## Agenda

### Assembly Budget Committee No. 3 Resources and Transportation

**Assemblymember Richard Bloom, Chair**

**Tuesday, May 20**

9:00 A.M. - State Capitol Room 447

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### Consent Calendar

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MR = May Revision Proposal  
SFL = Spring Finance Letter
## VOTE-ONLY CALENDAR

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VOTE-ONLY

0540 NATURAL RESOURCES AGENCY

VOTE-ONLY ISSUE 1: AB 32 SCOPING PLAN (MR)

The Governor’s May Revision proposes $529,000 (Cost of Implementation Account, Air Pollution Control Funds) and two positions to implement the requirements of the AB 32 Scoping Plan Update. One position will coordinate activities to prepare and publish a Forest Carbon Plan and further efforts to develop sustainability criteria to support forest biomass utilization. The second position will serve as a coordinator for other significant new responsibilities described in the AB 32 Scoping Plan Update.

The proposed amount includes $250,000 a year for two years to fund an economic resources study to support the forest carbon plan. According to the proposal, in order to devise a rigorous Forest Carbon Plan, a cost-benefit analysis of possible forest investments will be needed. Such a cost-benefit analysis will require a study of forest resource economics such as: timber market prices; a study of the value of services provided by forest investments (e.g. improved water quantity and quality, reduced sedimentation in water reservoirs, enhanced soil stability, cleaner air, recreation and tourism opportunities); and forest biomass utilization feasibility and bioenergy markets.

STAFF COMMENTS

This proposal will allow the Natural Resources Agency to comply with its responsibilities in the AB 32 Scoping Plan Update. It also offers the state greenhouse gas reduction opportunities related to sustainable forest and land use practices that provide many co-benefits including, reduced wildfire risk, rural economic development, public health benefits, water supply and quality benefits, renewable energy benefits, energy savings, enhanced climate resilience, and conservation of natural and working lands.

Vote-only Recommendation: Approve May Revision proposal
3360 ENERGY COMMISSION

**VOTE-ONLY ISSUE 2: IMPLEMENTATION OF THE ELECTRIC PROGRAM INVESTMENT CHARGE**

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.

**STAFF COMMENTS**

The Subcommittee heard and held open this issue on April 30, 2014 due to an anticipated court decision that was expected on May 1st. The court decision has been delayed for unarticulated reasons; it remains unclear when a decision will be forthcoming. Nonetheless, staff recommends moving forward with the proposal. The proposal is part of a multi-year EPIC ramp-up plan, submitted by the Energy Commission (CEC) to the Subcommittee last year, as represented in the following graphic:

![EPIC Positions and Funds Managed by Fiscal Year](chart.png)

The Legislature approved the EPIC position authority in 2012-13 and in 2013-14 to allow the CEC to begin to implement the program, which includes activities in advance of actual monetary awards, including development of work plans and funding schedules, preparation of solicitations and technical documents, and outreach and workshops. The beginning phases of this work is well underway and CEC’s existing EPIC staff is working at capacity. Approval of the proposal will allow the CEC to continue this work, as planned, so that it may begin to award program grants in June of 2015.

**Vote-only Recommendation: Approve as Budgeted**
The Governor's May Revision requests baseline authority for two positions ($284,000) and $300,000 per year for independent audit support from Energy Resources Programs Account (ERPA) funds, for a total request of $584,000 to implement and operate Proposition 39 and its enabling legislation, SB 73 (Committee on Budget and Fiscal Review), Chapter 29, Statutes of 2013, cited as the California Clean Energy Jobs Act (CCEJA).

This five year funded program, which will include expenditures for seven years through fiscal year 2019/20, is expected to implement up to $2.5 billion from the Job Creation Fund (Fund) in energy efficient and clean energy projects at over 2,000 Local Educational Agencies (LEA) and California Community College Districts (CCCD), and result in significant job training, apprenticeships and employment in the state. These positions will serve as staff to the Citizens Oversight Board (COB) charged with annually reviewing all expenditures from the Fund, reviewing an annual independent audit of the Fund and selected projects, publishing a complete accounting each year, and submitting an evaluation of the program to the Legislature.

**BACKGROUND**

The Citizen Oversight Board, composed of nine members, three appointees each by the Treasurer, Controller and Attorney General, will review and report on all expenditures of the Job Creation Fund. The California Public Utilities Commission (CPUC) and the California Energy Commission (Energy Commission) each appoint an ex officio member to serve on the COB.

Last year’s budget allocated $381 million of CCEJA Fund revenue to LEAs and $47 million to CCCDs to support energy efficiency projects, $28 million to the Energy Commission for the Energy Conservation Assistance Act Education Subaccount for low or no interest loans and technical assistance, and $3 million to the California Workforce Investment Board (CWIB) for a competitive grant program for community organizations to provide job training to veterans and disadvantaged youth. Estimates for fiscal year 2014/15 through fiscal year 2017/18 indicate LEAs and CCCDs will receive approximately $550 million annually. Monies in the CCEJA fund are available, upon appropriation by the Legislature, for purposes of funding eligible projects that create jobs in California, improve energy efficiency, and expand clean energy generation. The COB is responsible for reviewing all of these expenditures.

**STAFF COMMENTS**

Staff has no concerns with this proposal.

**Vote-only Recommendation: Approve May Revision proposal**
The Governor's May Revision requests $300,000 for the Tahoe Conservancy and $150,000 for the State Water Resources Control Board (State Water Board) from the Lake Tahoe Science and Lake Improvement Account to implement SB 630 (Pavley), Chapter 762, Statutes of 2013. SB 630 created the Tahoe Science Account, which is funded by lease revenues collected from piers and other leases in Lake Tahoe.

Specifically, the funds will be allocated as follows:
- $150,000 to the Tahoe Conservancy for aquatic invasive species projects and improved public access to sovereign lands;
- $150,000 to the Tahoe Conservancy for the establishment of a bi-state science-based advisory council; and
- $150,000 to the State Water Board to expand existing near shore monitoring of water quality in Lake Tahoe.

Staff Comments

This proposal is consistent with SB 630. Staff has no concerns with this proposal.

Vote-only Recommendation: Approve May Revision proposal

The Governor's May Revision requests a one-time appropriation of $5.7 million (Oil, Gas, and Geothermal Administrative Fund) to address increased costs to conduct and complete the Independent Scientific Study on Well Stimulation Treatments on or before January 1, 2015, and the Environmental Impact Report (EIR) no later than July 1, 2015, as specified by SB 4 (Pavley, Chapter 313, Statutes of 2013). In addition to these costs, there is a contract for legal services and a Special Assistant appointed under the purview of the Governor's Office to work on Oil and Gas issues involving SB 4.

Updated cost estimates indicate that to complete the studies within the statutory timelines, $2,500,000 is needed for the Independent Well Stimulation Scientific Study (an increase of $1,750,000) and $4,400,000 is needed for the EIR (an increase of $3,500,000).

Staff Comments

Staff has no concerns with this proposal.

Vote-only Recommendation: Approve May Revision proposal
VOTE-ONLY ISSUE 6: SALTON SEA RESTORATION PROGRAM (MR)

The Governor’s Budget had requested $400,000 and $500,000 on-going from the Salton Sea Restoration Fund to provide for the operation and maintenance of the Species Conservation Habitat (SCH) ponds, research and pilot studies, and adaptive management. This would have allowed the Department of Fish and Game to operate and maintain the SCH ponds so that they provide for the survival of a reproductive fish population, which allows piscivorous birds to forage on these fish. However, construction of the ponds will not be complete in 2014-15. Therefore, the funding included in the Governor’s Budget for operating and maintaining the ponds is not yet needed. This request formally removes the Governor’s January BCP from the Budget.

STAFF COMMENTS

Staff has no concerns with this proposal.

Vote-only Recommendation: Approve May Revision proposal

VOTE-ONLY ISSUE 7: REVENUE GENERATION TRAILER BILL (SFL)

The Governor proposes statutory changes to the Revenue Generation Program, authorized under Senate Bill 1018 (Budget and Fiscal Review), Chapter 39, Statutes of 2012 and Assembly Bill 1478 (Committee on Budget), Chapter 530, Statutes of 2012.

The Trailer Bill also includes reestablishing the Parks Project Revolving Fund (PPRF).

BACKGROUND

SB 1018 and AB 1478 charged the Department of Parks and Recreation with implementing a revenue generation program in order to assist the Department in implementation of a long term sustainable funding strategy.

The proposed trailer bill language extends the sunset dates of the revenue generation program, clarifies language establishing revenue targets, streamlines the program guidelines, and makes other changes to the program.

Assembly Bill 3042 (Committee on Natural Resources), Chapter 966, Statutes of 2002, established the PPRF and authorized transfer of funds appropriated for expenditure for construction, alteration, repair and improvements to the State Park System, without regard to fiscal year. The PPRF authority expired on January 1, 2014. The Trailer Bill proposes to reestablish this fund.
STAFF COMMENTS

Budget and Policy Committee staffs have had initial meetings with the Administration to discuss the various changes proposed in the trailer bill. Staff have made recommendations for amendments to the proposed language, including: establishing objective criteria that apply to spending of revenue generation funds appropriated to the Department; reporting requirements for use of funds generated by the program; and implementing a statewide electronic fee collection system.

Staff recommends adopting placeholder trailer bill language in order to continue discussions with the Administration on this proposal.

Vote-only Recommendation: Adopt placeholder trailer bill language

VOTE-ONLY ISSUE 8: KINGS BEACH (MR)

The Governor’s May Revision requests $521,000 in fiscal year (FY) 2014-15 and $450,000 in subsequent fiscal years from the State Parks and Recreation Fund (SPRF) and Lake Tahoe Conservancy Account for the operation and maintenance of Kings Beach State Recreation Area (KBSRA). This includes the operation and maintenance of properties covered under the 2014 Operating Agreement with the California Tahoe Conservancy (CTC). According to the proposal, this project is essential to the operation and maintenance of a robust park and increasing revenue-generating capacity. Additionally, a number of satellite beachfront access and beach day use properties currently under the ownership of the California Tahoe Conservancy are proposed to be operated by the Department.

BACKGROUND

Current facilities at KBSRA include permanent restrooms, picnic tables, pier, landscape features and a 166-space parking lot, with an entrance station kiosk. Park facilities are in need of maintenance, improvements and ADA (Americans with Disabilities Act) compliance upgrades. Landscaping and parking areas are in need of restoration and repair.

The recreational resources of the property are walking, swimming, picnicking, rafting, kayaking, windsurfing, paddle surfing, sailing, and personal watercraft, amongst other water sports. Concessionaires provide visitors an opportunity to parasail, use personal watercrafts and other flotation devices, which are used to recreate in the water along the natural lakefront area. CTC owns several beachfront parcels west of KBSRA that are proposed to be operated by the Department – these parcels are heavily used during summer months, and include restroom, trash and picnic facilities, as well as, some parking areas and trails.

