

## AGENDA

### ASSEMBLY BUDGET COMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, APRIL 30

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

<b>CONSENT CALENDAR - Spring Finance Letters (SFLs)</b>		
<b>Org Code</b>	<b>Department</b>	<b>Summary</b>
0540	Natural Resources Agency	Proposes to reappropriate the remaining balances of several bond fund appropriations and appropriates the remaining \$1.13 million in Prop 40 River Parkways funds.
0540	Natural Resources Agency	Proposes to reappropriate the balance of 2008/09 and 2009/10 Prop 84 appropriation for completion of several grants previously approved by the Ocean Protection Council.
0540	Natural Resources Agency	Proposes to reappropriate Prop 50 funds provided by the 2006 Budget Act and Prop 84 funds provided by the 2009 Budget Act for the River Parkways and Urban Greening Programs.
3125	Tahoe Conservancy	Requests several technical adjustments related to errors in the Governor's Budget
3340	Conservation Corps	Requests \$208,000 for Prop 84 program delivery costs associated with the administration of resource conservation and restoration projects. Also requests the reversion of the unencumbered balances of Prop 84 appropriations from pervious Budget Acts.
3340	Conservation Corps	Proposes technical adjustments related to errors in the Governor's Budget
3480	Department of Conservation	Requests various budget changes in Prop 84 funding to ensure that the Sustainable Communities Planning Grant and Incentive Program will be able to avoid expenditure and encumbrance deadlines for previously appropriated funds
3640	Wildlife Conservation Board	Requests various technical adjustments and reversions.
3760	State Coastal Conservancy	Requests various reversions from Prop 12 and 50.
3790	Department of Parks and Recreation	Requests various technical adjustments and reversions.
3790	Department of Parks and Recreation	Requests various reappropriations and reversions – Capital Outlay
3790	Department of Parks and Recreation	Requests a decrease of \$3.5 million to remove the Prairie City State Vehicular Recreation Area: Barton Ranch Acquisition Project.

3790	Department of Parks and Recreation	Requests an increase of \$40,000 for the preliminary plans phase of the MacKerricher State Park: Replace Water Treatment System Project.
3810	Santa Monica Mountains Conservancy	Requests a minor technical adjustment.
3820	San Francisco Bay Conservation and Development Commission	Requests a \$85,000 baseline adjustment for a lease increase.
3855	Sierra Nevada Conservancy	Requests a minor technical adjustment to correct an error in the Governor's Budget
3875	Sacramento-San Joaquin Delta Conservancy	Requests to increase reimbursements by \$137,000 for one, three-year limited term position to implement a Delta Mercury Exposure Reduction Program.
3940	State Water Resources Control Board	Requests a technical budget adjustment related to recently enacted drought legislation.
3860	Department of Water Resources	Requests various technical adjustments related to the 2014 Emergency Drought Relief Legislation
3860	Department of Water Resources	Requests various reappropriations, extensions of liquidation, and reversions – Capital Outlay

**VOTE-ONLY CALENDAR**

ITEM	DESCRIPTION	
<b>3900</b>	<b>AIR RESOURCES BOARD</b>	
ISSUE 1	HEAVY-DUTY TRUCKS: ON-BOARD DIAGNOSTICS IMPLEMENTATION AND ENFORCEMENT	3
ISSUE 2	ADVANCED CLEAN CARS PROGRAM	3
ISSUE 3	ENFORCEMENT OF DIESEL EMISSIONS REDUCTION REGULATIONS	3
ISSUE 4	DIESEL EMISSION REGULATION IMPLEMENTATION SUPPORT	3
ISSUE 5	VERIFICATION REGULATIONS FOR DIESEL RETROFITS	4
ISSUE 6	CONTINUING IMPLEMENTATION OF PROPOSITION 1B (THE HIGHWAY SAFETY, TRAFFIC REDUCTION, AIR QUALITY, AND PORT SECURITY BOND ACT OF 2006)	4
ISSUE 7	FUNDING SHIFT — PORTABLE EQUIPMENT REGISTRATION PROGRAM	4
<b>3360</b>	<b>ENERGY COMMISSION</b>	
ISSUE 8	RENEWABLES PORTFOLIO STANDARD DATABASE MODERNIZATION PROJECT	5
ISSUE 9	BUILDING AN ENERGY DATA INFRASTRUCTURE TO MEET 21ST CENTURY	5
ISSUE 10	PROVIDE ADEQUATE APPLICATION DEVELOPMENT AND MAINTENANCE SUPPORT	5
ISSUE 11	ACCEPTANCE TEST TECHNICIAN CERTIFICATION PROVIDER (ATTCP) PROGRAM	6
ISSUE 12	TRANSPORTATION ENERGY SUPPLY FORECAST ANALYSIS	6
ISSUE 13	FURTHER DEVELOP IN-HOUSE TRAINING CAPABILITIES	6
ISSUE 14	CONTINUED RESPONSIBILITY FOR ONGOING DEVELOPMENT OF UTILITY SMART GRID	6
ISSUE 15	CLIMATE CHANGE IMPACTS TO FUELING INFRASTRUCTURE FOR THE TRANSPORTATION SECTOR	6
ISSUE 16	GEOHERMAL GRANT AND LOAN (GRDA) PROGRAM LIQUIDATION PERIOD EXTENSION	7
ISSUE 17	PGC RAMP-DOWN PLAN	7

<b>SPRING FINANCE LETTERS</b>		
<b>3340</b>	<b>CALIFORNIA CONSERVATION CORPS</b>	
ISSUE 18	ENTERPRISE RESOURCE MANAGEMENT SYSTEM	8
<b>3540</b>	<b>DEPARTMENT OF FORESTRY AND FIRE PROTECTION</b>	
ISSUE 19	OFFICE OF THE STATE FIRE MARSHAL SUPPORT	8
ISSUE 20	ECOLOGICAL PERFORMANCE EVALUATION FOR FORESTRY MANAGEMENT	8
ISSUE 21	MINOR CAPITAL OUTLAY	8
ISSUE 22	VARIOUS FIRE STATION FACILITY REPLACEMENT PROJECTS AND NEW 2014 FACILITY PROGRAM POLICY GUIDELINES	9
<b>3790</b>	<b>DEPARTMENT OF PARKS AND RECREATION</b>	
ISSUE 23	MARBLED MURRELET MANAGEMENT	10
ISSUE 24	FEDERAL FUNDS: BENBOW DAM REMOVAL	10
<b>3860</b>	<b>DEPARTMENT OF WATER RESOURCES</b>	
ISSUE 25	FLOODSAFE CALIFORNIA PROGRAM	11
ISSUE 26	SYSTEM REOPERATION PROGRAM AND SURFACE STORAGE PROGRAM	11
ISSUE 27	PROPOSITION 13 AGRICULTURAL WATER CONSERVATION LOCAL ASSISTANCE AND DROUGHT MITIGATION	11
<b>3940</b>	<b>STATE WATER RESOURCES CONTROL BOARD</b>	
ISSUE 28	DRINKING WATER PROGRAM: REGULATING SMALL WATER SYSTEMS IN MERCED AND TULARE COUNTIES	12
ISSUE 29	DRINKING WATER PROGRAM: CONTINUATION OF THE RECYCLED WATER PROGRAM	12
ISSUE 30	LEVIATHAN MINE COMBINED TREATMENT	12
<b>3960</b>	<b>DEPARTMENT OF TOXIC SUBSTANCES CONTROL</b>	
ISSUE 31	HAZARDOUS WASTE PERMITTING: WORK PLAN IMPLEMENTATION	13

