

AGENDA

ASSEMBLY BUDGET COMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, MAY 3

9:30 A.M. - STATE CAPITOL, ROOM 447

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VOTE-ONLY

3900 AIR RESOURCES BOARD

VOTE-ONLY ISSUE 1: CARL MOYER PROGRAM FUND ALIGNMENT

The Governor's budget requests to shift \$318,000, within the Air Pollution Control Fund, from local assistance to state operations in order to fund two positions. This alignment is necessary to continue implementation of the Carl Moyer Memorial Air Quality Standards Attainment Program, due to changes in workload.

New commitments outlined in the State Implementation Plan Mobile Source Strategy, the Sustainable Freight Action Plan, and the Climate Change Scoping Plan will rely heavily on air pollution reduction incentive programs, which requires additional program support.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 2: GREENHOUSE GAS SCOPING PLAN UPDATES (AB 197)

The Governor's budget requests four positions and \$1.489 million (\$1.389 million from the Cost of Implementation Account and \$100,000 from Distributed Administration) to meet the statutory requirements in Chapter 250, Statutes of 2016 (AB 197).

AB 197, among other things, requires the ARB to provide public access to GHG, criteria, and toxic emissions data on a public website, and subject GHG-emissions-reduction measures in future Scoping Plan Updates and regulatory proceedings to refined social cost of carbon analyses.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 3: REVISED FUND SOURCE FOR THE NEAR-ZERO TRUCK AND BUS PROGRAM AND THE ADVANCED CLEAN CAR PROGRAM

The Governor's budget requests an ongoing appropriation of \$1.2 million (\$488,000 from the Motor Vehicle Account and \$798,000 from the Cost of Implementation Account) for the Near-Zero Clean Truck and Bus and Advanced Clean Car Programs.

The Budget Act of 2016 approved resources for this program on a permanent basis but only provided funding for one year from the Air Pollution Control Fund. ARB was directed to identify alternate fund sources for these permanent programs in future years.

This proposal identifies the Motor Vehicle Account and Cost of Implementation Account as appropriate ongoing fund sources for these permanent programs.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 4: CONTINUED IMPLEMENTATION AND PROGRAM OVERSIGHT FOR THE CALIFORNIA PORTS INFRASTRUCTURE SECURITY AND AIR QUALITY IMPROVEMENT ACCOUNT, HIGHWAY TRAFFIC REDUCTION, AIR QUALITY AND PORT SECURITY FUND OF 2006 (PROPOSITION 1B) - SFL

A Spring Finance Letter requests an ongoing appropriation of \$826,000 from Proposition 1B for program administration and a one-time appropriation of \$1.2 million Proposition 1B for local assistance. This request additionally proposes to revert the unencumbered balance of \$20 million of Prop 1B.

Staff Recommendation: Adopt Spring Finance Letter

**3860 DEPARTMENT OF WATER RESOURCES
3940 STATE WATER RESOURCES CONTROL BOARD**

VOTE-ONLY ISSUE 5: SUSTAINABLE GROUNDWATER MANAGEMENT ACT IMPLEMENTATION

The Governor's budget requests a total of \$17.3 million for two departments for continued implementation of the Sustainable Groundwater Management Act. Specifically, the request includes:

Department of Water Resources:

- \$15 million ongoing General Fund and 28.9 existing positions in 2017-18 growing to 54.1 positions in 2020-21 for the DWR to serve its legislatively mandated role in implementing the Sustainable Groundwater Management Act and supporting local agencies to achieve regional sustainability.

State Water Resources Control Board:

- \$2.3 million from the Water Rights Fund - \$750,000 ongoing and \$1.5 million one-time, and five new positions for SWRCB to develop the SGMA reporting unit in order to implement enforcement and intervention requirements.