STAFF COMMENTS

Staff has no concerns with this proposal.

Vote-only Recommendation: Approve as Budgeted.
VOTE-ONLY ISSUE 9: MCLAUGHLIN EASTSHORE STATE PARK – BRICKYARD UPLAND AREA PUBLIC ACCESS IMPROVEMENTS (MR)

The Governor's May Revision requests local assistance funding (Prop 84) to the East Bay Regional Park District (EBRPD) for their continued design development expenses and future construction expenses related to capital improvements to Brickyard Cove at McLaughlin Eastshore State Park.

BACKGROUND

The Department of Parks and Recreation and EBRPD have entered into a 30-year operating agreement, where the Department is to provide up to $5 million for EBRPD's completion of capital improvements to Brickyard Cove at McLaughlin Eastshore State Park. The 2013 Budget Act appropriated $1.2 million and this request is for the remaining $3.8 million allowed under the operating agreement.

STAFF COMMENTS

Staff has no concerns with this proposal.

Vote-only Recommendation: Approve as Budgeted.
VOTE-ONLY ISSUE 10: 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.

STAFF COMMENTS

The Subcommittee heard and held open this issue on April 23, 2014 due to 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 (THRRF). In 2012, the THRRF was created for the primary purpose of funding the state’s timber harvest regulatory program. The THRRF contains a tiered funding structure that funds various forest health grant programs once the state’s timber harvest regulatory program receives its funding. The marijuana task force does not fit neatly into any of the THRRF’s tiers; however, the task force will improve forest health by cracking down on unpermitted marijuana grows.

To minimize the marijuana task force’s impact on the THRRF, staff suggests the Subcommittee consider adopting trailer bill language that does the following:

- Specifically includes the marijuana task force in the THRRF tiered funding structure subject to the following conditions:
  - Limit THRRF funding to a maximum of $500,000 for each fiscal year;
  - Sunset THRRF funding in three years;
  - Ensure that the marijuana task force does not receive funding priority over the state’s timber harvest regulatory program; and,
  - Require that the THRRF funding be paid back.
- To help pay back the THRRF funding, gives DFW specific administrative penalty authority over trespass and unpermitted marijuana grow operations.

Vote-only Recommendation: Approve as Budgeted plus trailer bill as outlined above.
Stringfellow is a Federal Superfund site for which the State of California is 100 percent liable, and is under an Agreement to Perform Response Actions (Agreement) from the United States Environmental Protection Agency (USEPA) for the cleanup and long-term operation of the site.

To comply with the Agreement (a consent order from USEPA), the Governor's May Revision requests $4 million for FY 2014-15, $3.4 million for FY 2015-16, and $2 million for FY 2016-17 (General Fund) to further the investigation and cleanup of contaminated water that has reached a drinking water source in the Chino Basin. The basin serves as a primary drinking water source for customers in eastern Riverside and San Bernardino counties, and in Orange County. The proposal also requests $1.1 million ongoing (General Fund) for Operation and Maintenance (O&M) of additional sampling and treatment wells to comply with response actions required under the Agreement with the USEPA.

**Staff Comments**

As stated above, the State has been found to be 100 percent responsible for the past and future operation and remediation of the Stringfellow Superfund site. The work proposed to be funded by this proposal would allow the Department of Toxic Substances Control (DTSC) to continue to perform essential Site Removal and Remedial Action (RRA) and critical O&M activities at the Site. This would maintain essential protection from the environmental threats from the Site that the community of Jurupa Valley demands. The RRA and O&M activities are essential for the ongoing remediation of the Site and to prevent potential future release of hazardous waste.

Vote-only Recommendation: Approve May Revision proposal

**Vote-Only Issue 12: Stable Funding for Biomonitoring (MR)**

The Governor's May Revision requests four, two-year limited-term positions and expenditure authority of $700,000 ($350,000 Toxic Substances Control Account/$350,000 Birth Defects Program Monitoring Fund) in 2014-15 and $696,000 ($346,000 Toxic Substances Control Account/$350,000 Birth Defects Program Monitoring Fund) in 2015-16 to support the California Environmental Contaminant Biomonitoring Program (CECBP). The Department of Public Health (CDPH) is the designated lead for Biomonitoring California, coordinating with two CalEPA departments: the Office of Environmental Health Hazard Assessment (OEHHA) and DTSC. The requested positions would replace some federal grant positions lost when Centers for Disease Control and Prevention (CDC) funding is eliminated on August 31, 2014, ensuring that the mission of CECBP maintains its momentum.
BACKGROUND

SB 1379 (Perata), Chapter 599, Statutes of 2006, established the tri-departmental California Environmental Contaminant Biomonitoring Program (CECBP). CECBP is a collaborative effort among CDPH, OEHHA, and DTSC, with CDPH as the lead entity. CECBP’s principal mandates are to measure and report levels of specific environmental chemicals in blood and urine samples from a representative sample of Californians, conduct community-based biomonitoring studies, and help assess the effectiveness of public health and environmental programs in reducing chemical exposures. CECBP provides unique information on the extent to which Californians are exposed to a variety of environmental chemicals and how such exposures may be influenced by factors such as age, gender, ethnicity, diet, occupation, residential location, and use of specific consumer products.

The three departments that constitute CECBP received $2.2 million in 2013-14 from five special funds: (1) Toxic Substances Control Account, (2) Birth Defects Monitoring Program Fund, (3) Department of Pesticide Regulation Fund, (4) Air Pollution Control Fund, and (5) Childhood Lead Poisoning Prevention Fund. This baseline state funding currently supports eight positions in CDPH and five total positions within OEHHA and DTSC.

In 2009, CECBP was awarded a competitive five-year Cooperative Agreement (grant) of $2.65 million per year from CDC. This grant has complemented CECBP’s state funding since 2009-10, and has played a critical role in establishing the program’s current capabilities and proficiencies. The grant from CDC ends on August 31, 2014. When the grant ends, CECBP’s resources will be reduced by nearly 60 percent, if resources are not renewed.

STAFF COMMENTS

As a tool for measuring and tracking exposure to toxic chemicals, biomonitoring has broad statewide relevance for public health. Biomonitoring data can be used as an early warning system for exposure to toxic chemicals and as a means to target surveillance for potential adverse health effects. When the CDC grant expires, the on-going level of state funding will not be adequate to sustain the current program resource levels. Without this proposed funding, CECBP’s ability to serve as an early warning system for new chemical exposures or promote state environmental and public health policies would be reduced.

Vote-only Recommendation: Approve May Revision proposal
The California Department of Food and Agriculture (CDFA) requests $3.1 million in General Fund (GF) authority beginning in 2014-15 to enhance the existing Border Protection Station (BPS) Program.

The requested funding will enable the BPS Program to operate all sixteen stations year-round with additional permanent and temporary staff. This proposal is not requesting new positions but will realign existing unfunded vacant positions from within CDFA.

**BACKGROUND**

California established the first agricultural inspection stations in the early 1920’s. Since that time, the BPS Program has expanded to sixteen agricultural inspection stations strategically located on the major highways entering the State. The BPS Program inspects vehicles and commodities to ensure they are pest free and are in compliance with State quarantine entry requirements. In addition to actual pest interceptions, the BPS also acts as a deterrent. Many commercial shippers, travelers, and newly arriving residents are aware of California’s BPS Program and therefore do not ship or carry commodities that are prohibited or restricted by quarantines. This deterrent factor has been an important element to CDFA’s success in keeping invasive exotic pests and diseases out of California.

**STAFF COMMENTS**

The BPS Program had General Fund reductions of $1.9 million in 2011-12 and $5.4 million in 2012-13. The 2012-13 GF reduction was partially offset by a $1.4 million interagency agreement between CDFA and the Department of Resources Recycling and Recovery (CalRecycle). Reduced resources have resulted in fewer agricultural shipments being physically inspected and fewer pests being intercepted, while non-agricultural services provided to other agencies that are supported by special-funds and reimbursements are being maintained. Spreading fewer resources across all sixteen stations has drastically reduced CDFA’s ability to maintain the overall integrity of the BPS Program and meet CDFA’s mission of promoting a safe, healthy food supply and protecting California against the invasion of exotic pests and diseases.

Further, the current drought has caused significant issues for the agricultural community; fields are being abandoned due to insufficient water supply, which creates an environment where pests and diseases can spread more rapidly. Farmers not tending their crops limits the ability to find and control pests and quarantine infected fields, which puts the entire agriculture community in jeopardy. Certain pests can completely close the markets and it is the goal of CDFA to isolate, eradicate, and keep markets flowing.

Funding this proposal will provide CDFA with the necessary resources to meet its mission of promoting a safe, healthy food supply and protecting California against the invasion of exotic pests and diseases by ensuring adequate staffing levels at peak periods of interdiction and quarantine activities at the sixteen BPS.

**Vote-only Recommendation: Approve May Revision proposal**
**VOTE-ONLY ISSUE 14: CALIFORNIA ANIMAL HEALTH AND FOOD SAFETY LABORATORY**

The Governor's Budget proposes one-time funding of $1 million (General Fund) to help offset unfunded salary and benefit increases for positions at the California Animal Health and Food Safety Laboratory System.

**STAFF COMMENTS**

The Subcommittee heard and held open this issue on April 9, 2014. Staff has no concerns with this proposal.

**Vote-only Recommendation: Approve as Budgeted**

**VOTE-ONLY ISSUE 15: IMPLEMENTING SCOPING PLAN UPDATE REQUIREMENTS (MR)**

The Governor's May Revision requests $140,000 from the Cost of Implementation Account, Air Pollution Control Fund (APCF) in 2014-15 and ongoing, to support agricultural activities listed in the 2014 AB 32 Scoping Plan Update. The requested funds will support one Senior Environmental Scientist to assist, implement and coordinate with the California Air Resources Board (ARB) on all activities listed in the Key Recommendations Section of the Agriculture Chapter.

This proposal is not requesting a new position but will redirect an existing vacant unfunded position from within the CDFA. The proposed activities will contribute to reducing agriculture’s greenhouse gas (GHG) emissions by establishing emission reduction targets for the agriculture sector, developing California-specific agricultural tools to help farmers and ranchers estimate GHG emissions, evaluating energy usage and GHG emissions for water movement to agricultural operations, identifying management practices and incentives for emission reductions in the agriculture sector, and contributing to the development of the nitrous oxide GHG statewide inventory, among other activities.

**BACKGROUND**

The Global Warming Solutions Act of 2006 (Chapter 488, Statutes of 2006 [AB 32, Núñez/Pavley]), requires California to reduce statewide GHG emissions to 1990 levels by 2020. AB 32 required ARB to prepare and adopt a Scoping Plan for achieving the maximum technologically feasible and cost-effective GHG emission reductions by 2020. The initial Scoping Plan was developed in 2008 and contained a mix of strategies that combined direct regulations, market-based approaches, voluntary measures, policies, and other emission reduction programs. The 2008 plan contained several voluntary measures for the agricultural sector. AB 32 mandates the Scoping Plan be updated at least every five years to ensure that California is on track to meet the targets set out in the legislation for 2020.