<b>ITEMS TO BE HEARD</b>		
<b>ITEM</b>	<b>DESCRIPTION</b>	
<b>3900</b>	<b>AIR RESOURCES BOARD</b>	
ISSUE 1	GHG EMISSIONS REDUCTIONS THROUGH LOW CARBON TRANSPORTATION	14
ISSUE 2	CAP-AND-TRADE AUCTION PROCEEDS — ADMINISTRATION	18
ISSUE 3	CAP-AND-TRADE EXPENDITURE PLAN — COORDINATION AND REPORTING	19
ISSUE 4	CAP AND TRADE MARKET SURVEILLANCE	20
ISSUE 5	IN-STATE GREENHOUSE GAS REDUCTIONS — CARBON CAPTURE	22
<b>3360</b>	<b>ENERGY COMMISSION</b>	
ISSUE 1	PROPOSITION 39 - IMPLEMENTATION OF THE CA CLEAN ENERGY JOBS ACT	23
ISSUE 2	IMPLEMENTATION OF THE ELECTRIC PROGRAM INVESTMENT CHARGE	26
<b>0650</b>	<b>OFFICE OF PLANNING AND RESEARCH</b>	
ISSUE 1	GHG EMISSIONS REDUCTIONS THROUGH SUSTAINABLE COMMUNITIES IMPLEMENTATION	27

**VOTE-ONLY****3900 AIR RESOURCES BOARD**

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**VOTE-ONLY ISSUE 1: HEAVY-DUTY TRUCKS: ON-BOARD DIAGNOSTICS IMPLEMENTATION AND ENFORCEMENT**

The Governor's Budget proposal requests \$1.23 million and seven positions (Motor Vehicle Account) to reduce emissions from heavy-duty trucks through the use of sophisticated on-board diagnostic (OBD) systems. Heavy-duty trucks are responsible for more than half of the oxides of nitrogen emissions (a.k.a smog) from all mobile sources and diesel heavy-duty trucks also emit diesel particulate matter, which has been identified as a toxic air contaminant. OBD systems are incorporated into vehicle on-board computers to detect emission-related malfunctions during normal in-use driving. OBD systems reduce in-use emissions from the motor vehicle fleet through the prompt identification and repair of emissions-related problems. Staff resources will be used to handle certification, compliance assistance, production audits, in-use compliance, enforcement, and regulatory updates.

**VOTE-ONLY ISSUE 2: ADVANCED CLEAN CARS PROGRAM**

The Governor's Budget proposes \$577,000 and 3.5 positions (Motor Vehicle Account) to implement the Advanced Clean Cars (ACC) Program and enhance the evaporative regulations portion of the ACC Program to meet new federal emission standards. The ACC Program controls criteria pollutants and GHG emissions from passenger cars, light-duty trucks, and medium-duty vehicles.

**VOTE-ONLY ISSUE 3: ENFORCEMENT OF DIESEL EMISSIONS REDUCTION REGULATIONS**

The Governor's Budget requests \$1.2 million and seven positions (Motor Vehicle Account) to support increasing workloads associated with the enforcement of diesel emissions reduction regulations. The number of diesel vehicles subject to regulation is expanding rapidly. In fiscal year (FY) 2014-15, over one-million diesel vehicles will be subject to regulations in response to the Diesel Risk Reduction Plan requirements to reduce diesel emissions 85 percent from 28,000 tons of diesel particulate matter by 2020. Additional staff will support the increasing workload associated with these progress, phased in "health based" regulations that started in 2000 and continue through 2023.

**VOTE-ONLY ISSUE 4: DIESEL EMISSION REGULATION IMPLEMENTATION SUPPORT**

The Governor's Budget proposes \$682,000 and four positions (Motor Vehicle Account) to meet regulatory implementation and outreach needs related to the phase-in of diesel regulations affecting trucks, trailers, and small fleet owners/operators. Heavy duty diesel regulations impact millions of vehicles and hundreds of thousands of fleets, many owned by small businesses that do not have the resources to understand and effectively plan for legal compliance obligations. ARB's compliance assistance and outreach program provides guidance and tools for the regulated communities in the form of training classes, direct mailers and other printed materials, online resources, field events to speak with owner/operators, and call center operators.

**VOTE-ONLY ISSUE 5: VERIFICATION REGULATIONS FOR DIESEL RETROFITS**

The Governor's Budget requests \$187,000 and one position (Motor Vehicle Account) to implement new provisions of the Verification Regulations for diesel engine retrofits. The Verification Regulations are used by ARB to approve or "verify" diesel emission control strategies. A recent amendment to the regulation provides additional protections for truck and equipment owners by requiring that businesses that install retrofits submit warranty reports. This reporting requirement will provide ARB the ability to quickly identify installation retrofit issues and enact possible recalls if needed.

**VOTE-ONLY ISSUE 6: CONTINUING IMPLEMENTATION OF PROPOSITION 1B (THE HIGHWAY SAFETY, TRAFFIC REDUCTION, AIR QUALITY, AND PORT SECURITY BOND ACT OF 2006)**

The Governor's Budget requests a new appropriation of \$240 million from reverted bond authority based on the Budget Act of 2009 for the Goods Movement Emission Reduction Program established pursuant to Proposition 1B. Proposition 1B provided ARB one billion dollars for emissions reductions from activities related to the movement of freight along California's trade corridors. To date, funds have been provided to local agencies to upgrade close to 10,000 old dirty trucks with cleaner trucks; 18 locomotives have been upgraded with cleaner engines; and funds have also been provided to install shore side power for 37 berths at California's ports. Funds are awarded in a public process and are monitored through program evaluations and the submittal of quarterly reports.

**VOTE-ONLY ISSUE 7: FUNDING SHIFT — PORTABLE EQUIPMENT REGISTRATION PROGRAM**

The Governor's Budget requests a realignment from Reimbursement funding to Air Pollution Control Fund for the Portable Equipment and Registration Program (PERP). This is a technical realignment of budgetary appropriation authority and would be a net zero cost to the State.

**STAFF COMMENTS**

Staff has no concerns with issues 1-7.

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**Staff Recommendation: Approve as Budgeted Issues 1-7.**

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**3360 ENERGY COMMISSION**

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**VOTE-ONLY ISSUE 8: RENEWABLES PORTFOLIO STANDARD DATABASE MODERNIZATION PROJECT**

The Governor's Budget requests \$2.16 million in one-time funding (Petroleum Violations Escrow Account) to hire a contractor to implement a new Renewable Portfolio Standard database to accommodate the expanded data requirements resulting from SBX1 2 (Simitian), Chapter 1, Statutes of 2011. The new database will allow for continued database growth and functionality, and increased efficiency of business processes, without risk to data security and stability. Under this one-time IT project, a contractor will design, build, and implement the proposed new database system, as well as support and train the CEC's IT Services Branch staff on maintenance and operations for six months after implementation.