Staff Recommendation: Approve as Budgeted

3860 DEPARTMENT OF WATER RESOURCES

VOTE-ONLY ISSUE 6: SAN JOAQUIN RIVER WATER QUALITY IMPROVEMENT PROGRAM

The Governor's budget requests revert and reappropriate \$1.26 million in Proposition 84 funds to support improving water quality in the Lower San Joaquin River by eliminating discharge of agricultural subsurface drainage water. This proposal will support the administration and distribution of previously approved Proposition 84 funding for local assistance projects to improve drinking water quality to the Delta.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 7: SAFETY OF DAMS BASELINE BUDGET INCREASE

The Governor's budget requests a one-time appropriation of \$364,000 from the Dam Safety Fund for office relocation expenses, and an ongoing baseline increase of \$242,000 from the Dam Safety Fund for increased rental costs.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 8: DELTA MINE DRAINAGE IMPACTS ABATEMENT COMBINE RESERVOIR

The Governor's budget requests \$6.13 million in Proposition 13 funds over 3 years (\$5.7 million in FY 17-18, \$211,000 in FY 18-19, and \$204,000 in FY 19-20) and a reversion of \$3.08 million. The requested fund would be used to develop technology to remove and treat mercury-laden sediment derived from abandoned gold mines at the Combie Reservoir in the Nevada Irrigation District Service Area (straddling the Nevada and Placer County line). The sediment, derived from historic mining, contains mercury and adversely affects Delta water quality. The requested resources also supports the evaluation of the emerging technology.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 9: DELTA SMELT RESILIENCY STRATEGY

The Governor's budget requests \$2.6 million from General Fund and \$900,000 from the Harbors and Watercraft Revolving Fund, on a one-time basis, to support four critical actions to combat the decline of Delta smelt, a species listed under both state and federal law as endangered.

The Resiliency Strategy is a science-based plan prepared by the state to voluntarily address both immediate and near-term needs of Delta smelt, as well as to promote smelt resilience to ongoing drought conditions and future variations in habitat conditions. The Resiliency Strategy addresses each life history stage of the fish, acknowledging that there is no single driver to population decline (and thus population recovery). The Resiliency Strategy relies on peer-reviewed science and inter-agency consensus to articulate a suite of actions that can be implemented over the next few years. The actions are aggressive and can be implemented with minimal involvement outside of state and key federal agencies.

Initial implementation of the Resiliency Strategy has proven promising. General Funds made available in 2016 supported an agricultural water management pilot project in the North Delta that produced significant amounts of phytoplankton, the food-web precursor to zooplankton, which in turn is a critical food source for Delta smelt.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 10: REAPPROPRIATIONS, EXTENSIONS OF LIQUIDATION PERIODS, AND TECHNICAL ADJUSTMENTS - SFL

A Spring Finance Letter requests the reappropriation of previous appropriations of Greenhouse Gas Reduction Fund dollars, as well as Prop 13, Prop 84, and Prop 1 funds. These reset the clock on the prior appropriations so funding agreements can be entered into and agreements can be fulfilled.

The proposal also request for extension of the liquidation period of a couple of previously appropriated General Fund, Environmental License Plate Fund, Prop 13, Prop 50, and Prop 84 dollars. For these, the agreements are already in place, but more time is needed for recipients to complete work, submit invoices, have those processed by the state, and then to have the state make payments.

The proposal also requests for reversion of unused balances from previously appropriated Prop 13 and Pro 50 funds.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 11: CENTRAL VALLEY FLOOD PROTECTION BOARD PERMITTING AND ENFORCEMENT

The Governor's budget requests \$2.2 million General Fund for nine new positions and one existing position for the Central Valley Flood Protection Board to support the permitting process and enforcement of encroachments of the State Plan of Flood Control and related facilities. While the Board is an independent entity, its budget is contained within the Department of Water Resources' (DWR), and it receives some staff and administrative support from DWR.

Staff Recommendation: Approve as Budgeted

3940 STATE WATER RESOURCES CONTROL BOARD

VOTE-ONLY ISSUE 12: UNDERGROUND STORAGE TANK CLEANUP FUND SITE CLEANUP REQUEST PROCESSING WORKLOAD

The Governor's budget requests \$1 million in Underground Storage Tank Cleanup Fund (USTCF) and seven permanent positions to increase efficiency in processing claim payments. The USTCF was created to pay the out-of-pocket costs of persons required to perform work to clean up contamination from petroleum underground storage tanks (USTs). Money in the USTCF is generated by a per gallon fee paid by the UST owners.