As part of AB 32 requirements, ARB has drafted an update to the Scoping Plan titled “Climate Change Scoping Plan; First Update.” The Scoping Plan Update focuses on three key questions: How have we done over the past five years? What is needed to continue the prescribed course of action to 2020? The Scoping Plan Update builds upon the initial Scoping Plan but with new strategic initiatives and expanded measures for each sector, including non-voluntary measures for the agricultural sector. The Scoping Plan Update also identifies opportunities to leverage
existing and new funds to drive GHG emission reductions through new initiatives and sector-specific targets.

There are three important GHGs emitted from agriculture in California. They include methane from dairy operations, carbon dioxide from the combustion of fuels in on-farm equipment, and nitrous oxide from nitrogen fertilizers used for food production. ARB has identified several new initiatives targeted towards all three gases in the Scoping Plan Update. Two of the gases, methane and nitrous oxide, are especially important to control since they are 21 and 310 times more potent, respectively, as a GHG compared to carbon dioxide.

**STAFF COMMENTS**

CDFA currently lacks the financial resources to lead and contribute to the Key Recommendations outlined in the AB 32 Scoping Plan Update. The initiatives should be implemented now, as suggested in the Scoping Plan Update, to lead to measurable and quantifiable GHG reductions from California’s agricultural sector. The funding requested in this proposal will allow CDFA to contribute directly to reducing GHGs from the agricultural sector and support the AB 32 Scoping Plan Update Key Recommendations for the Agricultural Sector.

**Vote-only Recommendation: Approve May Revision proposal**
VOTE-ONLY ISSUE 16: RAILROAD SAFETY: OIL TRANSPORT (SFL)

The Governor requests seven rail safety inspectors and $1,081,000 from (PUC Transportation Reimbursement Account) to address new rail safety risks and mandates: two Associate Railroad Track Inspectors for railroad bridge inspections; two Associate Transportation Operations Supervisors for hazardous materials inspections of 1) crude oil trains and 2) containers trains at California's ports; two Associate Railroad Track Inspectors to address the increased wear on tracks and supporting structures; and one Associate Railroad Equipment Inspector to focus on the heavy and high-use tank car trains.

VOTE-ONLY ISSUE 17: AUGMENT FISCAL OFFICE ACCOUNTS RECEIVABLE

The Governor's Budget requests $120,000 and two positions from various special funds to provide services related to the timely input of user fees and the assurance of sufficient cash flow within the CPUC Utilities Reimbursement Account (PURA).

VOTE-ONLY ISSUE 18: VARIABLE AIR VOLUME CONTROLLER REPAIR RENOVATIONS

The Governor's Budget requests a one-time budget augmentation of $2.8 million (PURA) to complete the repair/replacement of the heating, ventilation and air conditioning (HVAC) control system at the CPUC headquarters in San Francisco.

VOTE-ONLY ISSUE 19: COMMUNITY CHOICE AGGREGATION

The Governor's Budget proposes $363,000 and three positions (PURA) to implement SB 790 (Leno), Chapter 599, Statutes of 2011, which requires the CPUC to develop a number of new provisions to facilitate the formation and operation of Community Choice Aggregation programs.

STAFF COMMENTS

The Subcommittee heard and held open this issue on May 7, 2014 due to concerns related to the OSAE audit.

Staff has no concerns with Issues 16 through 19.

Vote-only Recommendation: Approve as Budgeted Issues 16-19
**VOTE-ONLY ISSUE 20: NET ENERGY METERING**

The Governor's Budget proposes 11 positions and $1.5 million (PURRA), including $130,000 in consultant costs, to implement AB 327. AB 327 (Perea), Chapter 611, Statutes of 2013, proposed changes to CPUC rate design, grid distribution, net energy metering, and renewable portfolio standard programs.

**STAFF COMMENTS**

The Subcommittee heard and held open this issue on May 7, 2014 due to concerns related to the OSAE audit. Staff noted that because no detailed workload analysis was provided for this proposal and because the CPUC is undergoing a ZBB exercise, if the Subcommittee decided to approve this proposal, it may wish to consider approving the positions on a limited-term basis.

**Vote-only Recommendation: Approve positions on a 2-year, limited term basis.**

**VOTE-ONLY ISSUE 21: IMPLEMENT GHG REVENUE RETURN TO ENERGY-INTENSIVE, TRADE EXPOSED INDUSTRIES**

The Governor's Budget requests an increase of $1 million (reimbursable authority) in 2014-15 and $500,000 per year from 2015-16 through 2021-2022 to enable the CPUC to implement the return of GHG revenue to EITE industries. The funding is proposed to allow CPUC to ensure that sensitive and confidential business information is not compromised, and to complete the study of EITE industry leakage. In the proposal, the CPUC asserts that because the state has not yet conducted a comprehensive study of industries put at risk due to cap and trade, the CPUC would like to engage researchers at the University of California to conduct a “far-ranging study” of other industries that might need financial assistance.

**STAFF COMMENTS**

The Subcommittee heard and held open this issue on May 7, 2014. The proposal seeks to implement a provision of SB 1018 (Committee on Budget and Fiscal Review), Chapter 39, Statutes of 2011. Staff noted that at the time of the passage of SB 1018, it was not contemplated that the return of cap and trade funds to residential, commercial and industrial entities would require over $1 million to implement the program. In addition, the idea that the CPUC must contract to conduct a far-ranging study on the impacts of cap and trade on industry was not discussed. This activity is beyond the scope of the CPUC and more in the purview of the ARB, as part of its broader discussion of “leakage” within the Cap and Trade program.

**Vote-only Recommendation: Reject May Revision proposal**
**Vote-Only Issue 22: Self-Generation Incentive Program Reauthorization**

The Governor’s May Revision proposes trailer bill language to extend the funding and administration of the Self-Generation Incentive Program (SGIP) for five years.

**BACKGROUND**

According the Assembly Appropriations Committee:

*In 2001, the PUC established SGIP to offer customer rebates for renewable and DG. SGIP has been extended and/or modified at least six bills since then. Over the last 13 years, SGIP has offered rebates for installation of solar, wind, fuel cell, and certain renewable and fossil fuel combustion projects meeting specified emissions and efficiency standards.*

*In 2006, AB 2778 (Lieber) extended SGIP for wind and fuel cells until 2012, but excluded combustion projects. In 2009, SB 412 (Kehoe) extended SGIP collection through 2011, modified eligibility to include fossil fuel projects that reduce GHG emissions, and required the PUC to administer the program until 2016 (the additional time was allotted to spend a $200 million surplus accumulated from prior years).*

*The program was suspended by a PUC ruling issued February 10, 2011, which froze applications received on or after January 1, 2011. The reason for the suspension was that a rush of awards and applications, mostly from a single vendor (Bloom Energy), had nearly exhausted both the current budget and the accumulated surplus, leaving less funding than expected for future awards under SB 412. Later in 2011, the PUC adopted a decision implementing SB 412 and reinstated the program. At the same time, the PUC made “advanced energy storage” (e.g., battery) systems eligible for SGIP incentives.*

*In 2011, AB 1150 (V. Manuel Pérez) allowed the PUC to fund SGIP for an additional three years. Under AB 1150, the PUC may authorize the utilities to collect up to $83 million per year from their customers through December 31, 2014. However, AB 1150 maintained the January 1, 2016 sunset on the program, at which time the PUC must provide repayment of all unallocated funds to reduce ratepayer costs.*

There are two bills similar to this proposal pending in Assembly Appropriations: AB 1499 (Skinner) and AB 1624 (Gordon). However, AB 1624 shifts the funding source from ratepayer funds to AB 32 cap-and-trade utility allowances and requires the CPUC to enforce performance measures that ensure SGIP is maximizing environmental, human health, and grid reliability benefits.

**Staff Comments**

Under current law, the SGIP expires on December 31, 2014. By extending the SGIP program for five years, the CPUC would be authorized to collect up to $415 million ($83 million per year) from ratepayers for clean energy projects. With continued authorization, SGIP will help California meet its goals for clean air, reduced greenhouse gas emissions, and support our clean energy economy.

**Vote-only Recommendation: Approve May Revision Trailer Bill Language**
ITEMS TO BE HEARD

3360 ENERGY COMMISSION

ISSUE 1: PETROLEUM FUEL PRICE VULNERABILITY ANALYSIS

The Governor's May Revision requests one new permanent position and $200,000 in baseline contract funds, for a total request of $342,000 to continually evaluate California's vulnerability to petroleum fuel price fluctuations and recommend actions to minimize adverse impacts of price changes on the economy and the transportation energy sector. One element includes creation of a petroleum market advisory committee of external experts to provide guidance, insights and comments on petroleum market activity.

BACKGROUND

California is subject to price spikes for gasoline, diesel and other refined products because of several factors. These factors include situations where minor supply disruptions can spur price spikes in California's existing tight "just in time inventory" supply and demand balance, limited options to move additional crude oil and refined petroleum to California on short notice if disruptions occur, and crude oil prices are heavily dependent on international geo-political and other factors beyond the control of the State government.

New market trends have increased the complexity of California's system and created greater uncertainty about the stability of petroleum prices. Even though California refinery productivity has increased, the number of refineries has decreased over time through industry consolidation, which may limit competition. Demand for gasoline has declined, while diesel and jet fuel demand are increasing, which may require re-configuration of the California refineries and local government approval of permits and zoning changes. California is experiencing significant increases in crude oil transported by rail from North Dakota and Canada, leading to a reduction in imported crude oil shipped by marine vessel from Alaska and the Middle East. While this trend may enhance delivery flexibility, changes needed in crude oil storage are not assured and crude-by-rail safety concerns and mitigation actions may create supply disruptions and price increases.

Crude oil transported by rail is a relative recent phenomenon. California has experienced a rapid increase of crude-by-rail deliveries over the last 3 years, spurred by increased production from hydraulic fracturing in North Dakota, Texas, Colorado and New Mexico and development of oil sands in Canada. Logistical providers have ramped up the capability to load crude oil into rail cars at these production locations because the output has overwhelmed the capacity of crude oil pipelines to transport the increased supply to refineries. As a consequence, crude oil prices at these new tight oil producing regions (such as Bakken in North Dakota) have been sufficiently discounted by producers to offset higher rail transportation costs of delivery to refining customers on the West, East and Gulf coasts of the United States. California refiners received 1.1 million barrels of crude oil via rail during 2012 and over 6 million barrels in 2013. Crude-by-rail could grow to 27% of total California supply by 2016 if multiple California crude-by-rail projects are constructed and operated at capacity.
LAO Comments

We recommend rejecting the proposal. The Commission has not clearly demonstrated that there is new workload driving a need for additional resources. Furthermore, the Commission already has 16 positions in its Transportation Energy Office, which is responsible for collecting and analyzing various information related to the petroleum market (with two additional positions proposed as part of the Governor’s January budget proposal). If the Commission believes that the proposed data collection and analysis is a priority, it is unclear why it cannot utilize its existing resources.