**VOTE-ONLY ISSUE 9: BUILDING AN ENERGY DATA INFRASTRUCTURE TO MEET 21ST CENTURY**

The Governor's Budget proposes six, two-year, limited-term positions and \$790,000 (Energy Resources Programs Account) to develop disaggregated energy demand forecasts purportedly needed to implement the Governor's renewable distributed generation goals and support statewide energy decisions at the Energy Commission, the CPUC, and the California Independent System Operator. This proposal seeks resources to meet CEC's current regulatory obligations and to implement new policy and legislative direction to forecast electricity and natural gas demand in more geographic detail; improve characterization of how, when, where, and by whom energy is used; and more vigorously capture the impacts of California's investments in preferred resources as they shape future power generation choices.

**VOTE-ONLY ISSUE 10: ADEQUATE APPLICATION DEVELOPMENT AND MAINTENANCE SUPPORT**

The Governor's Budget requests three positions and \$403,000 (Energy Resources Programs Account) to support the increasing workload for software applications and databases. Currently, the IT branch has about 40 applications and databases that require support on a regular basis. There are an additional 20 databases that require support but are only addressed on an emergency basis due to lack of programmer capacity. Another ten applications and databases, including critical systems such as e-filing for power plant siting cases, will come online in the next 12 months. This proposal is in accordance with AB 2408 (Smyth), Chapter 404, Statutes of 2010, and under the directive of the California Technology Agency to develop technical expertise in civil service employees.

**VOTE-ONLY ISSUE 11: ACCEPTANCE TEST TECHNICIAN CERTIFICATION PROVIDER (ATTCP) PROGRAM**

The Governor's Budget proposes \$267,000 (Energy Resources Programs Account [ERPA]), one position and one two-year limited term position for the development, implementation, and oversight of the ATTCP program. This program would establish industry training and certification requirements to improve compliance for equipment and control installation on non-residential buildings. The newly adopted ATTCP program regulations are to ensure that installed energy efficiency technology properly works resulting in the savings of money and energy, coupled with a decrease in pollution and GHG emissions associated with energy generation.

**VOTE-ONLY ISSUE 12: TRANSPORTATION ENERGY SUPPLY FORECAST ANALYSIS**

The Governor's Budget requests to redirect existing ERPA baseline contract funds to establish two positions to improve ongoing transportation energy analysis and \$750,000 in one-time contract funds to initiate a transportation supply and economic impact analysis framework.

**VOTE-ONLY ISSUE 13: IN-HOUSE TRAINING CAPABILITIES**

The Governor's Budget proposes one position to expand the in-house training unit. The proposal is self-funded with savings resulting from cancellation of external training contracts funded by ERPA.

**VOTE-ONLY ISSUE 14: ONGOING DEVELOPMENT OF UTILITY SMART GRID IMPLEMENTATION PLANS, METRICS, AND STANDARDS**

The Governor's Budget requests \$150,000 and one position to provide ongoing technical analysis and standards coordination required by SB 17(Padilla) Chapter 327, Statutes of 2009. This statute established goals for modernization of the electricity grid and development of a "smart grid."

**VOTE-ONLY ISSUE 15: CLIMATE CHANGE IMPACTS TO FUELING INFRASTRUCTURE FOR THE TRANSPORTATION SECTOR**

The Governor's budget requests \$2 million (Petroleum Violation Escrow Account) and one two-year limited-term position to support an evaluation of the vulnerability of the fuel infrastructure for the transportation sector to climate change impacts. This work is intended to contribute to the Fourth Climate Change Assessment (see page 4 of this agenda) which is planned to be released in 2017. The project is proposed to identify specific vulnerabilities of California's fuel infrastructure to both extreme weather events (flooding, fire, storms), and other climate impacts (sea level rise, coastal erosion, rising temperatures).

**VOTE-ONLY ISSUE 16: GEOTHERMAL GRANT AND LOAN (GRDA) PROGRAM LIQUIDATION PERIOD EXTENSION**

The Governor's Budget requests to extend the GRDA Program's funding liquidation period from two years to four years, which will allow more time for projects to successfully complete project tasks and generate project products that are useful and help advance geothermal energy research and development.

**VOTE-ONLY ISSUE 17: PGC RAMP-DOWN PLAN**

The Governor's Budget requests the second year of a multi-year proposal in response to the sunset of the authority to collect the PGC on January 1, 2012. Following budget actions previously taken by the Legislature, this program is undergoing a multi-year phased staff reduction. The proposal identifies the reduction of 31 positions and \$4 million for the Public Interest Energy Research Program (PIER). This issue was heard and approved in this Subcommittee in 2013.

**STAFF COMMENTS**

Staff has no concerns with issues 8-17.

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**Staff Recommendation: Approve as Budgeted Issues 8-17.**

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**3340 CALIFORNIA CONSERVATION CORPS**

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**VOTE-ONLY ISSUE 18: ENTERPRISE RESOURCE MANAGEMENT SYSTEM (SFL)**

The Governor requests three permanent Information Technology positions and appropriations of \$1.4 million in fiscal year (FY) 2014-15, \$2.3 million in FY 2015-16, \$1.4 million in FY 2016-17 and \$990,000 in FY 2017-18 and beyond to cover the one-time and ongoing costs to implement and support a new enterprise resource management system. The CCC requests additional expenditure authority in 100 percent Collins Dugan Reimbursement Account funding to cover these costs. A Feasibility Study Report associated with this project has been submitted to Department of Technology.

**STAFF COMMENTS**

Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as Budgeted.**

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**3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION**

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**VOTE-ONLY ISSUE 19: OFFICE OF THE STATE FIRE MARSHAL (OSFM) SUPPORT (SFL)**

The Governor requests \$2.15 million (Reimbursements, Special Funds), and nine permanent positions for the OSFM to conduct required plan review and construction inspections of local jail facility projects, in support of the implementation of SB 1022 (Chapter 42, Statutes 2012).

**VOTE-ONLY ISSUE 20: ECOLOGICAL PERFORMANCE EVALUATION FOR FORESTRY MANAGEMENT (SFL)**

The Governor's Budget requests \$666,000 Timber Regulation Forest Restoration Fund and three permanent full-time positions to oversee the ecological performance evaluation aspects of Assembly Bill (AB) 1492 (Chapter 289, Statutes of 2012).

**VOTE-ONLY ISSUE 21: MINOR CAPITAL OUTLAY (SFL)**

The Governor requests \$1,724,000 for various increases in minor capital outlay projects related to critical water supply and treatment problems.

**VOTE-ONLY ISSUE 22: VARIOUS FIRE STATION FACILITY REPLACEMENT PROJECTS AND NEW 2014 FACILITY PROGRAM POLICY GUIDELINES (SFL)**

The Governor requests a net of \$33,506,000 (including a technical fund shift) for various fire state facility replacement projects and to incorporate design changes to meet current program and building code standards, as proposed in the 2014 Facility Program Policy Guidelines – Capital Outlay

Project	Action	Amount
Westwood Fire Station	Scope Change/Augmentation	1,335
Bieber Fire Station/Helitack Base	Scope Change/Augmentation	4,258
Butte Fire Station/Unit Headquarters	Scope Change/Augmentation	3,845
Soquel Fire Station	Scope Change/Augmentation	512
Potrero Fire Station	Scope Change/Augmentation	2,163
Cayucos Fire Station	Scope Change/Augmentation	1,341
Pine Mountain Fire Station	Scope Change/Augmentation	582
Higgins Corner Fire Station	Scope Change/Augmentation	1,390
Santa Clara Unit Headquarters	Scope Change/Augmentation	4,454
Siskiyou Unit Headquarters	Scope Change/Augmentation	5,849
Madera-Mariposa Unit Headquarters	Scope Change/Augmentation	3,898
Parkfield Fire Station	Scope Change/Augmentation	585
El Dorado Fire Station	Scope Change/Augmentation	1,267
Felton Fire Station	Scope Change/Augmentation	786
Baker Fire Station	Scope Change/Augmentation	572
Rincon Fire Station	Scope Change/Augmentation	669
South Operations Area Headquarters	Fund Shift (\$4,057,000)	0
Badger Fire Station	Fund Shift (\$1,182,000)	0
2014 Facility Program Policy Guidelines	Adopt Updated Standards	
<b>Total</b>		<b>\$33,506</b>

**STAFF COMMENTS**

Staff has no concerns with issues 19-22.