Owner and operators of a petroleum underground storage tank (UST) has financial responsibility to pay for any damages arising from their tank operations. The USTCF was created to provide a means for petroleum UST owners and operators to meet the federal and state requirements and pay for the cleanup of contaminated soil and groundwater when a leak is discovered.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 13: LOWER KLAMATH PROJECT WATER QUALITY CERTIFICATION

The Governor's Budget requests \$410,000 from the Water Rights Fund to create 2.5 permanent positions to develop and implement water quality certification for the Lower Klamath Project. Certification conditions include restoration activities, environmental resource monitoring, adaptive management, and remediation plans that will occur for 10 to 50 years following dam removal activities.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 14: SB 828 PROP 98 FOR SCHOOLS – DRINKING WATER GRANTS – REAPPROPRIATION OF CONTRACT FUNDS

The Governor's budget requests an extension of the encumbrance and liquidation period of the state contract funds to conform to the period of availability of the local assistance grant funds included in SB 828 (Committee on Budget and Fiscal Review) Chapter 29, Statutes of 2016.

SB 828 appropriated \$9.5 million from the general fund for the program that includes the local assistance availability period of three years to encumber and two additional years to liquidate the funds. The Budget Act of 2016 appropriated \$500,000 for state operations to provide technical assistance to schools with applications. The budget act did not include the same extended encumbrance and liquidation period as the local assistance. Technical assistance is necessary during the entire length of the projects to ensure appropriate implementation.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 15: UNDERGROUND STORAGE TANK PETROLEUM CONTAMINATION ORPHAN SITE CLEANUP FUND TECHNICAL ADJUSTMENTS

The Governor's budget requests a revert and reappropriate \$6.8 million in the Underground Storage Tank Petroleum Contamination Orphan Site Cleanup Fund (OSCF) to be available for encumbrance through 2020.

OSCF provides financial assistance for remediation of the harm caused by petroleum contamination from underground storage tank where the financially responsible party has not been identified. The program was created to make funding available to persons that did not cause the petroleum contamination but are willing to undertake the cleanup. Without this proposal, funds would revert back to the Underground Storage Tank Cleanup Fund and not be available for these projects.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 16: TECHNICAL BOND ADJUSTMENT

The Governor's budget requests a reversion and reappropriation of \$8.3 million in order to align budget authority to actual expenditure plan. This proposal affects fund authority in propositions 13, 84, 50, and 204.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 17: FUNDING FOR FISH CONSUMPTION ADVISORIES - SFL

A Spring Finance Letter requests a funding shift of \$381,000 from the State Water Quality Control Fund - Cleanup and Abatement Account to Waste Discharge Permit Fund to pay for fish consumption advisory services provided by the Office of Environmental Health Hazard Assessment. This Spring Finance Letter corrects a technical error in a related budget change proposal included in the 2017-18 Governor's Budget, which identified the wrong funding source for the proposed activities.

Staff Recommendation: Adopt Spring Finance Letter**VOTE-ONLY ISSUE 18: OIL AND GAS MONITORING PROGRAM SUPPLEMENT FOR EXISTING UNDERGROUND INJECTION CONTROL (UIC) PROJECT REVIEW**

The Governor's budget requests \$1 million from the Oil, Gas, and Geothermal Administrative Fund for three years and seven positions to ensure Class II underground injection control projects are in compliance.

In 2015, SWRCB received \$2.9 million and 19.0 permanent positions to:

- review aquifer exemption proposals from DOGGR,
- review UIC wells identified by DOGGR as injecting into aquifers that may not have been properly exempted,
- review UIC project proposals,
- review discharges of produced water to surface ponds, and
- take appropriate enforcement action where necessary.