Staff Comments

The CEC offers the following rebuttal to LAO’s analysis:

The Energy Commission has 1 senior analyst assigned to petroleum-refinery-gasoline analysis. Existing work is focused on analyzing and interpreting the significant amount of industry data the Energy Commission currently collects, responding to ongoing legislative-administration policy makers and media inquiries when retail gasoline price spikes occur. This new position will add depth to the Energy Commission’s bandwidth for analyzing current data collected and responding to adhoc requests. This new resource will also expand and enhance the Energy Commission’s collection and analysis capabilities, evaluating CA’s vulnerabilities to rapid and significant changes in the petroleum market, which includes:

- Declining gasoline consumption and increasing alternative fuel use
- CA’s changing portfolio of crude oil supply
- Significant increase in crude by rail imports (6 fold increase 2012 to 2013), its impacts on fuel prices, rail transport industry impacts, and safety issues

Better understanding of emerging market issues/trends/behavior will help in understanding the impacts to and vulnerabilities of CA’s economy and citizens, and provide knowledge necessary to identify methods/options for state policy makers to respond, minimizing negative impacts. The new resource will also be responsible for creation of reports, both stand alone reports and those that feed into the IEPR, that provide the background, analysis and action recommendations of changing market conditions and vulnerabilities. Additionally, this new resource will manage the establishment and operation of the petroleum market advisory committee, solicit, award and manage the necessary data purchases and technical support contract(s), and conduct public workshops and outreach as necessary.

According to the CEC, the Commission has three positions, not 16, in its Transportation Energy Office, which is responsible for collecting and analyzing various information related to the petroleum market. Only one of these positions is assigned to petroleum-refinery-gasoline analysis. Staff concurs with the CEC’s analysis of the need for the resources in this proposal.

Staff Recommendation: Approve May Revision proposal
ISSUE 1: AUGMENTATION FOR FIRE PROTECTION SERVICES DUE TO DROUGHT CONDITIONS (MR)

The Department of Forestry and Fire Protection requests $30,775,192 General Fund and $12,240,217 State Responsibility Area (SRA) Fire Prevention Fund, and 259.1 temporary help positions through fall 2014 and 2 Associate Governmental Program Analysts (AGPA) through June 30, 2016, to address heightened fire conditions brought on by drought conditions, as authorized and detailed in the Governor’s January 17, 2014, Drought Declaration. The SRA Fund request will provide dedicated staff to address critical fire prevention, emergency preparedness, and outreach activities, and for fire prevention grants, to address the increased fire risk brought on by drought conditions.

The May Revision also includes $23 million (General Fund) to increase the E-Fund to provide resources in anticipation of an extended fire season due to extreme drought conditions. With this request, the Governor’s budget provides a total of $209 million for emergency wildfire suppression in 2014-15.

BACKGROUND

The State of California has been experiencing record dry conditions for the past three consecutive years, with 2014 projected to become the driest year on record. These conditions may continue beyond calendar 2014 and may become more regular into the future, based on scientific projections regarding the impact of climate change on California’s snowpack, which Department of Water Resources estimates is 18 percent of normal statewide as of May 1. This winter’s below average rain and snowfall worsens conditions for the third straight dry year.

Governor Brown issued a Drought Declaration on January 17, 2014. The Drought Declaration authorized CAL FIRE to hire additional seasonal firefighters to suppress wildfires and take other needed actions to protect public safety during this time of elevated fire risk. The magnitude of drought conditions presents threats beyond the control of CAL FIRE’s current services, personnel, equipment, and facilities.

Between January 1 and May 1, CAL FIRE has responded to over 1,200 wildfires that have charred nearly 2,700 acres. In an average year for the same time period, CAL FIRE would typically respond to fewer than 600 wildfires. While March and April rain totals were higher than this winter, the rain has temporarily provided a brief reprieve from drought conditions. CAL FIRE’s seasonal outlook for Northern California, issued on May 1, 2014, for the period of June – August 2014 predicts above normal large fire potential expanding to all areas by the latter half of June and remaining that way through July and August.

To help meet the unprecedented drought conditions, CAL FIRE has staffed up its fire engines, air attack bases, and helitack bases earlier than normal. The initial total cost for FY 2013-14 was identified at $41.004 million. The May Revision includes an updated assessment on the necessary funding in the budget year to enhance CAL FIRE’s fire protection capabilities for the 2014 fire season. CAL FIRE was able to regionally delay the early start of these assets because of regional rainfall impacts on fuel conditions. The revised FY 2013-14 funding for the early staffing of fire engines, air attack bases, and helitack bases is $33.995 million. Based on direction by the DOF, all FY 2014-15 costs to keep personnel on duty given drought conditions beyond those funded in the base budget will be charged to the Emergency Fund and reported on the quarterly reports to the DOF and the Legislature, as prescribed in budget bill language.
CAL FIRE will also need to hire additional seasonal firefighters to assist fire engines, air attack bases, and helitack bases in their efforts to suppress wildfires and to take other actions to protect public safety during this time of elevated fire risk. These additional resources are necessary to enhance CAL FIRE's fire protection capabilities for the 2014 fire season. Based on direction from the DOF, the $10.052 million cost for these additional resources in FY 2013-14 will be charged to the Emergency Fund and have been included in the third quarter Emergency Fund letter.

**Fire Prevention Grants.** CAL FIRE proposes a total of $10 million SRA Fire Prevention Fund only for FY 2014-15 for a fire prevention grant program that includes grants, including but not limited to, Fire Safe Councils, certified local conservation corps, and local entities that can complete a fire prevention project and/or public education to reduce fire risk applicable to the SRA and/or other fire prevention projects in the SRA that are authorized by the Board of Forestry.

The grant program focus would address and potentially mitigate the increased fire risk of fuel conditions brought on by the third year of drought. Grant funding could include, but is not limited to, approved community fire safety and fire prevention education projects designed to reduce the risk of wildfire in the SRA such as educating residents and vacationers how to be extra cautious outdoors to avoid sparking a wildfire; developing or updating a Community Wildfire Protection Plan, local hazard mitigation plan or community based wildfire hazard or risk analysis that could address ingress and/or egress of emergency response vehicles, available water supplies, community evacuation routes, etc.; and/or, community fuel reduction projects in the SRA focused on areas where structures are present.

**LAO Comments**

We recommend a reduction of $301,766 (General Fund) and 4 positions. Generally, we find that the administration’s request for additional resources is justified given the significant increase in wildfires to date and estimated increases for the remainder of the fire season. However, the administration is requesting six additional Public Information Officers (PIOs), which would triple the number of PIOs in the department. This is a large increase relative to the base staffing level for these positions and was not justified on a workload basis. Instead, we recommend approval of two of these positions based on overtime data provided by the department and assuming a 25 percent workload increase.

**Staff Comments**

The CalFIRE offers the following rebuttal to LAO's analysis:

The Department’s request for an additional 6 public information officers (PIO) is based upon the current de minimis staffing levels and also the likely workload in the current fire season. The Department currently has 2 dedicated PIOs as well as one dedicated fire prevention PIO. Between them, they cover the entire state 24/7 responding to media inquiries as well as generating key public safety messages to be shared both through traditional media and through social media. In prior fire seasons, these PIOs have been supplemented through collateral duties of other staff (that is duties that are in addition to their other duties). The types of information that is provided ranges from incident information such evacuations to public education such as critical fire prevention information during red flag warning periods. The PIOs are responsible for filtering and disseminating fire information often on a minute-by-minute basis.
The Department's modest request for 6 temporary help PIO positions for the budget year reflects the considerable workload that an above average fire season will generate. The six positions would allow for appropriate coverage of the major media markets as well as the ability to respond with skilled PIOs during a major incident or fire siege situation. It is important to note that while large incidents, such as the Rim Fire in 2013, generate significant workload, the Department's initial attack activity also generates the need for critical public safety information. During just one week when the Rim Fire was taking place, the Department responded to over 350 initial attack fires throughout the State. The 6 positions will allow the Department to maintain the high standards of responsiveness to all forms of media while maintaining a consistent public safety message. The current levels of overtime of the PIO staff are not sustainable and as the fire season develops, the availability of staff to perform these duties as collateral duties will be curtailed. Reducing the number of positions by four would put the Department would increase the workload on the individuals to an unsustainable level and would jeopardize the critical public safety information as the fire season continues.

Staff concurs with the LAO on the need for additional resources given the significant increase in wildfires to date and estimated increases for the remainder of the fire season. However, staff is persuaded by CalFIRE's rebuttal to LAO regarding the need for additional PIO positions. Thus, staff supports funding this proposal in its entirety.

Staff Recommendation: Approve May Revision proposal

3600 DEPARTMENT OF FISH AND WILDLIFE

ISSUE 1: EMERGENCY DROUGHT RELIEF (MR)

The Governor's May Revision requests $38.8 million ($30.2 million General Fund [$25 million State Operations and $5.2 million local assistance grants for Fisheries Restoration], $2.2 Timber Regulation and Forest Restoration Fund, $3.7 million Prop 84) and 13 one-time limited-term positions. The limited-term positions will either back fill behind experienced staff redirected to respond to the drought crisis and implement the Governor’s proclamations issued on January 17, 2014 and continued on April 25, 2014 or be assigned directly to the response effort.

BACKGROUND

The suite of actions funded by this proposal will focus on threatened and endangered species, as required by the Governor’s proclamations and the California Water Action Plan. The funding for the proposal breaks down as follows:

Early implementation, “shovel ready” habitat restoration ($3.7 million). Restoration of 1,100 acres of fresh and brackish water tidal emergent wetlands and 69 acres of alkali wetlands will be accomplished by reconnecting diked lands in Lindsey Slough (in the Cache Slough area) and Hill Slough (in Suisun Marsh). The requested Proposition 84 funding would facilitate the completion of these two projects.
Emergency help for winter run and spring run Chinook on the Sacramento River and Delta native fishes per Drought Operations Plan ($5.8 million). The State and Federal Water Project Drought Operations Plan describes the risk to federally and state listed winter-run and spring-run Chinook salmon on the Sacramento River and its tributaries. This proposal includes several actions that intensify existing monitoring via enhanced sampling regimes at key locations in the Delta and its tributaries and assessing habitat responses in relation to modified drought operations.

Increasing investment in the San Joaquin River Restoration Program ($2.0 million). The California Water Action Plan identifies the goals of restoring flows to the San Joaquin River from Friant Dam to the confluence of the Merced River, and bringing back a naturally-reproducing, self-sustaining Chinook salmon fishery while reducing or avoiding adverse water supply impacts.