**Staff Recommendation: Approve as Budgeted Issues 19-22.**

**3860 DEPARTMENT OF PARKS AND RECREATION**

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**VOTE-ONLY ISSUE 23: MARBELED MURRELET MANAGEMENT (SFL)**

The Governor requests a permanent augmentation of \$418,000 from the State Parks and Recreation fund (SPRF) for a planning and management strategy for the marbled murrelet, a state and federally-listed endangered bird species, in Big Basin Redwoods State Park and the Santa Cruz Mountains. This management plan is the result of the settlement of a lawsuit, Center for Biological Diversity v. State Parks (Case No. CV 177159, Santa Cruz County). This request would provide funding to support a redirected position and for four integrated elements that support murrelet conservation: 1) improved trash management; 2) improved visitor education; 3) scientific studies/monitoring of murrelets and their predators; and 4) convening a working group with regulatory agencies and stakeholders. Implementing these conservation elements is required under the terms of the settlement of the above lawsuit. The inability to meet the terms of the agreement will place the department in contempt of court and will re-initiate calls in the lawsuit for the closure of several facilities located in old growth forests within State Parks rendering these areas non-operational and unavailable for public use.

**VOTE-ONLY ISSUE 24: FEDERAL FUNDS: BENBOW DAM (SFL)**

The Governor requests an augmentation of \$2.3 million to its federal authority to expend a grant from the National Oceanic and Atmospheric Administration for the Benbow Dam Removal. The removal of the dam, a seasonal fish barrier, will help facilitate fish passage and improve habitat for Coho, Chinook, Steelhead, and most other aquatic species in the South Fork of the Eel River in Southern Humboldt County.

**STAFF COMMENTS**

Staff has no concerns with issues 23 & 24.

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**Staff Recommendation: Approve as Budgeted Issues 23 & 24.**

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**3860 DEPARTMENT OF WATER RESOURCES****VOTE-ONLY ISSUE 25: FLOODSAFE CALIFORNIA PROGRAM (SFL)**

The Governor requests to re-characterize \$14.184 million from State Operations to Local Assistance in Proposition 1E, Section 5096.821 of the Disaster Preparedness and Flood Protection Bond Act of 2006 fund, for improvements to the Delta for Flood Preparedness, Response and Recovery, and Flood Forecasting and Reservoir Operation Improvements. This request supports the FloodSAFE California long-term strategic initiative to reduce flood risk in California. FloodSAFE is an integrated systemwide approach to flood management. The need to improve public safety through integrated flood management is urgent as more people live and work in flood-prone areas and the effects of climate change become increasingly evident. The Department of Water Resources (DWR) works with partners to make the decisions and investments necessary to: (1) Reduce the Chance of Flooding; (2) Reduce the Consequences of Flooding; (3) Sustain Economic Growth; (4) Protect and Enhance Ecosystems; and (5) Promote Sustainability.

**VOTE-ONLY ISSUE 26: SYSTEM REOPERATION PROGRAM AND SURFACE STORAGE PROGRAM (SFL)**

The Governor requests the reversion of approximately \$6,435,000 of remaining balances from Fiscal Year (FY) 2012/13 from Proposition 84, Chapter 4, Section 75041 funds and to establish a new three year appropriation (\$1,970,000 in FY 14/15, \$1,970,000 in FY 15/16, and \$2,235,000 in FY 16/17) to support 7.5 existing positions to complete the analysis and report for the System Reoperation Study and a new two year appropriation (\$130,000 in FY14/15 and \$130,000 in FY 15/16) to support 0.5 existing position to coordinate the development of Surface Storage Studies.

**VOTE-ONLY ISSUE 27: PROPOSITION 13 AGRICULTURAL WATER CONSERVATION LOCAL ASSISTANCE AND DROUGHT MITIGATION (SFL)**

The Governor requests an appropriation of \$17,900,000 in Proposition 13 funding to support the Agricultural Water Conservation Local Assistance loan program. The \$17,000,000 will be used for local assistance funding to provide loans for projects that include the implementation of legally mandated efficient water management practices and agricultural water management plan criteria that can effectively contribute to immediate water savings. \$900,000 will be used to fund 1.5 existing positions to administer this program for three years (\$300,000 per year for Fiscal Years 2014/15, 2015/16 and 2016/17).

**STAFF COMMENTS**

Staff has no concerns with issues 25-27.

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**Staff Recommendation: Approve as Budgeted Issues 25-27.**

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**3940 STATE WATER RESOURCES CONTROL BOARD**

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**VOTE-ONLY ISSUE 28: DRINKING WATER PROGRAM: REGULATING SMALL WATER SYSTEMS IN MERCED AND TULARE COUNTIES (SFL)**

The Governor requests budget and position authority for \$619,000 and five positions from the Safe Drinking Water Account (SDWA) to carry out public small water system regulatory programs for Merced and Tulare counties. These counties have recently opted to return their oversight of delegated public water systems to the state. This proposal is part of the CA Department of Public Health, Drinking Water Program Transfer.

**VOTE-ONLY ISSUE 29: DRINKING WATER PROGRAM: CONTINUATION OF THE RECYCLED WATER PROGRAM (SFL)**

The Governor requests three, two-year limited term positions and \$498,000 from the Waste Discharge Permit Fund penalty revenues to continue work begun by the California Department of Public Health (CDPH) as required by Senate Bill 918 (Chapter 700, Statutes of 2010) to develop and adopt Phase II of uniform water recycling criteria for surface water augmentation and to investigate the feasibility of developing uniform water recycling criteria for direct potable reuse, as required by Chapter 700, Statutes of 2010 (SB 918).. Additionally, the Water Board requests that the unliquidated balance of the WDPF penalty funds from Fiscal Years 2012-13 and 2013-14 be reverted. Reversion is necessary to continue and complete the mandated work.

**VOTE-ONLY ISSUE 30: LEVIATHAN MINE COMBINED TREATMENT (SFL)**

The Governor's requests \$789,577 (General Fund) and 1.5 positions to conduct treatment activities needed to respond to ongoing federal obligations. This will implement a more effective interim solution at the Leviathan Mine Superfund site owned by the State of California. This proposal is consistent with the long-term obligation of the state at the mine.

**STAFF COMMENTS**

Staff has no concerns with issues 28-30.

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**Staff Recommendation: Approve as Budgeted Issues 28-30.**

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**3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL**

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**VOTE-ONLY ISSUE 31: HAZARDOUS WASTE PERMITTING: WORK PLAN IMPLEMENTATION (SFL)**

The Governor requests five, two-year, limited term positions and \$699,000 funded from the Hazardous Waste Control Account to strengthen its ability to safeguard California's people and environment from the harmful effects of toxic substances by enhancing DTSC's hazardous waste facilities permitting program to be more protective, timely, consistent, equitable and transparent.

