major rehabilitation), or replacement. Some facilities that are particularly overdue for repairs can even create liabilities for the state. As a result, while deferring annual maintenance avoids expenses in the short run, it often results in substantial costs in the long run.

LAO RECOMMENDATION

The LAO offers the following recommendations:

Direct Department to Report on Funding Priorities. We recommend that the Legislature adopt the Governor’s proposal, which provides some one-time funding for the most critical deferred maintenance projects. Additionally, we recommend that the Legislature require...DPR to report at budget subcommittee hearings this spring on the list of projects that they plan to fund and how they would prioritize competing maintenance needs. This would better enable the Legislature to ensure that the priorities identified by the departments align with legislative priorities. For example, the Legislature has sought opportunities for revenue enhancement at state parks in recent years and might prefer to prioritize DPR projects that could increase the amount of park fees collected.

Develop Longer-Term Approach to Fixing DPR’s Facility Maintenance Problems. The Administration’s decision to address deferred maintenance is commendable. However, as discussed earlier, the state currently does not have a strategy for eliminating the remaining deferred maintenance backlog or a plan to resolve the underlying problem by ensuring that departments are completing necessary routine and preventive maintenance on an ongoing basis. Addressing these issues is challenging, but longer-term planning can reduce future facilities costs and protect valuable state resources. The DPR currently has one of the largest identified deferred maintenance backlogs in the state, and it has been building for many years. Due to these factors, this department might serve as a useful “test case” in how the state can develop a long-term maintenance plan for departments. We recommend that the Legislature request that the administration report at budget hearings on what approach the state might take to develop such a plan. Ultimately, given the scale of the problem and the potential budget implications, it might make sense for there to be a collaborative approach involving not only DPR, but also the Department of Finance (DOF), our office, and other legislative staff.

In order to assist the Legislature and Administration in identifying longer-term solutions to DPR's deferred maintenance problem, the state could analyze various factors including: DPR's annual maintenance budget and expenditures, how it tracks maintenance and calculates maintenance need, actual maintenance performed, and the causes of the ongoing backlog. The analysis might also consider whether it makes sense to provide guidelines to the departments on how to classify and track maintenance. The approach could determine the appropriate level of ongoing maintenance funding to maintain facilities at a reasonable level, and tie the estimates to industry benchmarks to the extent possible. While it is difficult to estimate a standard maintenance cost for some park assets given the wide variety of holdings, there are industry standards available for some park infrastructure, such as average maintenance cost per mile of trail or per campsite. Based on this information, it might be possible to develop a more specific plan to address the deferred maintenance backlog for legislative review.

STAFF COMMENTS

The Department should discuss the how it prioritized the draft deferred maintenance list and address the LAO's suggestions for identifying longer-term solutions to the Department's deferred maintenance problem. The Department should also explain how these projects meet the priority criteria that have been discussed and what level of confidence they have in the cost estimates.

Staff Recommendation: Informational Item

ISSUE 2: STATE PARKS AND RECREATION FUND INCREASE

The Governor's Budget requests a one-time increase of \$14 million (State Parks and Recreation Fund [SPRF]) to continue the existing levels of service throughout the state parks system. The Department anticipates this revenue from both the legislatively-mandated revenue generation program and a fund balance in SPRF.

BACKGROUND

The 2011 Budget Act included a permanent \$22 million General Fund reduction to state parks. Initially, this budget reduction was anticipated to result in the closure of 70 state parks. However, excess funds were identified in the State Parks and Recreation Fund, and legislation was enacted to utilize these funds to keep parks open. The one-time funds provided in the legislation will expire at the end of 2013-14.

Parks Forward Initiative. Parks Forward is a public and private collaborative initiative designed to analyze and update the California State Park system. Over the course of 18 months, an independent commission made up of experts, advocates, and thought-leaders is conducting a wholesale assessment of the park system. This independent process is designed to address the financial, operational, and cultural challenges facing State Parks to ensure the system's long-term viability. In the fall of 2014, the Parks Forward Commission will adopt a long-term plan for a State Park system that meets the needs of all Californians, now and in the future.