This proposal will allow the Department to improve infrastructure at its Moccasin and San Joaquin fish hatcheries, which could be cold water refuge sites in the face of the drought. The Department will also provide drought specific fish rescue, monitoring, and enhanced restoration activities, in close coordination with the state and federal and non-governmental organization coalition working collaboratively to achieve one of the most ambitious restoration efforts on the west coast.

Creating a lasting legacy with public wildlife refuges ($5.0 million). There are 19 state and federal wildlife refuges in the Central Valley. Collectively, these refuges play a valuable ecological role as food and shelter for tens of millions of birds migrating along the Pacific Flyway because the Central Valley has lost 90% of historically occurring wetland habitats. The proposal will specifically focus on intensively managed wildlife refuges to improve conveyance efficiencies and provide water to state wetlands for purposes of lessening the impact of drought. Improvements include refurbishing existing wells, securing water through voluntary purchases, improving pumps to reduce electricity costs and increase pumping efficiency, revising delivery systems to reuse and recirculate water, and updating monitoring systems to better manage water use.

Applying 21st Century technology to monitoring ($6.8 million). The California Water Action Plan states that preparing for 2014 and beyond through better technology and improved procedures can lead to increased operational and regulatory efficiency for the State Water Project and Central Valley Project and benefit water supply and fish and wildlife. This proposal is for the Department to partner with the Department of Water Resources and lead collaboration with Reclamation, the U.S. Fish and Wildlife Service (USFSW), and the National Marine Fisheries Service (NMFS) to develop and implement the technology and monitoring improvements described in the California Water Action Plan and Drought Operations Plan.

Covering the key 2014 statewide drought response needs ($5.9 million). The Governor’s January 2014 emergency drought proclamation requires the Department to evaluate and manage the changing impacts of drought on threatened and endangered species and species of special concern, and develop contingency plans for state Wildlife Areas and Ecological Reserves to manage reduced water resources in the public interest.

This action will allow the Department to continue: (a) monitoring of environmental stressors using 15 existing personnel positions to conduct field surveys on threatened and endangered species; (b) conducting fish rescues and, where necessary, and relocating fish to hatcheries to prevent extirpation or extinction; (c) preparing Department hatcheries to hold rescued fish; (d) increased wildlife officer enforcement; (e) the Department’s ability to rapidly review and respond to requests for a suite of permits and licenses; (f) improving water infrastructure on Department-
owned lands; and, (g) constant and dedicated coordination with the Department of Water Resources to minimize drought effects on aquatic species and implement Delta-specific regulatory flexibility decisions.

**Leveraging existing funding programs for salmon and steelhead restoration ($6.0 million).** The Department established its Fisheries Restoration Grant Program (FRGP) in 1981 to restore habitat for wild salmon and steelhead trout. This competitive grant program has invested millions of dollars to support habitat restoration projects by federal and local governments, tribes, water districts, fisheries organizations, watershed restoration groups, the California Conservation Corps, and AmeriCorps.

This action will increase the allocation to FRGP to leverage the existing funding program. Currently, about 150-170 grant applications are reviewed annually, and approximately 50% are funded. The funding distribution in recent years has focused exclusively on coastal streams. These coastal counties are experiencing significant drought impacts. The Department would divide the $6 million equally for coastal and Central Valley habitat restoration. Including the geographic focus on the Central Valley helps further mitigate the substantial risks for Central Valley salmon and steelhead from drought.

**Taking steps to avoid a commercial fishery impact ($0.7 million).** In early March 2014, the Department, USFWS, and NMFS implemented a contingency plan for the release of hatchery juvenile salmon in 2014 due to drought. Trucking all or part of the Sacramento River Basin salmon to selected net pens locations downstream of the Delta was expected to increase the survival of these hatchery-produced fish. Sacramento River Basin fall-run Chinook salmon are the primary contributor to ocean commercial and recreational fisheries.

Several million fish were trucked to the pens, by the Department. The cost to the Department to-date is approximately $250,000. These additional resources would continue a commitment to commercial fishing through complete implementation of the plan, and for the purchase of two state-of-the-art fish transport trailers to maximize fish health and survival.

**Ensuring existing wildlife protection laws are enforced ($0.7 million).** This proposed action provides for the necessary overtime to sustain increased field presence of the Department’s enforcement staff in the parts of the state where drought impacts combined with illegal activities are likely to prove most harmful for fish and wildlife.

**Fisheries Restoration Grant Program ($2.0 million for FY 2014-15 and FY 2015-16).** This action will use Timber Regulations and Forest Restoration Funds (TRFRF) to disperse FRGP grants to restoration projects that: (a) are in forested watersheds for restoration of conditions beneficial to state and/or federally listed salmonids; (b) address legacy impacts of forest management, which have resulted in the shallowing or loss of deep pool fish refugia that is now aggravated by drought-related reduced instream flow; (c) rely on State and Federal recovery plans stated above for listed salmonids and existing watershed assessments to guide identification of priority watersheds and projects; (d) target multiple projects in just a few watersheds to ensure maximum impact; (e) may be in coastal or inland watersheds; (f) monitor before and after treatment to assess project outcomes; (g) are selected according to guidance for priorities and project selection provided by CNRA and CalEPA leadership team for AB 1492 implementation; and, (h) may use California Conservation Corps crews (such as Watershed Stewardship Program) for projects (pre- and post-project monitoring, on-the-ground project implementation) as appropriate.
Development of Ecological Performance Measures ($0.2 million for FY 2014-15 and FY 2015-16). California Natural Resources Agency will be responsible for development of the ecological performance measures for forest management on forestlands in California to assist in the long-term response to a prolonged drought. Developing such measures will be scientifically and technically challenging, requiring combined expertise found within CNRA and the California Environmental Protection Agency (CalEPA) and other agencies as well. There is a high level of stakeholder interest in the ecological performance measures, which will require expert facilitation of workshops to be captured well. This proposal will be used for contracts with consultants and/or universities to provide needed scientific and technical expertise and the public process facilitation skills.

LAO COMMENTS

We recommend reducing the proposal by $4.4 million (General Fund) and the addition of provisional language as described below. Our recommendation includes a reduction of $1 million for the San Joaquin River Restoration and $3.4 million for 21st Century Monitoring. We find that other entities benefit from these proposed projects and should be required to provide a share of the funding. Specifically, (1) the federal government is responsible for restoration activities along the San Joaquin River pursuant to a 2006 settlement, and (2) the State Water Project and the Central Valley Project would likely receive some increased water supplies due to the enhanced monitoring. Thus, in addition to the General Fund reduction recommended for these programs, we recommend approval of provisional language making the remaining appropriations for these projects available only if other beneficiaries of those activities contribute matching funds.

STAFF COMMENTS

The DFW offers the following rebuttal to LAO's analysis:

Both the San Joaquin River restoration and improving monitoring technology for ecosystem and fisheries benefit are specific state interests described in the California Water Action Plan. Fish and wildlife are state resources. These state interests, the extraordinary drought, and the risks to fish and wildlife from the drought comprise the basis for the May Revise amounts. Therefore, DFW respectfully disagrees with the recommendation.

Staff recommends funding this proposal in its entirety. Due to the extreme drought, our fisheries, which are public trust resources, are severely impacted and imperiled and there is no basis for assuming any other party but DFW can or will step forward to prevent further degradation which could cause potentially long-term and, in some cases, irreversible impacts. These are state resources that need protection and constant monitoring and evaluation now. This comprehensive proposal will reduce the adverse impacts of the drought on fish and wildlife throughout the state. The proposal includes control measures such as monitoring of project effectiveness to ensure that the proposed actions are achieving their intended objectives. In addition, the Department will monitor expenditures to ensure that the funds are spent appropriately and consistent with the intent of this proposal.

Staff Recommendation: Approve May Revision proposal.
The Governor’s May Revision requests $2.5 million in General Fund for initiating development and implementation of the California Statewide Sustainable Groundwater Management Program. This will fund five existing and five new positions. According to the proposal, this funding is essential for beginning the implementation of Action 6, Expand Water Storage Capacity and Improve Groundwater Management, in the January 2014 Governor’s Five-Year California Water Action Plan. This proposal complements, but does not duplicate, work funded recently through two 2014/15 BCPs: California Groundwater Elevation Monitoring (CASGEM) and Drought Emergency Response Program.

Previous Subcommittee Action. The Subcommittee approved $13.8 million General Fund (multi-year) for the statewide groundwater elevation monitoring program at DWR. The Governor’s CASGEM Budget Change Proposal (BCP) covers the implementation of the CASGEM Program and additional funding for a much needed for the online Well Completion Report submission system. The CASGEM baseline funding would help ongoing efforts to coordinate with local agencies to expand monitoring, move forward with the CASGEM Basin Prioritization effort, and conduct assessments of high priority basins to evaluate existing groundwater level monitoring activities versus basin conditions.

In addition, the February drought package included $2 million for the State Water Resources Control Board’s groundwater monitoring programs.

BACKGROUND

As recognized in the California Water Action Plan, groundwater accounts for more than one-third of the water used by cities and farms – much more in dry years, when other sources are cut back. Some of California’s groundwater basins are sustainably managed, but unfortunately, many are not. Inconsistent and inadequate tools, resources, and authorities make managing groundwater difficult in California and impede our ability to address problems such as overdraft, seawater intrusion, land subsidence, and water quality degradation. Groundwater extraction in excess of recharge results in declining groundwater levels, increasing energy demand and pumping costs, and may result in increasing stream flow depletion and declining ecosystem services. Under certain conditions, excessive groundwater pumping can also mobilize toxins and cause irreversible land subsidence, which damages infrastructure and diminishes future aquifer storage capacity. The strategies identified in the California Water Action Plan are intended to address these challenges and move California toward more sustainable management of our groundwater resources. When properly managed, groundwater resources can provide a reliable and valuable water supply to communities, farms, and the environment, and help buffer water supply impacts associated with prolonged dry periods and climate change.

LAO COMMENTS

We withhold recommendation on this item. While we raise no specific concerns with the proposed intent to expand groundwater monitoring and oversight, it is not clear how the proposed positions relate to the additional positions already approved for the State Water
Resources Control Board (SWRCB) in the February drought legislation. Furthermore, the administration has not yet released its proposed trailer bill language. Therefore, it is difficult to determine how specific responsibilities relating to groundwater management would be apportioned between DWR and SWRCB. For example, it is unclear to what extent the positions in this May Revision request would be providing technical assistance to local agencies, which is a core role for DWR, versus reviewing groundwater management plans compliance with legal requirements, which could be more of a regulatory role traditionally performed by SWRCB. We will be prepared to offer further comments once we have had an opportunity to review the trailer bill language.