**STAFF COMMENTS**

Staff has no concerns with issue 31.

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**Staff Recommendation: Approve as Budgeted**

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## ITEMS TO BE HEARD

### 3900 AIR RESOURCES BOARD

The Air Resources Board (CARB or Board) has primary responsibility for protecting air quality in California, as well as implementation of the California Global Warming Solutions Act of 2006, AB 32 (Núñez), Chapter 488, Statutes of 2006. This responsibility includes establishing ambient air quality standards for specific pollutants, administering air pollution research studies, evaluating standards adopted by the U.S. Environmental Protection Agency and developing and implementing plans to attain and maintain these standards. These plans include emission limitations for vehicular and industrial sources established by the Board and local air pollution control districts.

The Governor's Budget proposes \$801 million and 1,344.7 positions for support of the Board. The significant increase in the Greenhouse Gas Reduction Fund (GGRF) is related to the multiple GHG reduction proposals (discussed in the Cap-and-Trade discussion above and below). The 77 percent increase in bond fund is due to the continued implementation of Proposition 1B (discussed below).

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
	\$0	\$0	\$0	\$0	%0
<b>General Fund</b>					
Motor Vehicle Account, State Transportation Fund	113,740	121,514	128,101	6,587	5
Air Pollution Control Fund	140,014	125,666	114,414	(11,252)	(9)
Bond Funds	19,012	135,881	240,000	104,119	77
Greenhouse Gas Reduction Fund	0	31,314	204,651	173,337	554
Cost of Implementation Account, Air Pollution Control Fund	0	36,424	38,241	1,817	5
Other	69,940	101,411	75,894	(25,517)	(25)
<b>Total Expenditure</b>	<b>\$342,706</b>	<b>\$552,210</b>	<b>\$801,301</b>	<b>\$249,091</b>	<b>45%</b>
<b>Positions</b>	1,273.20	1,280.20	1,344.70	65	5

#### ISSUE 1: GHG EMISSIONS REDUCTIONS THROUGH LOW CARBON TRANSPORTATION

The Governor's budget requests \$200 million to support activities promoting GHG emission reductions in the transportation sector. Funds will be used to expand existing clean transportation programs. Priority projects include, but are not limited to:

- **Sustainable Freight Technology.** Funds to support the development and demonstration of transformational zero or near zero-emission advanced goods movement technologies near California ports, rail yards, distribution centers, airports, and freeways.
- **Zero-Emission Cars.** Funding for zero-emission and plug-in hybrid passenger vehicles (including purchase and lease incentives).
- **Low-Emission Cars in Disadvantaged Communities.** Funding to retire and replace older and higher emitting vehicles with near-zero emission vehicles in disadvantaged communities.

- **Clean Trucks and Buses.** Funding to help California fleets offset the higher up-front cost of purchasing medium- and heavy-duty hybrid and zero-emission trucks and buses.

The budget also proposes to spend \$30 million from current-year proceeds for low-carbon transportation projects. This would reverse a \$30 million loan from the Vehicle Inspection and Repair Fund approved in the current-year mainly for electric vehicle rebate programs. The ARB has requested budget bill language allowing for longer encumbrance periods and liquidation periods for the funds. Additionally, the proposal calls for a portion of the \$200 million to fund 15 positions and \$200,000 in contract support for implementation of the proposed investments identified above.

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.

Specifically, the budget proposal provides the following information to support the GHG emission reduction benefits of the activities proposed for funding and how these activities contribute to the SB 535 goal of investing in disadvantaged communities:

- This proposal aligns with the priorities identified in the Investment Plan by supporting sustainable communities and clean transportation projects, such as sustainable freight technology, zero and low emission passenger vehicles, and clean trucks and buses.
- The investments in freight technology and for zero and near-zero emission trucks and buses will occur in disadvantaged communities or will directly benefit those communities.
- Some of the funding for zero emissions cars will target disadvantaged communities.

#### 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.*



<b>STAFF COMMENTS</b>
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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. It should be noted that ARB has requested resources in a separate BCP to work with departments to develop methodologies to quantify and evaluate the GHG benefits of GGRF investments.

This proposal contains no metrics for the measurement of GHG reduction or reduction targets, but does propose to fund projects intended to benefit disadvantaged communities.

SB 535 requires 25 percent GGRF revenues funds go towards benefits to disadvantaged communities (approximately \$217.5 million). This proposal accounts for \$100 million of this requirement. According to ARB, the \$200 million will be divided as follows:

**FY 2014-15 Proposed GGRF Project Allocations (in millions)**

Project	GGRF Investments	
	Total	Percentage to Benefit Disadvantaged Communities
<b>Light-Duty Vehicle Projects –\$120</b>		
• Classic CVRP	\$111	10% = \$11
• Pilot Projects in Disadvantaged Communities	\$9	100% = \$9
<b>Heavy-Duty Vehicle and Equipment Projects –\$80</b>		
• HVIP	\$5-\$10	100% = \$10
• Zero-Emission Truck and Bus Pilot	\$20-\$25	100% = \$20
• Advanced Technology Freight Demonstrations	\$50	100% = \$50
<b>Total</b>	<b>\$200M</b>	<b>50% = \$100M</b>

The Executive Officer 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?
- 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 Board established GHG reduction goals for each project funded by auction revenues?
- What mechanisms will be used to evaluate if the grants resulted in GHG emission reductions?
- What factors will be considered when determining how much funding will be allocated to individual projects? Could any single project receive more than 50 percent of the funds proposed? Will the program try to achieve a geographic balance of projects around the state?

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**Staff Recommendation: Hold Open**

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**ISSUE 2: CAP-AND-TRADE AUCTION PROCEEDS — ADMINISTRATION**

The Governor's Budget proposes \$2.63 million, which includes \$1 million per year in contract funds, and 10 positions (GGRF) for activities related to implementation of the new GGRF, including: fiscal management of the GGRF; technical analysis to quantify and evaluate the benefits of GGRF investments; and legal review to ensure a legally defensible implementation of GGRF investments in sustainable communities projects.

**BACKGROUND**

AB 32 requires California to reduce statewide GHG emissions to 1990 levels by 2020 and to maintain and continue reductions beyond 2020. In addition, AB 32 directs ARB to implement climate measures that provide co-benefits by reducing other forms of air pollution, including pollution in disadvantaged communities. GGRF legislation contains goals that direct the investment of GGRF monies and complement the objectives of AB 32, including maximizing economic, environmental, and public health benefits to the state and directing investment in, and for the benefit of, the most disadvantaged communities in California.

ARB is requesting resources to help assess the contribution of GGRF investments towards AB 32 and other statutory goals. As the lead Agency for AB 32 implementation, ARB is uniquely qualified to conduct this important technical and analytical work. ARB also anticipates needing external contracts to supplement the in-house technical analysis.

Specific technical functions for the requested staff and contracted resources include:

- Identifying, developing, applying and updating scientific methods to quantify the reductions of GHG and criteria/toxic air pollutants from GGRF investments.
- Advising implementing agencies on the consistent usage of quantification methodologies for investment benefits to support required reporting.
- Conducting and supporting economic analyses of GGRF investments.
- Determining the emission and economic benefits to disadvantaged communities and the State.

**STAFF COMMENTS**

Providing accurate and detailed information on GGRF investment benefits is critical to evaluating future climate change policy options and assessing progress towards meeting the objectives of AB 32 and other statutory objectives. Funding this proposal will enable ARB to provide consistent calculation protocols to quantify the benefits of the investments for all project types.