Staff Recommendation: Approve as Budgeted**3540 DEPARTMENT OF FORESTRY AND FIRE PROTECTION****VOTE-ONLY ISSUE 19: BOARD OF FORESTRY AND FIRE PROTECTION FISCAL REALIGN**

The Governor's budget requests a total of \$293,000 State Responsibility Area Fire Prevention Fund and Timber Regulation and Forest Restoration Fund for specified Governor's appointee and staff salary increases in 2017-18 and 1.0 position for a full-time, dedicated Attorney.

The Board of Forestry and Fire Protection is a government-appointed body within the Department of Forestry and Fire Protection (CalFire). The Board is responsible for developing the general forest policy of the state, for determining the guidance policies of CalFire and for representing the state's interest in federal forestland in California.

Together, the Board and CalFire work to protect and enhance the state's unique forest and wildland resources.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 20: MOUNT BULLION CONSERVATION CAMP: EMERGENCY SEWER SYSTEM REPLACEMENT - SFL

A Spring Finance Letter requests reappropriation of funding for the preliminary plans, working drawings, and construction phases of the Mount Bullion Conservation Camp Emergency Sewer System Replacement project. This project will replace the sewage disposal system at Mount Bullion Conservation Camp in Mariposa County.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 21: BADGER FOREST FIRE STATION: REPLACE FACILITY - SFL

A Spring Finance Letter requests provisional language that was omitted in the Governor's Budget that aligns the encumbrance expiration date of the project with the project's other chaptered schedules and adds standard provisions related to the issuance of lease revenue bond funds for state projects.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 22: IMPLEMENTATION OF AB 1958, AB 2029, SB 122

The Governor's budget requests \$1.377 million (\$1.257 million Timber Regulation and Forest Restoration Fund and \$120,000 Reimbursements) and 6.0 positions to comply with recent legislation. Specifically:

- AB 1958 (Wood, Chapter 583, Statutes of 2016) - requires CalFire to evaluate and report on the effects of the non-oak trees THP exemption, which exempts the removal of non-oak trees for the purpose of restoring or conserving oak woodlands.
- AB 2029 (Dahle, Chapter 563, Statutes of 2016) - requires CalFire to evaluate the Forest Fire Prevention Pilot, which provides a THP exemption for specific tree removal activities that could reduce fire risk. The department is required to monitor all projects submitted under the pilot.
- SB 122 (Jackson, Chapter 476, Statutes 2016) - requires CalFire to prepare a record of proceedings—an official record of all project application materials,

reports, and related documents—concurrently with a THP or other type of harvest permit at the request of the applicant. The \$120,000 Reimbursements will be funded by the requesting party to pay for the costs of preparing the record of proceedings, which is separate from and not required for THP review.

STAFF COMMENTS

Due to some concerns regarding the types of assessments required in the report and its ultimate value, staff suggests adopting trailer bill language to strengthen the report.

Staff Recommendation: Approve as budgeted and adopt place holder trailer bill language to delay the report required by AB 1958 by one year and specify that the report shall include an analysis of exemption use, the need to remove or consolidate exemptions, whether the exemptions are having the intended effect, any barriers for small forest owners, and measures that might be taken to make exemptions more accessible to small forest owners.

3600 DEPARTMENT OF FISH AND WILDLIFE

VOTE-ONLY ISSUE 23: SALMON AND STEELHEAD TROUT RESTORATION GRANT PROGRAM

The Governor's budget requests \$140,000 from the Salmon and Steelhead Trout Restoration Account to fund local assistance grant opportunities and takes advantage of federal matching funds. These funds will be awarded through the Fisheries Restoration Grant Program, which is a competitive grant program created to respond to rapidly declining populations of salmon and steelhead trout in California.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 24: PROPOSITION 84 REVERSION

The Governor's budget requests to revert \$9.98 million in Prop 84 funds. The department received \$12.4 million in FY 13-14 and FY 14-15 for projects related to ecosystem restoration, coastal salmon and steelhead fishery restoration, and conservation in the California Bay-Delta region. There is a balance of \$9.98 million remaining at the end of FY 2015-17, and will not revert until June 30, 2019.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 25: YOLO BYPASS WILDLIFE AREA – WATERFOWL HABITAT