STAFF COMMENTS

This proposal takes a more holistic approach to evaluating the status of sustainable groundwater management in California by building upon ongoing efforts under the CASGEM Program and beginning the implementation of key items listed under Action 6 of the California Water Action Plan. The new positions and funding will be used to begin a regular cycle of Bulletin 118 updates, which has never previously been funded. Bulletin 118, California’s Groundwater, is the state’s guidance document relating to groundwater management. It is a collection of data regarding the state’s 515 unique basins and subbasins, and also provides a description of the groundwater issues and activities within the state’s 10 hydrologic regions.

The funding in the BCP will also expand the content of Bulletin 118, including greater data collection, analysis, outreach, and technical assistance to better assist local groundwater agencies. The Bulletin 118 updates will provide an overall vision and strategy for management of groundwater resources, and capitalize on the groundwater data and management activities collected by local agencies to establish a comprehensive framework for statewide reporting of groundwater budget and assessment of how existing groundwater management practices are achieving groundwater sustainability in California.

This is a standalone proposal and does not include trailer bill language on groundwater management.

Staff Recommendation: Approve May Revision proposal

ISSUE 2: EMERGENCY DROUGHT RESPONSE PROGRAM (MR)

The Governor’s May Revision requests a one-time appropriation of $18 million (General Fund) to fund 72 existing positions to address California’s current drought emergency.

Of the $18 million requested, $16 million will be allocated for support of the existing positions for work on the critical water shortage and drought emergency response program to implement critical parts of the Governor’s Water Action Plan, the Governor’s January 2014 Declaration of a Drought State of Emergency and the April 2014 Executive order on drought, as well as the Department of Water Resources’ (Department) Water Plan:

- $11 million for Drought Emergency Operations Center (DEOC). This program would provide management, technical assistance and resources to state and local agencies for managing drought emergencies through the establishment of a DEOC. Activities include coordination with the Department of Food and Agriculture, the Governor’s Office of Emergency Services, and the Department of Public Health as part of the state’s response to local drought conditions.
- $5 million to fund implementation of management actions of the Department to respond to critical water shortage and drought impacts, such as facilitating water movement within a local or regional area, expansion of water infrastructure, facilitating water transfers, water purchasing and Delta water quality mitigation actions.

The remaining $2 million of this request will fund the Save Our Water campaign, a partnership between the Department and the Association of California Water Agencies, to further educate the California public on why water conservation is important, while providing practical information on how to conserve water inside and outside the home.

Additionally, this proposal requests the following:
- Reappropriation of $28 million of Proposition 50 funds for Delta Water Quality Projects and provisional language extending the encumbrance period to June 30, 2016; and
- Budget bill language that would allow for the augmentation of DWR's General Fund support item. In the event that emergency drought barriers are installed, this augmentation would be used for operations and maintenance costs associated with the emergency drought barriers (estimated to be $1.3 million), and would also be used for the removal cost of the barriers (estimated to be $18 million).

According to the Department, in FY 2014-15, in response to the Governor's January Declaration of a Drought State of Emergency, the Department began its drought response effort utilizing staff of its Executive Division, that is largely supported by the departmental overhead - made up of the various special, bond, and other funds within the Department - and is intended to support Department-wide activities. As the drought effort is moving into a second fiscal year, and is expanding into specific programmatic activities, it is not appropriate to continue funding the activities under departmental overhead, and as such the request is for General Fund support.

Additionally, the Department indicates that it will be working with DOF to determine offsetting costs that these existing staff will not be incurring with this shift in duties.

**BACKGROUND**

California is experiencing its third dry year in a row. Many parts of the state -- including Sacramento and Los Angeles -- marked calendar year 2013 as the driest on record. These continuing drought conditions put California’s drinking water supplies, agriculture and plants and animals that rely on California’s rivers, including many species in danger of extinction, at risk.

In May 2013, Governor Brown issued an Executive Order B-21-13, directing state water officials to expedite the review and processing of voluntary transfers of water and water rights, and on January 17, 2014, Governor Brown proclaimed California to be in a state of emergency due to current drought conditions.

**LAO COMMENTS**

We recommend approving this proposal with the addition of budget bill language directing the Department of Finance (DOF) to adjust DWR's special fund appropriations and reimbursements. The administration proposes to redirect existing staff to drought response activities and support those positions with General Fund. However, some of those positions are currently supported by special funds. Yet, the proposal does not include adjustments to DWR's special fund appropriations to account for those redirections. In addition, some drought activities (such as processing water transfers) may generate revenue from fee payers that should offset
General Fund costs. Thus, we recommend budget bill language that would direct DOF to adjust DWR's special fund appropriations and reimbursements, as appropriate, to reflect (1) lower spending from special funds, and (2) additional revenues from fee payers.

**STAFF COMMENTS**

This proposal would provide management, technical assistance and resources to state and local agencies for managing drought emergencies through the establishment of the DEOC. It also would allow the Department to implement the Governor's directives without hindering the Department's other critical functions.

As noted above, the Department indicates that it will be working with DOF to determine cost savings due to the shift in duties of the 72 existing staff. The Subcommittee may wish to require the Department to report the cost savings to the Legislature on or before January 10, 2015.

**Staff Recommendation:** Approve May Revision proposal. Require the Department to report to the Legislature, on or before January 10, 2015, cost savings due to the funding shift for 72 existing staff.

**3900 AIR RESOURCES BOARD**

**ISSUE 1: CLEAN VEHICLE REBATE PROJECT (MR)**

The Governor's May Revision requests a one-time transfer of $30 million ($15 million in 2013-2014 and $15 million in 2014-15) from smog abatement fee revenues deposited in the Vehicle Inspection and Repair Fund (VIRF) to the Air Quality Improvement Fund (AQIF) and an increase in appropriation authority of $30 million AQIF to meet consumer demand for light-duty zero emission and plug-in vehicle rebates offered through ARB's Clean Vehicle Rebate Project (CVRP).

**BACKGROUND**

AB 118 (Nunez), Chapter 750, Statutes of 2007, created the California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007 authorizing the Air Quality Improvement Program (AQIP), a voluntary incentive program administered by ARB, to fund clean vehicle and equipment projects, air quality research, and workforce training. AB 118 also established the AQIF to fund the AQIP upon appropriation from the Legislature. AB 8 (Perea), Chapter 401, Statutes of 2013, extends the fees that support AQIP through 2023 in recognition of the value of the program in helping California meet its air quality and climate change goals.

The primary purpose of AQIP is to fund projects to reduce criteria air pollutant emissions, improve air quality, and provide funding for research to determine and improve the air quality impacts of alternative transportation fuels and vehicles, vessels, and equipment technologies. The CVRP is an AQIP project intended to encourage and accelerate zero-emission vehicle (ZEV) and plug-in hybrid vehicle deployment and technology innovation.
The CVRP experienced tremendous growth over the past two years. Consumer demand for CVRP has outpaced the funding appropriated by the Legislature, creating the need for additional funding. The VIRF supports a wide range of consumer protection services, including administering and enforcing the Smog Check Program which helps to keep California’s air clean by reducing air pollution produced by motor vehicles. Fees and penalties assessed pursuant to the MVIP are deposited in the VIRF. The MVIP’s primary goals include improving air quality and achieving California’s emission reduction goals. ARB’s CVRP complements the MVIP and the stated legislative intent by providing rebates for the purchase of zero emission vehicles.

**Staff Comments**

As of March 2014, CVRP has provided over $115 million in rebates for about 56,000 vehicles in California, resulting in the reduction of over 400 tons of nitrogen oxides and 490,000 metric tons of carbon dioxide equivalents. The 2013-14 Funding Plan allocated a total of $59.55 million to CVRP from multiple sources: 1) $10 million allocation from AQIP, 2) $5 million approved by the Energy Commission, 3) $20 million appropriated by Chapter 415, Statutes of 2103 (SB 359), and 4) $24.55 million transferred to the Air Quality Improvement Fund by the 2013 Budget Act and allocated by the Board in September 2013.

Despite this significant investment, rebate demand has outstripped available funding. In 2013-14, CVRP experienced a rapid rise in rebate demand after manufacturers announced vehicle price reductions, with over 160 percent increase in rebate reservations in 2013 compared to 2012 and demand increasing even further over the first few months of 2014. In March 2014, a new monthly demand record was set, with 4,700 rebates reserved. Because of this increased demand, CVRP ran out of funding in April 2014 and is currently placing rebate requests on a waiting list until additional funding becomes available consistent with the contingency provisions of the 2013-14 AQIP Funding Plan and subsequent Board direction provided in April 2014. The Board authorized a waiting list of up to $30 million which would meet the staff’s projected demand through the end of 2013-14.

**Staff Recommendation:** Approve May Revision proposal

**ISSUE 2: AIR QUALITY AND CLIMATE CHANGE ACTIVITIES (MR)**

The Governor’s May Revision requests six positions and $1.1 million ($550,000 Cost of Implementation Account (COIA); $550,000 Motor Vehicle Account (MVA)) to accommodate increased workload associated with working with other jurisdictions such as Brazil, Canada, Chile, China, Costa Rica, Kazakhstan, Mexico, New Zealand, South Korea, South Africa, Turkey, the European Union, and other Pacific states on air quality and climate change activities.

**Background**

According to the Administration:

“California has a long-standing international reputation as a leader on air quality, and with the passage and implementation of AB 32, California has also become a recognized world-authority on the successful implementation of climate change programs. As
California’s programs have gained international attention, requests to host delegations and to visit other states and countries, as well as requests for more formal partnerships, via memoranda of understanding have continued and increased.

These requests represent meaningful opportunities for California to leverage the effectiveness of our policies, make a more meaningful impact on climate change mitigation, improve air quality in California and elsewhere, create opportunities for trade and investment, and level the playing field for California companies. However, these requests also require additional staff time to support effective, concrete implementation. The six positions requested include four air pollution control specialists and two air pollution control engineers. With these positions ARB will be able to provide the level of work necessary to interact with the many jurisdictions reaching out to California to collaborate on air quality and climate programs.”

**LAO COMMENTS**

We recommend rejection of this proposal for a couple of reasons. First, we find that it is questionable whether either fund source proposed to be used for these activities is allowable. In the case of the Motor Vehicle Account, Article XIX of the California Constitution permits these funds to be used for various purposes related to “vehicles used upon the streets and highways of this State, including…mitigation of the environmental effects of motor vehicle operation.” However, this proposal would not be used directly for California roads or vehicles, and it is unclear whether the proposed activities would mitigate the effects of air pollution by California drivers to any significant extent. In the case of the Cost of Implementation Account, current law requires that its funds be used for the implementation of Chapter 488 of 2006 (AB 32, Nuñez), including “to facilitate the development of integrated and cost-effective regional, national, and international greenhouse gas reduction programs.” However, based on our conversations with the board, its proposed activities will be focused on providing advice and assistance to other jurisdictions interested in implementing similar programs. These activities will not necessarily be intended to integrate California’s greenhouse gas emission reduction programs with those of other jurisdictions. Second, the board has not provided clear workload justification for the number of positions it has requested (6). Thus, it is unclear what additional resources, if any, would be necessary to support the proposed activities.