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**Staff Recommendation: Approve as Budgeted**

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**ISSUE 3: CAP AND TRADE EXPENDITURE PLAN – COORDINATION AND REPORTING (SFL)**

The Governor's Budget requests an additional 16 positions and \$4.135 million (GGRF), which includes just over \$1 million annually for two years in contract and equipment funds, for implementing the GGRF and establishing a GGRF project tracking solution.

**BACKGROUND**

AB 1532, SB 535, and SB 1018 (Statutes of 2012) collectively establish a framework of how cap and trade funds should be administered. To fulfill the obligations set forth in the above mentioned legislation, ARB recommended that a State agency (or agencies) implement key incentive program components, such as strong accountability requirements, regular program outreach, a database system to track projects funded by all agencies, consistent and coordinated guidance to appropriate agencies and funding recipients, and consolidated annual reporting to the Legislature.

This proposal responds to the additional implementation needs recommended by ARB. Specifically, funds will be used to: develop and update program guidance to ensure consistency across programs receiving legislative appropriation of cap-and-trade auction proceeds; manage a public process to develop criteria and comply with SB 535; respond to inquiries and participate in other agencies' public processes, and provide a central program website; develop, implement and maintain a project tracking system for use by all agencies, and prepare program status reports; support development of the annual expenditure plan; and support development of the annual project status and outcomes report and updates to the three year investment plan.

**STAFF COMMENTS**

This proposal represents the Administration's attempt to address the Legislature's concerns about the need to develop overarching guidelines and implementation criteria to ensure state agencies receiving auction proceeds fulfill statutory requirements, including those in AB 1532, SB 535, and SB 1018. Of particular note, the guidelines will include criteria for determining whether investments benefit disadvantaged communities and guidance for recipient agencies to implement, track, and report on benefits to disadvantaged communities. In implementing the guidelines, ARB proposes to evaluate performance in satisfying SB 535 requirements and serve as a point of contact for disadvantaged communities inquiries on an ongoing basis. The proposal will also help to ensure robust tracking and reporting of project benefits to the Legislature and the public.

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**Staff Recommendation: Approve as Budgeted**

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**ISSUE 4: CAP AND TRADE MARKET SURVEILLANCE**

The Governor's budget proposes \$700,000 (GGRF) for ARB to support three new positions and contract funding to expand its market surveillance capabilities and implement its market monitoring plan. The additional staff would review daily trades of allowances to look for anomalies in trade patterns and coordinate with the U.S. Commodity Futures Trading Commission (CFTC) to incorporate more advanced methods of surveillance into ARB's own oversight activities. ARB is requesting resources because the program is going to expand to include fuels beginning January 1, 2015 and the market will mature with an increase in trading volumes.

**BACKGROUND**

The Global Warming Solutions Act of 2006 (Chapter 488, Statutes of 2006 [AB 32, Núñez/Pavley]), commonly referred to as AB 32, established the goal of reducing GHG emissions statewide to 1990 levels by 2020. In order to help achieve this goal, ARB adopted a regulation that establishes a cap-and-trade program that places a "cap" on the state's aggregate GHG emissions. To implement the cap-and-trade program, ARB issues 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 entities have the allowances, they can then "trade" (buy and sell on the open market) the allowances in order to obtain enough to cover their total emissions for a given period of time.

The ARB is using a phased-in approach to implement the cap-and-trade program. The first compliance period started in 2013 with electricity generators and large industrial sources subject to the cap. Starting in January 2015, additional entities—notably fuel suppliers—will become subject to the cap, more than doubling the size of the program.

**LAO RECOMMENDATION**

***Oversight of Carbon Markets.*** *The practice of auctioning, buying, and selling allowances creates a "carbon market." This market actually consists of a number of distinct but interrelated markets, each regulated in different ways. First, emission allowances are introduced into the market via ARB's quarterly auctions or through free allocations by the board. The ARB has established rules for these auctions. For example, ARB's rules allow entities that are not subject to cap-and-trade regulations to participate in auctions as long as ARB has determined that they do not have a conflict of interest such as related to the implementation and oversight of the program.*

*Second, market participants can buy and sell allowances. In January 2014, ARB linked the state's cap-and-trade market with Quebec's cap-and-trade market, which allows allowances in each market to be traded for each other. The ARB has regulatory responsibility to oversee the direct trading of California's cap-and-trade allowances. These trades must be approved by ARB and inputted into the Compliance and Tracking System Service. The ARB has contracted with a third-party company to provide assistance with tracking of trades and market monitoring.*

*A third carbon market component—the derivatives market—has developed out of the cap-and-trade program. A derivative is a financial contract whose price is "derived from" an underlying asset (in this case, cap-and-trade allowances). Derivatives are primarily used for hedging risk*

and investment purposes. Derivative trades of cap-and-trade allowances can be conducted through operated exchanges, such as the Intercontinental Exchange. The U.S. Commodity Futures Trading Commission (CFTC) has oversight and enforcement authority of transactions that take place in the derivatives market.

**Approve Positions Requested.** As the state's cap-and-trade program expands and ARB links California's program with other countries, the cap-and-trade market will become larger and more complex. Over the life of the program, it is anticipated that the market for allowances will be valued in the billions of dollars—making it essential that ARB provide adequate oversight to the program in order to ensure its integrity. Thus, we find it is reasonable that ARB seek additional resources for this purpose and recommend that the Legislature approve the proposed three positions and \$700,000.

**Additional Legislative Oversight Warranted.** While ARB has taken some steps to help build its capacity to provide such oversight, which the proposed funding and positions would expand, the Legislature will want to ensure that the board is providing an adequate level of oversight. The ARB is an air pollution regulatory body, and regulating and overseeing international commodity markets is not part of its core competency. In addition, since ARB's monitoring plan is confidential, the Legislature currently has little information regarding planned monitoring activities. It will be important for the Legislature to evaluate the safeguards that ARB is putting in place.

Therefore, we recommend that the Legislature direct ARB to report at budget hearings on its current monitoring plan and how its approach to market oversight will be adequate given the size and complexity of the emerging market. In conducting this oversight, the budget committees may want to seek the participation of the relevant policy committees that deal with energy, as well as regulation of financial institutions. Depending on the outcome of these hearings, the Legislature could consider whether additional steps are necessary to provide ongoing oversight of the carbon market or ARB's market surveillance activities.

#### STAFF COMMENTS

Staff concurs with LAO's recommendation to support the proposal. In opening remarks, the ARB should address its current monitoring plan and how its approach to market oversight will be adequate given the size and complexity of the emerging market.

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**Staff Recommendation: Approve as Budgeted**

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**ISSUE 5: IN-STATE GREENHOUSE GAS REDUCTIONS — CARBON CAPTURE**

The Governor's Budget requests an ongoing 8 positions and \$400,000 (Cost of Implementation Account) in annual contract money to support the development and implementation of quantification methodologies for in-state greenhouse gas (GHG) reductions including carbon capture and storage (CCS) and in-state offset protocols from non-capped sectors. The proposal would allow ARB to develop, propose, implement, and enforce quantification methodologies for emission reductions from CCS projects, and/or additional in-state offset protocols that can generate offset credits for use as compliance instruments under the Cap-and-Trade Program (Program). These activities are important to provide additional cost-effective compliance options for California businesses, as well as support creation of more in-state jobs associated with climate change mitigation

**BACKGROUND**

Carbon capture and storage, often referred to as CCS, is a process whereby carbon emissions are captured from large industrial sources that burn fossil fuel or biomass, and injected into a geological formation that prevents the carbon from being released into the atmosphere. One such project, Hydrogen Energy California (HECA project) in Kern County, is attempting to develop a \$4 billion industrial complex that would produce power and fertilizer as well as carbon dioxide (CO<sub>2</sub>) to enhance oil recovery.