The Governor's budget requests \$246,000 from the Fish and Game Preservation Fund – State Duck Stamp Account to provide habitat for resident and migratory waterfowl and other wetland dependent wildlife by installing water infrastructure and excavation.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 26: PROPOSITION 1 SAN JOAQUIN RIVER SETTLEMENT REVERSION

The Governor's budget requests \$16.7 million Proposition 1 funds for local assistance with activities related to the San Joaquin River Settlement and a reversion of last year's Proposition 1 appropriation of \$16.7 million for state operations and (2) increase the Proposition 1 appropriation for local assistance.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 27: WATER STORAGE INVESTMENT PROGRAM

The Governor's budget requests \$1.9 million reimbursement authority for support, development, and implementation of the Water Storage Investment Program (WSIP), established in Proposition 1. Proposition 1 also requires the Department to participate in specific components of the WSIP. The requested resources allow the Department to meet these statutory requirements.

Staff Recommendation: Approve as Budgeted

3840 DELTA PROTECTION COMMISSION

VOTE-ONLY ISSUE 28: DELTA PLAN IMPLEMENTATION

The Governor's budget requests a one-time appropriation of \$91,000 and an ongoing appropriation of \$119,000 from the Environmental License Plate Fund to coordinate and perform duties related to the implementation of the Delta Plan. The regularly recurring Delta Plan updates require consistency coordination, project review, and development of policies and procedures.

Staff Recommendation: Approve as Budgeted

0540 NATURAL RESOURCES AGENCY

VOTE-ONLY ISSUE 29: REAPPROPRIATIONS: OCEAN PROTECTION, URBAN GREENING, RIVER PARKWAYS AND MUSEUM GRANT PROGRAMS - SFL

A Spring Finance Letter requests to reappropriate the unencumbered balances of several appropriations to complete projects that are underway and to award new grants with funds from projects that came in under budget and for projects that were unsuccessful. Specifically:

- River Parkways Program - Reappropriate Prop 40 funds from 2014-15, reappropriate Prop 50 funds from 2006-07 and 2007-08, reappropriate Prop 84 funds from 2008-09.
- California Cultural and Historical Endowment - Reappropriate Prop 40 funds from 2014-15.
- Urban Greening - Reappropriate Prop 84 funds from 2010-11 and 2011-12.
- Ocean Protection Council - Reappropriate Prop 84 funds from 2008-09 and 2009-10.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 30: CLIMATE CHANGE SCOPING PLAN IMPLEMENTATION: NATURAL AND WORKING LANDS - SFL

A Spring Finance Letter requests \$675,000 from Cost of Implementation Account to develop a baseline analysis of statewide natural and working lands carbon emissions, carbon sequestration potential, as well as management and biomass utilization activities that can be employed to meet California's target of managing these lands as a resilient net carbon sink.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 31: SAN JOAQUIN RIVER RESTORATION SETTLEMENT - PROP 84 APPROPRIATION - SFL

A Spring Finance Letter requests \$20,464,000 of Proposition 84 funding for the implementation of the San Joaquin River Restoration Settlement. The funds will be used to reimburse interagency agreements with the California Department of Water Resources and the California Department of Fish and Wildlife for work related to the implementation of the San Joaquin River Restoration Project.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 32: IMPLEMENTATION OF AB 2800 (QUIRK), CLIMATE CHANGE IN INFRASTRUCTURE PLANNING AND DEVELOPMENT - SFL

A Spring Finance Letter requests \$150,000 in Environmental License Plate Fund to implement AB 2800 (Quirk, Chapter 580, Statutes of 2016). AB 2800 requires CNRA to establish and manage a Climate-Safe Infrastructure Working Group, comprised of registered engineers, scientists, other institutions, and registered architects to provide recommendations to the Strategic Growth Council and Legislature on how to integrate scientific data concerning projected climate change impacts into state infrastructure engineering.