**STAFF COMMENTS**

Staff concurs with LAO’s assessment of this proposal.

**Staff Recommendation: Reject May Revision proposal**
California’s agricultural industry has relied heavily on the fumigants, such as methyl bromide as a pre-plant soil fumigant. However, under the Montreal Protocol and the Clean Air Act, methyl bromide was required to be phased out in 2005 because it was found to deplete the ozone layer. Critical use exemptions currently allow methyl bromide’s continued limited use in California because in certain situations there are no technically and economically feasible alternatives. Although it is not known how long the critical use exemption program will continue, the U.S. EPA announced that methyl bromide uses will no longer be allowed in agricultural fields by 2015. Reduced use of methyl bromide has led to an increase in the use of other fumigants such as chloropicrin and telone, both of which come with their own health concerns. Therefore, it is necessary to find safe, economically feasible, and effective fumigant alternatives in order to completely phase out the use of these high impact pesticides and protect human health and the environment.

**BACKGROUND**

The 2012-13 Budget included an increase of $713,000 from the Department of Pesticide Regulation Fund ($711,000 ongoing) and two positions to expand its existing pest management grant program to also fund research projects that develop effective alternatives to fumigants and other pesticides that pose undue risks to public health and the environment.

In its first two years, the program awarded nearly $1 million to University of California and U.S. Department of Agriculture scientists to work on pest management practices that will reduce reliance on soil fumigants in nurseries and orchards and on organophosphate insecticides in vegetables. In its most recent solicitation for grant applications, DPR sought proposals for research projects that exclusively address soilborne pests that are currently managed with soil fumigants. Projects funded through DPR’s program typically last two to three years.

Pest management grants are subsidized with special funds generated by fees on pesticide sales. DPR expends funds for pest management grants based on recommendations by the Pest Management Advisory Committee (PMAC). The PMAC is a stakeholder group comprised of grower organizations, processors, industry representatives, public interest groups, public and private research and educational institutions, and government agencies.

In the 2014-15 pest management grant round, approximately $600,000 in additional PMAC-approved projects, focused on fumigants, went un-funded.
STAFF COMMENTS

Currently, the DPR Fund has a surplus of approximately $10 million. The Subcommittee may wish to consider appropriating additional funds to meet the demands on the pest management grant program for alternative fumigant research.

Funding additional fumigants research would support developing more environmentally friendly farming practices and also advance DPR’s mission to foster reduced-risk pest management in both agricultural and urban settings through research and grants.

**Staff Recommendation:** Approve an increase of $713,000 from the Department of Pesticide Regulation Fund (ongoing) and two positions to expand the Pest Management Grant program to also fund research projects that develop effective alternatives to fumigants.
3940 STATE WATER RESOURCES CONTROL BOARD

ISSUE 1: CONTINUATION OF EMERGENCY DROUGHT EXPENDITURES (MR)

The Governor's May Revision requests $4.26 million dollars ($4.03 Personal Services and $230,000 in contract funds) from the General Fund to support ongoing staff resources for drought related activities. These resources will support 75 redirected staff to continue to conduct drought related activities initiated by the 2013-14 Drought Emergency Funding legislation.

BACKGROUND

With California facing its driest year on record, Governor Brown declared a drought State of Emergency and directed state officials to take all necessary actions to prepare for water shortages. The State Water Resources Control Board (State Water Board) received $2.5 million dollars of emergency funding to support necessary drought related activities for fiscal year 2013-2014. Responding to record dry conditions and diminishing water supplies in the state’s major rivers and reservoirs, it is anticipated that drought related activities will need to continue through the end of the year or possibly longer.

The Water Board approved a petition to adjust water quality requirements in the Sacramento San Joaquin Delta, allowing the State Water Project and the federal Central Valley Project to conserve water supplies in upstream reservoirs and more effectively operate their facilities in response to ongoing drought conditions. In addition, the State Water Board will be issuing notices to “junior priority” water-right holders to curtail their diversions of water from the Sacramento and San Joaquin River systems. Both of these actions, which are included in the Governor’s recent State of Emergency declaration, reflect extraordinary circumstances brought on by the state’s record drought. Due to the severity of the current situation, the Water Board will need to have ongoing constant oversight and monitoring during the drought conditions. As a result, workload will increase significantly to insure water users are in compliance with any actions set by the State Water Board as conditions evolve.

LAO COMMENTS

We recommend approving this proposal with the addition of budget bill language directing DOF to adjust DWR’s special fund appropriations and reimbursements. The administration proposes to redirect existing staff to drought response activities and support those positions with General Fund. However, some of those positions are currently supported by special funds. Yet, the proposal does not include adjustments to SWRCB’s special fund appropriations to account for those redirections. In addition, some drought activities (such as processing water transfers) may generate revenue from fee payers that should offset General Fund costs. Thus, we recommend budget bill language that would direct DOF to adjust SWRCB’s special fund appropriations and reimbursements, as appropriate, to reflect (1) lower spending from special funds, and (2) additional revenues from fee payers.
STAFF COMMENTS

On-going support is necessary in order for the Water Board to continue working on these activities from July 1, 2014 through November 30, 2014. This proposal is in effort to effectively support activities to protect public health and safety from more severe water shortages should extreme drought conditions continue.

To address LAO concerns, staff alternatively suggest that the Subcommittee consider directing the Department to report cost savings to the Legislature on or before January 10, 2015, similar to staff recommendation for the DWR drought proposal.

Staff Recommendation: Approve May Revision proposal. Require the Department to report related cost savings to the Legislature on or before January 10, 2015.

ISSUE 2: REGIONAL DRINKING WATER AND WASTEWATER PLAN FOR SALINAS VALLEY (MR)

The Governor's May Revision requests $500,000 from the Waste Discharge Permit Fund (WDPF) penalty assessments for use by the Greater Monterey County Regional Water Management Group to develop an integrated plan to address the drinking water and wastewater needs of the disadvantaged communities in the Salinas Valley.

The funds would be available for assessment and feasibility studies necessary to develop the plan. The Greater Monterey County Regional Water Management Group would be required to develop the plan in consultation with appropriate stakeholders, including the State Water Board and representatives of disadvantaged communities. Plan requirements would include identification of disadvantaged communities without safe drinking water and recommendations for planning, infrastructure, and other water management actions that achieve affordable, sustainable solutions for disadvantaged communities, including communities without public water systems.

BACKGROUND

Salinas Valley is one of the regions in the country with the largest agricultural production. However, years of intensive fertilizer and pesticide use have left a legacy of water pollution in the region's surface and groundwater. Nitrate groundwater contamination not only imposes serious health risks but it also results in major costs for small rural communities like the ones in the Salinas Valley. Senate Bill SB X2 1 (Perata), Chapter 1, Statutes of 2008 Second Extraordinary Session, required the State Water Board, in consultation with other agencies, to prepare a report to the Legislature focusing on nitrate groundwater contamination in the state and potential remediation solutions. In response, the State Water Board contracted with the University of California at Davis (UCD) to gather information for the report, which was released in January 2012. The study showed that nitrate loading to groundwater in the four-county Tulare Lake Basin and the Monterey County portion of the Salinas Valley is widespread and chronic, and is overwhelmingly the result of crop and animal agricultural activities. Due to long transit times, the impact of nitrates on groundwater resources will likely worsen in scope and concentration for several decades.
According to the UCD study, infants who drink water containing nitrate in excess of the maximum contaminant level (MCL) for drinking water may quickly become seriously ill and, if untreated, may die because high nitrate levels can decrease the capacity of an infant's blood to carry oxygen (methemoglobinemia, or "blue baby syndrome"). High nitrate levels may also affect pregnant women and susceptible adults. In addition, nitrate and nitrite ingestion in humans has been linked to goitrogenic (anti-thyroid) actions on the thyroid gland, fatigue, reduced cognitive functioning, maternal reproductive complications, including spontaneous abortion, and a variety of carcinogenic outcomes.

The UCD study proposed a range of actions that could be taken to address groundwater and drinking water contamination, including policy and regulatory changes and funding options. To examine these proposed actions and to "identify specific, creative, viable solutions," in June 2012, Governor Brown convened a Drinking Water Stakeholder Group. The Drinking Water Stakeholder Group, comprised of representatives from, among others, California state and local agencies, the agricultural community, the environmental justice community, academia, and other water-related entities, proposed three "urgent legislative concepts," which were discussed and agreed upon at the August 1, 2012, meeting of the full Stakeholder Group. The Stakeholder Group subsequently submitted an eight-page "Report of the Drinking Water Stakeholder Group," dated August 20, 2012, of which one of the proposed concepts was: "Directly target funding for IRWMs (or other entity where appropriate) to develop an inventory of need and a plan for local solutions (including shared solutions) for disadvantaged communities in unincorporated areas in each hydrologic region of the state as is being used in the Tulare Lake Basin Disadvantaged Community Water Study (SBX2 1 (Perata, 2008)). Begin with the Salinas Valley."

**LAO Comments**

We recommend rejecting this proposal due to lack of sufficient justification. The Greater Monterey County Region, which is identified to receive this funding, applied for an Integrated Regional Water Management planning grant from DWR in its most recent round of grants (July 2012). However, their application was not selected to receive funding for several reasons, including that their proposal did not explain how it would assist disadvantaged communities. The SWRCB has not provided sufficient justification for why this area should be specially selected for additional planning funding compared to other possible recipients in the state.

**Staff Comments**

LAO's analysis raises important questions about this proposal. The Water Board should address LAO's concerns in its opening remarks.

**Staff Recommendation: Hold Open**
The Governor's Budget requests $785,000 (Safe Drinking Water and Toxic Enforcement Fund) and four, limited term positions to revise Proposition 65, the Safe Drinking Water and Toxic Enforcement Act of 1986, regulations and to develop a website that provides information to the public on exposure to listed chemicals. The Subcommittee heard and held open this issue on April 9, 2014 due to concerns from stakeholders.

The Governor's May Revision requests a technical adjustment to the above mentioned item. The proposal changes the contract funding from $250,000 to $770,000 in 2014-15, one-time, and reduces the contract funding from $250,000 to $0 in 2015-16. This is a net change of $270,000 one-time from the Safe Drinking Water and Toxic Enforcement Fund. This adjustment is based on recommendations contained in the draft Feasibility Study Report (FSR) for the website proposed in this BCP. This adjustment will allow for the procurement of services to develop the website, and is based on the detailed analyses of projected website-development costs contained in the FSR.