The Cap-and-Trade Regulation currently acknowledges the potential for emission reductions from CCS, and states that CO<sub>2</sub> suppliers (covered entities) may reduce their compliance obligations for each metric ton of CO<sub>2</sub> that has been proven to be sequestered using a Board-approved CCS quantification methodology. No such methodology has been developed or adopted yet. ARB would not provide offset credits for CCS projects in other states because CCS is a potential mechanism for covered entities under the cap to reduce their on-site GHG emissions and lower their compliance obligation. Unlike a CCS project, which would have to be implemented by in-state entities, offset projects could happen in-state or out-of-state and be eligible to generate GHG reductions for offsets that could be used by in-state entities to comply with the Cap-and-Trade Program

In addition, GHG emission reductions from in-state offset projects and investments for uncapped sectors can also result in significant economic benefit for the State of California.

**STAFF COMMENTS**

The original 2008 Climate Change Scoping Plan and the draft update released in October 2013 identify the need to explore CCS as a potentially efficient way to cut carbon and to do so cost-effectively. Recently, there has been direction from the Administration and interest from the Legislature in exploring quantification methodologies for emission reductions achieved through CCS and Enhanced Oil Recovery. There has also been strong support from market participants to increase the supply of offset credits as a cost-containment mechanism for Cap and Trade, including in-state offsets from non-capped sectors.

This proposal provides needed resources to develop quantification methodologies for in-state GHG reductions, including for CCS projects and/or in-state offset protocols.

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**Staff Recommendation: Approve as Budgeted**

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## 3360 ENERGY COMMISSION

The Energy Resources Conservation and Development Commission (Energy Commission or CEC) is responsible for ensuring a reliable supply of energy to meet state needs while protecting public health, safety, and the environment. Activities include: permitting energy facilities, designating transmission line corridors, assessing current and future energy demands and resources, developing energy efficiency standards, stimulating development of alternative sources of energy, analyzing transportation fuel supplies, prices, and trends and maintaining capacity to respond to energy emergencies.

The Budget includes \$485.7 million and 692.1 positions for support of the Commission. The increase in Alternative and Renewable Fuel and Vehicle Technology Fund for 2013/14 was due to a carryover from 2012/13 in the amount of \$51,791,000. The decrease in the Budget Year is the reduction of this \$51 million carryover. The reduction in Federal Funds reflects the spending down of stimulus money. The reduction in Renewable Resource Trust Fund relates to the PGC ramp-down (discussed below).

Fund Source	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
<b>General Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0%</b>
Federal Funds	7,180	16,688	10,972	(5,716)	(34)
Renewable Resource Trust Fund	30,645	59,468	55,435	(4,033)	(7)
Energy Resources Programs Account	61,172	73,998	79,159	5,161	7
Alternative and Renewable Fuel and Vehicle Technology Fund	118,169	157,968	106,214	(51,754)	(33)
Other	77,711	306,994	233,922	(73,072)	(24)
<b>Total Expenditure</b>	<b>\$294,877</b>	<b>\$615,116</b>	<b>\$485,702</b>	<b>(\$129,414)</b>	<b>(21%)</b>
<b>Positions</b>	<b>560.7</b>	<b>670.1</b>	<b>692.1</b>	<b>22</b>	<b>3</b>

### ISSUE 1: PROPOSITION 39 - IMPLEMENTATION OF THE CA CLEAN ENERGY JOBS ACT

The Governor's Budget requests 12 positions and \$1.3 million in technical support (Energy Resources Programs Account) for a total request of \$3 million to implement and operate Proposition 39, the California Clean Energy Jobs Act (passed in 2012), and its enabling legislation, SB 73 (Committee of Budget and Fiscal Review), Chapter 29, Statutes of 2013.

The requested positions are intended to provide outreach to Local Education Agencies (LEAs), including annually evaluating and approving an estimated 1,700-2,100 energy expenditure plans that will be submitted to the CEC, as required by the enabling legislation. In addition, the CEC plans to: develop and maintain a publicly available and searchable database to track and report program metrics (energy savings, energy costs savings, greenhouse gas reductions and employment effects of project); review and evaluate energy savings project expenditure plan modifications; provide and manage low and zero-interest revolving loans to LEAs and community colleges; and, provide annual reports to the Citizens Oversight Board.



**BACKGROUND**

Proposition 39, passed by voters in 2012, required most multistate business' to determine their California taxable income using a single sales factor method, in turn, increasing the state's corporate tax revenue. This measure established a new state fund, the Clean Energy Job Creation Fund, which is supported by half of the new revenue raised by the mandatory single sales factor for multistate businesses. The initiative directs monies deposited in this fund to be used to support projects that will improve energy efficiency and expand the use of alternative energy in public buildings.

The 2013-14 budget appropriated a total of \$467 million of the Clean Energy Job Creation Fund to Proposition 98 related programs, restricting the funds to be used for public K-12 and community college facilities. The appropriation specified \$428 million for a new grant program for schools and community colleges to use on energy efficiency projects, \$28 million for the Energy Conservation Assistance Act (ECAA) revolving loan program for schools and community colleges for energy projects, \$8 million for workforce training programs (specifically, the California Conservation Corps and the California Workforce Investment Board), and \$3.1 million for administrative support within the California Energy Commission (CEC).

SB 73 designates the CEC as the lead agency for program implementation. The CEC responsibilities include developing guidelines, evaluating and approving Energy Expenditure Plans submitted by LEAs, maintaining a publicly available database, preparing an annual summary of the expenditures, energy savings, effective cost of energy saved or return on investment, and the employment effects of each year's completed projects. The CEC was also charged with establishing an Education Subaccount within the Energy Conservation Assistance Account (ECCA-Ed) for no-interest revolving loans and technical assistance grants for LEAs and community college districts.

**STAFF COMMENTS**

Last year, the Legislature approved \$28 million (Prop 39 funds) for ECCA-Ed and technical assistance grants for LEAs and community college districts as follows:

- \$25.2 million in zero interest rate loans with paybacks from energy savings up to 20 years for LEAs and community college districts; and
- \$2.8 million for technical assistance grants for LEAs and community college districts through existing Bright Schools Program.

The purpose of the ECCA-Ed funds is to augment the grants provided to Proposition 39 eligible entities. The ECAA loan program has a long history of success and also serves as a pool for technical assistance to LEAs.

The Governor's Budget provides no additional funding for the ECAA revolving loan program. The Administration indicated that this program will continue to be considered for future funding. Thus far, the CEC has received 28 applications totaling \$50.2 million for the ECAA revolving loan program. These applications have not yet been rejected or approved. According to the CEC, providing funding is contingent on the release of the Program Opportunity Notice (PON), which will likely be released within the next two weeks. The CEC is reviewing applications so that funding can occur as quickly as possible upon the release of the PON.