Staff Recommendation: Adopt Spring Finance Letter

3640 WILDLIFE CONSERVATION BOARD

VOTE-ONLY ISSUE 33: PROPOSITION 1 POSITION AUTHORITY - SFL

A Spring Finance Letter requests to make two limited-term positions, expiring July 1, 2017, full-time permanent positions for the ongoing needs of the Stream Flow Enhancement Program.

Staff Recommendation: Adopt Spring Finance Letter

3810 SANTA MONICA MOUNTAINS CONSERVANCY

VOTE-ONLY ISSUE 34: LOCAL ASSISTANCE PROPOSITION 84 - SFL

A Spring Finance Letter requests a local assistance appropriation of \$963,000 from Proposition 84. In February 2017, there was a return of proposition 84 funds from a Conservancy grant. This proposal is for a new appropriation of up to \$963,000 of these returned funds to be used for local assistance for the implementation of projects consistent under Proposition 84.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 35: PROP 40, 50 - SFL

A Spring Finance Letter requests to reappropriate Propositions 40 and 50 funds included in the Budget Act of 2012. Additionally, the Conservancy requests the funds be available for encumbrance and expenditure until June 30, 2020. Funds will be used for

the acquisition, enhancement, restoration of natural lands, improvement of public recreation facilities, and for grants to local agencies and non-profit organizations to increase access to parks and recreation opportunities for underserved urban communities.

Staff Recommendation: Adopt Spring Finance Letter

**3825 SAN GABRIEL AND LOWER LOS ANGELES RIVER AND MOUNTAINS
CONSERVANCY**

VOTE-ONLY ISSUE 36: PROPOSITION 40 REVERSION - SFL

A Spring Finance Letter requests to revert \$1,823,000 from the Budget Act of 2015. This request is necessary to prevent a negative Proposition 40 bond allocation balance for the San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy (RMC).

Staff Recommendation: Adopt Spring Finance Letter

3835 BALDWIN HILLS CONSERVANCY

**VOTE-ONLY ISSUE 37: RE-APPROPRIATION FOR BHC PROP 84 LOCAL ASSISTANCE GRANT
PROGRAM - SFL**

A Spring Finance Letter requests a reappropriation of the unencumbered balance of a 2014 appropriation from Proposition 84. These funds will be available for local assistance grants or capital outlay for land conservation, preservation, planning and development, as well as, water quality improvements and habitat restoration in the Baldwin Hills and Ballona Creek Watershed.

Staff Recommendation: Adopt Spring Finance Letter

3845 SAN DIEGO RIVER CONSERVANCY

VOTE-ONLY ISSUE 38: PROPOSITION 1 POSITION AUTHORITY - SFL

A Spring Finance Letter requests for the conversion of one limited-term position to permanent position to manage the Proposition 1 grant program and continue other reporting required by permits for its invasive non-native control and restoration program.

Staff Recommendation: Adopt Spring Finance Letter

3855 SIERRA NEVADA CONSERVANCY

VOTE-ONLY ISSUE 39: PROPOSITION 84-NEW APPROPRIATION - SFL

A Spring Finance Letter requests a local assistance appropriation of \$285,000 from Proposition 84. These funds will be used to award grants and cooperative agreements to governmental agencies, eligible nonprofit organizations, and tribal organizations to accomplish the SNC's mission to initiate, encourage, and support efforts that improve the environmental, economic, and social well-being of the Sierra Nevada Region.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 40: REQUEST FOR FEDERAL TRUST FUND - SFL

A Spring Finance Letter requests an ongoing Federal Trust Fund Authority of \$30,000. The California Natural Resources Agency has entered into a Memorandum of Understanding with the U.S. Forest Service (USFS) which recognizes "the importance of the Sierra Nevada Region and the need to work collaboratively to address the issues of the region under the Sierra Nevada Watershed Improvement Program (WIP). The MOU identifies the Sierra Nevada Conservancy (SNC) as the lead state agency in implementing the WIP. The USFS has indicated they would like to fund activities in support of the WIP to assist SNC in addressing challenges in the Region.