STAFF COMMENTS

Staff concurs with the necessity of this one-time proposal given that the Parks Forward Initiative has not yet completed its work. Staff anticipates that during next year's budget discussions, the Department will provide a long-term plan for maintaining the system that incorporates any number of possibilities including: (1) transfer of state properties to local or other public ownership; (2) strategic reduction of deferred and ongoing maintenance costs; and, (3) plans for future modification of the system in order to maintain fiscal prudence while providing a high quality product to the public.

Staff Recommendation: Approve as Budgeted.

ISSUE 3: OCEANO DUNES LE GRANDE ACQUISITION – CAPITAL OUTLAY

The Governor's Budget requests \$5 million in one-time costs to purchase 584 acres of land in San Luis Obispo County (County). Currently, the parcels are leased from the county by the department and operated as part of Oceano Dunes SVRA. The land is used for off-highway vehicle (OHV) recreation as well as other beach and dune-related recreational uses. County-owned land represents 38-percent of the land open to motorized recreation within the park. A long-term lease expired in June 2008, and the current lease between the county and the Department is month-to-month.

BACKGROUND

In 2007, the State Coastal Commission sent a letter to the county stating, among other things, the following regarding the County's local coastal plan, the land update certification (LUP) and inclusion of the property in question in that plan, and the sale of the property to the department:

"It is the Coastal Commission staff's opinion that (the property in question) was intentionally included within the certified LUP to reflect the long-term objectives shared by the County and the commission for this sensitive dune habitat area, which included phasing out of the northern access route for OHV use and restricting OHV use on County-owned land."

"We (the Commission staff) support the conclusions of the County planning staff that the sale would result in the continuation of a use that is inconsistent with the land use designations established by the certified LCP."

STAFF COMMENTS

The Department should be prepared to discuss whether the county LCP has been updated and certified to include the acquisition of the property with the intention to continue use of the land for OHV activities. The Department should also be ready to discuss how it has worked with the county and the commission to address local concerns regarding the entrances to the park, and alternatives provided to both public agencies.

Staff Recommendation: Hold Open

ISSUE 4: HISTORIC BRIDGEPORT COVERED BRIDGE– CAPITAL OUTLAY

The Governor's Budget proposes \$318,092 (federal funds) for the first phase of deferred maintenance at the South Yuba River State Park, Historic Bridgeport Covered Bridge.

BACKGROUND

The bridge is the world's longest single span historic bridge and has spanned the South Yuba River at the park for over 150 years. This project is proposed to rehabilitate and restore the bridge in order to prevent it from collapsing into the river so that it can be reopened for the visiting public. The estimated total cost of the project is \$1.3 million.

The Bridge is currently undergoing temporary emergency stabilization work. The emergency stabilization work is expected to be completed by December 2014. The Governor's Budget proposal for \$318,000 in 2014/15 is the amount proposed for the design phase (preliminary plans and working drawings) of the major capital outlay permanent stabilization project. Prior to construction activities the design drawings must be approved by the State Public Works Board and the Department of Finance. In addition, the Department must complete all CEQA compliance requirements, NEPA compliance and permitting consultations (Army Corps of Engineers, Fish and Wildlife, Water Quality Control Board, Office of Historic Preservation). If the regulatory requirements can be completed ahead of the anticipated schedule date, the Department could seek an earlier release of construction funding.

STAFF COMMENTS

In addition to supporting the Governor's budget proposal, the Senate Subcommittee No. 2 approved \$1 million (Prop 84) to fund estimated construction costs and to begin immediate repairs to this facility.

The Department does not estimate getting through the regulatory processes until 2018. Thus, if the Legislature were to appropriate the extra \$1 million now, the project would likely run out of time to encumber the money. That would likely result in the Department having to come back to the Legislature for an extension.

Staff Recommendation: Approve as Budgeted.