In addition to a brief update on the status of the Proposition 39 funding at the CEC and its interactions with the LEAs, the Commission should discuss the following:

- Given the interest in the revolving loan program by LEAs and community colleges, does the Administration anticipate providing new funding for the revolving loan program this year?
- How long does the CEC anticipate this program running, given that the initial funding will be fully appropriated within five years?
- What hurdles or legislative changes are necessary to keep the program on track?

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**Staff Recommendation: Approve as Budgeted**

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**ISSUE 2: IMPLEMENTATION OF THE ELECTRIC PROGRAM INVESTMENT CHARGE (EPIC)**

The Governor's Budget requests 26 positions to administer \$172.5 million (ratepayer funds) in program funds for implementation of the EPIC program. The total request of \$17 million is comprised of \$3.8 million for state operations and \$13.2 million for local assistance. EPIC funds are off-budget, rate-payer dollars.

**BACKGROUND**

In December 2011, funding for the state's Public Goods Charge (PGC) on electricity ratepayers expired. The PGC funded energy efficiency research and development and renewable energy programs. Efforts to continue the surcharge, which requires a 2/3 vote of the Legislature, failed. The charge supported about a quarter of the total energy efficiency programs funded by the state and energy utilities.

In September 2011, the Governor sent a letter to the CPUC requesting that they take action under its quasi-legislative authority to ensure that programs, like those funded under the PGC, would be continued, but with the modifications legislators discussed during the PGC renewal deliberations. In December 2011, the CPUC initiated a rulemaking to continue the programs similar to PGC, with a sole focus on the investor-owned utilities (IOUs). The Commission planned a two-phased deliberation. The first phase addressed the appropriate funding levels for renewables and research and development. The second phase, currently under way, creates a detailed program.

The 2013 budget approved \$160 million and 55 positions from IOUs ratepayer funds for the implementation of EPIC. Trailer bill language restricted the use of funds to activities within the IOU areas and provided the authority for \$25 million to be approved through the CPUC EPIC proceeding for the New Solar Homes Partnership Program.

On May 21, 2013, one of the IOUs, Southern California Edison (SCE), sued the CPUC asserting that the CPUC's adoption of EPIC is illegal for the following reasons: (1) CPUC's jurisdiction to regulate utilities does not extend to the establishment of a charge to fund another state agency (CEC); (2) EPIC raises revenue that is being used for broad purposes such as research and development, and is thus a tax; and, (3) EPIC involves an unlawful delegation of discretionary authority from CPUC to CEC. It is anticipated that the court will make its findings public in the next month.

**STAFF COMMENTS**

While the Legislature has approved funding for this proposal in the current year, it would be prudent to withhold action in the budget until the court has rendered its decision.

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**Staff Recommendation: Hold Open pending court review**

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**0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH**

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analysis. The OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, and resource protection. The OPR acts as the state's liaison to a variety of entities including local government, planning professionals, small business, and the military. The OPR houses the Advisor on Military Affairs and supports the Strategic Growth Council. The mission of California Volunteers is to increase the number and impact of Californians involved with service and volunteering throughout the state. California Volunteers is administered through the OPR but for all intents and purposes is a standalone entity.

The Governor's Budget proposes \$135.4 million (\$3.4 million General Fund) for OPR, an increase of almost \$100 million for the current year levels. This increase is the result of the proposed use of Cap and Trade funding for the Sustainable Communities Strategies grant program, which is administered by the Strategic Growth Council. Because the Strategic Growth Council would serve as fiduciary role, descriptions of this proposal are described with other Cap and Trade proposals in the Resources section of this report.

**ISSUE 1: GHG EMISSIONS REDUCTIONS THROUGH SUSTAINABLE COMMUNITIES IMPLEMENTATION**

The budget proposes \$100 million (\$1 million state operations and \$99 million local assistance) and six positions (ongoing) from the Greenhouse Gas Reduction Fund, annually for two years, to establish and implement a Sustainable Communities Implementation Program. The program will support local project implementation of regional sustainable community strategy plans, compact and infill development near transit, and development which benefits disadvantaged communities. The proposal incorporates current sustainable communities and clean transportation priorities into a cohesive program, including transit and active transportation infrastructure projects.

The proposal includes shifting the Strategic Growth Council from the Natural Resources Agency to the Governor's Office of Planning and Research. The six positions staffing the Strategic Growth Council are currently funded from the administrative allocation of Proposition 84 and this funding expires at the end of 2013-14.

**BACKGROUND**

SB 375 (Steinberg), Chapter 728, Statutes of 2008, directs regions to integrate development patterns and transportation networks in a way that achieves GHG emission reductions, while addressing housing needs, and other regional planning objectives. Each of the state's 18 metropolitan planning organizations (MPOs) must prepare a Sustainable Communities Strategy (SCS) along with its Regional Transportation Plan that demonstrates how the region will meet the GHG emission reduction targets (established by the Air Resources Board) for 2020, and 2035 through integrated land-use, housing, and transportation planning. According to the Administration, investments in land-use planning, and transportation infrastructure and operations is needed to implement the SCSs.

As specified in the Administration's proposed trailer bill language, to be eligible for funding, a project would need to do the following:

- Demonstrate that it would achieve a reduction in GHG emissions.
- Support implementation of a SCS.
- Demonstrate consistency with the state's planning priorities.

Eligible projects could include the following:

- Intermodal, affordable housing projects that support infill and compact development.
- Transit capital projects and programs supporting transit ridership.
- Active transportation capital projects.
- Transit-oriented development projects.
- Acquisition of agricultural lands.
- Planning to support implementation of a sustainable communities strategy.

This proposal is part of the Governor's \$850 million Cap-and-Trade Expenditure Plan to invest 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.

Specifically, the budget proposal provides the following information to support the GHG emission reduction benefits of the activities proposed for funding and how these activities contribute to the SB 535 goal of investing in disadvantaged communities:

- This proposal is directly tied to the implementation of the 2013 Investment Plan and addresses critical needs to support the reduction of GHG emissions.
- This Program proposes a programmatic goal of at least 50 percent of total funds benefiting disadvantaged communities.
- The proposal is consistent with ARB Scoping Plan recommendations and supports near-term planning to provide long-term investments in local projects, resulting in GHG emissions reductions.

#### **STAFF COMMENTS**

This proposal contains no metrics for the measurement of GHG reduction or reduction targets, but does propose to fund projects intended to benefit disadvantaged communities. Under this proposal, grant funding could support transit capital and operating costs, housing and development near transit stations, bicycle facilities, and other projects intended to reduce vehicle miles traveled. Given the large number of eligible funding areas and interest in this item, the Subcommittee may wish to consider increasing funding for this proposal.

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

- Should the Legislature propose additional funding for this proposal, how many additional staff may be needed per additional \$100 million?
- 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?
- 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?
- What mechanisms will be used to evaluate if the grants resulted in GHG emission reductions?
- What factors will be considered when determining how much funding will be allocated to individual programs? Could any single program receive more than 50 percent of the funds proposed? Will the program try to achieve a geographic balance of projects around the state?
- Under a competitive program operated at the state level, how would the state know which proposed projects would best implement local Sustainable Communities Strategies?
- Alternatively, could a portion, or all, of the funding proposed here be directed to regional agencies on formula basis? What would be the advantages and disadvantages of such an approach?
- What kind of back-end reporting do you plan to provide the Legislature to demonstrate the effectiveness of the proposed allocations?

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**Staff Recommendation: Hold Open**

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