**BACKGROUND**

Proposition 65 is a “right-to-know” law that requires businesses to warn individuals when the businesses knowingly expose individuals to a chemical listed by the State of California as known to cause cancer or reproductive toxicity. The law has provided Californians with general information about exposures to hazardous chemicals and has resulted in the reformulation of products to make them safer by reducing or eliminating listed chemicals. Proposition 65 enforcement actions have led businesses to reduce exposures to diesel exhaust emissions from port facilities, acrylamide in snack foods, and lead in calcium supplements, Mexican candies, and children’s jewelry.

This proposal stems from a Proposition 65 reform effort announced by Governor Brown in May 2013. In response to concerns about the clarity and quality of Proposition 65 warnings regarding exposures to chemicals that cause cancer and reproductive toxicity, OEHHA proposes to:

- Promulgate a new regulation requiring businesses to provide more informative warnings about exposures to chemicals that cause cancer, birth defects and other reproductive harm. The regulation will specify required warning language for general exposures pathways from consumer products and facilities where listed chemicals are present. The regulation also will outline new methods for businesses to use to provide warnings, such as including them on a cash-register receipt. Businesses that give warnings will need to provide OEHHA with information regarding specific products or product categories covered by the warnings, the names of chemicals and health effects subject to the warnings, the manner through which individuals are exposed to the chemicals (e.g., through breathing, ingestion or skin contact), the anticipated level of exposure, and actions that individuals can take to reduce or eliminate exposure to the chemicals.

- Establish a website containing the information described in the previous paragraph that businesses will provide to OEHHA. The website will contain information on exposures to listed chemicals from products and facilities in California. The website also will contain general information on many of the 800-plus chemicals currently listed under Proposition
65 as well as supplemental information on ways that Californians are exposed to these chemicals, the hazards these chemicals and products pose, and general measures individuals can take to reduce exposure to these chemicals.

**LAO Comments**

We recommend decreasing the request by $160,000 in 2014-15 (with additional out-year costs of $612,000 in 2015-16 and $141,000 ongoing beginning in 2016-17) in order to align with the costs estimated in the final Feasibility Study Report (FSR). We also recommend adding budget bill language that restricts the ability of the department to spend funds on this project until Department of Technology (CalTech) approves the FSR which was only recently submitted to CalTech. Requiring OEHHA to wait for CalTech approval before spending any funds would help to ensure that cost estimates are reasonable and reduce the risk of major cost increases as the project progresses.

**Staff Comments**

Staff notes that despite its successes, Proposition 65 has not yet achieved the potential envisioned when voters approved the initiative in 1986. Regulations developed 25 years ago allowed Proposition 65 warnings to contain vague information about the presence of an unnamed chemical or chemicals that cause cancer or reproductive harm. This was in part due to the technological and analytical limitations at that time, which do not exist today. The current warnings generally do not identify the chemicals, indicate how the exposure will occur, provide meaningful information on the hazards involved, or suggest actions that individuals may take to reduce or prevent exposure. Few, if any, warnings actually tell individuals they will be exposed to a listed chemical, even though warnings are only required for actual chemical exposures, rather than the mere presence of a listed chemical in a product or facility.

OEHHA will formally propose a new warning regulation in 2014 and, pursuant to the Administrative Procedure Act, complete the regulatory process by early 2015. While the regulatory process is taking place, OEHHA will work with a contractor to plan and develop the website. It is critical that development of the website occur simultaneously with the regulatory process to ensure that the regulation can be implemented promptly upon its adoption. Without the funding in this proposal to develop the website, implementation of the regulation would be delayed for one year or more after its adoption.

With regard to LAO’s recommendation, staff and the Department of Finance agree with the LAO that funding for the project should tie to the final approved FSR. Thus, staff suggests that the Subcommittee consider adopting LAO’s recommendation to decrease the request by $160,000 in 2014-15 (with additional out-year costs of $612,000 in 2015-16 and $141,000 ongoing beginning in 2016-17), but additionally adopt budget bill language allowing Finance to increase or decrease that item of appropriation based on the final approved FSR and with JLBC notification.

**Staff Recommendation:** Decrease the request by $160,000 in 2014-15 (with additional out-year costs of $612,000 in 2015-16 and $141,000 ongoing beginning in 2016-17), but additionally adopt budget bill language allowing Finance to increase or decrease that item of appropriation based on the final approved FSR and with JLBC notification.
ISSUE 1: CALIFORNIA ENERGY SYSTEMS FOR THE 21ST CENTURY

BACKGROUND

Electric Utility Research. California’s IOUs – Pacific Gas and Electric (PG&E), Southern California Edison (SCE), and San Diego Gas and Electric Company (SDG&E) – have a long history of conducting public interest energy research funded by ratepayers through various programs. The utilities can get rate recovery for research and development expenses when the CPUC sets utility rates. The “Public Goods Charge,” collected from IOU ratepayers from 1996 until it expired in 2012, funded the Public Interest Energy Research (PIER) program, administered by the California Energy Commission (CEC). PIER research grants were awarded to many entities including national laboratories, and on myriad topics including cybersecurity.

As a result of the sunset on PIER, the CPUC, in late 2012, established the Energy Program Investment Charge (EPIC), which currently funds $162 million per year in research and development investment plans administered by the IOUs and CEC.

Cybersecurity. Public health and safety and economic security depend on reliable functioning of the state’s critical infrastructure, including the electric grid. As the grid increasingly relies on advanced real-time communication systems and interconnectivity of information technology (smart grid), it becomes more vulnerable to incapacity or destruction from cyber-attacks. Accordingly, identifying, assessing, and managing cybersecurity risk is a reasonable and high priority for electric utilities. Many cybersecurity research projects currently underway or in the planning stages involve Lawrence Livermore National Laboratories (LNLL) and other national laboratories including Oak Ridge National Laboratory, Pacific Northwest Laboratory, and Sandia National Laboratory, as well as collaboration with the Department of Energy, Department of Homeland Security, and the Federal Energy Regulatory Commission.

In December 2012, the CPUC approved the IOUs’ application to enter into a five-year research and development agreement with LLNL to establish a “21st Century Energy Systems” (CES-21) program. The decision authorized up to $30 million a year of ratepayer funds for research activities for a total of $152.19 million (including franchise fees and uncollectibles), with a portion of costs allocated to each utility – 55 percent to PG&E, 35 percent to SCE, and 10 percent to SDG&E. The agreement authorized research categories including Gas Operations, Electric System Operations, Electric Resource Planning, and Cybersecurity. It also specified a six-member board of directors, with three utility representatives and three others chosen by the utilities with relevant research backgrounds in either academia or research institutes. In April 2013, the CES-21 board approved a proposed 18-month research portfolio and budget and administrative budget.

Budget Act Limits CES-21. As noted in the May 7, 2014, Subcommittee agenda, last year, the Legislature took a series of actions to increase controls and oversight of the CPUC. This Subcommittee conformed with several actions taken by the Senate Subcommittee No. 2 related to trusts and entities created by the CPUC.
An excerpt from the last year's Senate agenda on this issue stated:

The CPUC issued a decision in late 2012 authorizing the utilities to enter into the agreement, and to provide the CPUC with a list of proposed projects annually. The utilities would be exempt from anti-trust laws. There was no competitive solicitation for this project or consideration of other currently pending proposals at both the Legislature and the CPUC, such as the Public Goods Charge and the Electric Program Investment Charge.

It is clear from the public record of the CPUC proceedings that this proposal was not only directed by the CPUC, but that for more than a year prior to the application's submission, the president of the CPUC worked with the utilities and LLNL to develop the proposal. The president, as revealed in now-public email records, oversaw the shaping of the proposal and calling it the “overall grand project with all three energy utilities.” The entirety of this project would be undertaken outside the State’s budget process, with utilities required to send their contributions directly to LLNL, with no state review.

Upon developing the proposal, the president of the CPUC assigned the approval of this project to himself. He then approved the proposal in its entirety.

The CPUC has crossed the line between budget and policy, both of which are the purview of the Legislature. The CPUC in its quasi-legislative capacity, has attempted to usurp the Legislative branch’s prerogative to determine what future projects and policies make sense. The major five-year proposal described above should be vetted in the Legislature, either in a policy bill or in the budget process. The manner in which this project was approved would circumvent both of these processes and effectively challenge the notion of checks and balances.

As a result of these concerns, the resources trailer bill language, SB 96, Statutes of 2013, included a reduction of the CES-21 research funding to no more than $35 million over the five-year research period and directed that research focus only on cybersecurity and grid integration. The bill also limited management expenses and expressly disallowed program management expenditures. Further, the bill required LLNL to ensure that research parameters reflect a new contribution to cybersecurity and not be duplicative of other public and private research and required annual reports to the CPUC and Legislature on research project outcomes and expenditures.

On March 27, 2014, the CPUC adopted a decision implementing SB 96’s scaled back requirements and noted that all project proposals will be subject to rigorous justification requirements to compete for scarce resources.
STAFF COMMENTS

According to a letter from the LLNL on May 15, 2014, the original budget for the cybersecurity element of the CES-21 project was approximately $50 million, which included costs for advance computing. Due to the reduced allocation of funding stipulated in SB 96, the following three areas originally planned in the CES-21 project have been removed from the scope of work slated to begin in June:

a) Development of modeling and simulation tools to evaluate and design power grid systems that are more resilient to cyber-attack;

b) Research to detect additional threats associated with highly sophisticated adversaries using methods and tools that employ machine learning and data processing techniques to analyze large volumes of network traffic; and

c) Development of tools and approaches that reduce the risk of computer-controlled grid devices to "backdoors" and other cyber supply chain vulnerabilities.

The following table, provided by LLNL, is a breakdown of the estimated cost for the cybersecurity work described above.

<table>
<thead>
<tr>
<th>$M</th>
<th>%</th>
<th>Category</th>
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<tbody>
<tr>
<td>3.0</td>
<td>20%</td>
<td>IOU Staff (research assistance and implementation)</td>
</tr>
<tr>
<td>5.0</td>
<td>33%</td>
<td>LLNL Core Research</td>
</tr>
<tr>
<td>3.0</td>
<td>20%</td>
<td>Partner Research (university and national lab)</td>
</tr>
<tr>
<td>4.0</td>
<td>27%</td>
<td>Advance Computing modeling and simulation staff and computing time</td>
</tr>
<tr>
<td>15.0</td>
<td></td>
<td>Total</td>
</tr>
</tbody>
</table>

LLNL states, "all three areas are of strategic importance to our electric infrastructure and reduce the risk of adversaries creating broad and catastrophic failures in California's infrastructure impacting the economy and defense postures."

Given that the Legislature authorized funding to LLNL to conduct cybersecurity work to protect California's electric grid from outside threats, the Subcommittee may wish to consider supplemental funding of up to $15 million (ratepayer funds) to allow LLNL to address the full range of cybersecurity threats contemplated in the CES-21 project.

Staff Recommendation: Approve trailer bill language to authorize to up to $15 million (ratepayer funds) for LLNL to address the three areas stated above (labeled a), b), and c)) contemplated in the CES-21 project.