Staff Recommendation: Adopt Spring Finance Letter

3125 CALIFORNIA TAHOE CONSERVANCY

VOTE-ONLY ISSUE 41: TAHOE PINES CAMPGROUND RESTORATION AND ACCESS PROJECT-SFL

A Spring Finance Letter requests \$323,000 from the Habitat Conservation Fund (Prop 117) and \$200,000 from the Lake Tahoe Conservancy Account (LTCA) for the construction phase of the Tahoe Pines Campground Restoration project. The proposal also requests a reversion of the unencumbered Prop 117 and LTCA balances from three existing appropriations.

The Tahoe Pines Campground Restoration and Public Access Project will restore degraded wetland and riparian habitat, install water quality improvements, and provide public access improvements.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 42: LOCAL ASSISTANCE FUNDING TECHNICAL ADJUSTMENT - SFL

A Spring Finance Letter requests to add provisional language to Items 3125- 101-0890 and 3125-101-6051 included in the Governor's Budget. The adjustment would add a provision allowing the use of the funds for capital outlay, upon the approval of the Department of Finance.

Item 3125-101-0890 appropriates the first \$2,318,000 of a \$6.8 million grant award of Southern Nevada Public Lands Management Act funds by Bureau of Land Management for forestry work on 1,200 - 1,800 acres of land over the next six years on lands owned by the state, local jurisdictions, and major public holdings within the jurisdiction of local fire districts.

Item 3125-101-6051 appropriates Proposition 84 funds to match the Lake Tahoe Science and Lake Improvement Account funds expended as required by SB 630 (Pavley, Chapter 762, Statutes of 2013).

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 43: SOUTH TAHOE GREENWAY SHARED USE TRAIL PHASE 1B/2 - SFL

A Spring Finance Letter requests to switch the fund source for this project from federal funds to reimbursement authority. This project will still be reimbursed for the amount of \$250,000. However, the reimbursement will come from Caltrans via a grant from the Active Transportation Program (ATP) rather than federal funds.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 44: CONCEPTUAL FEASIBILITY PLANNING - SFL

A Spring Finance Letter requests a reduction of \$18,000 from Proposition 12 for conceptual and feasibility studies originally requested in the Governor's Budget.

Staff Recommendation: Adopt Spring Finance Letter

3340 CALIFORNIA CONSERVATION CORPS

VOTE-ONLY ISSUE 45: INFORMATION TECHNOLOGY REPLACEMENT PLAN - SFL

A Spring Finance Letter requests expenditure authority of \$625,000 from Collins-Dugan in each year for 2017-18, 2018-19, and 2019-20 to fund existing positions and computer/laptop purchases to replace the current outdated equipment. The personnel resources will be responsible for the computer and laptop replacement plan for the entire department.

Staff Recommendation: Adopt Spring Finance Letter

VOTE-ONLY ISSUE 46: TAHOE BASE CENTER: EQUIPMENT STORAGE RELOCATION - SFL

A Spring Finance Letter requests an additional \$269,000 lease revenue bond funds, above what was requested in Governor's Budget. The 2017-18 Governor's budget proposal for this project assumed acquisition would occur in fiscal year 2016-17. This proposal reflects acquisition being completed in 2017-18 and an increased estimate because of the extended project timeline.

Staff Recommendation: Adopt Spring Finance Letter

8570 DEPARTMENT OF FOOD AND AGRICULTURE

VOTE-ONLY ISSUE 47: SUSTAINING THE VIABILITY OF EMERGENCY EXOTIC PEST RESPONSES

The Governor's budget requests \$1,751,000 in Federal Fund authority annually for two years and 20 permanent positions to create Emergency Plant Health Response Teams.

Due to an increase of exotic pest eradication projects over the past five years, the United States Department of Agriculture awarded CDFA \$1,751,000 in federal funds in 2016-17 to support the hiring and maintenance of Emergency Plant Health Response Teams. These teams develop and implement comprehensive approaches to invasive species eradication.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 48: USE OF ANTIMICROBIAL DRUGS ON LIVESTOCK

The Governor's budget requests an ongoing appropriation of \$2,046,000 General Fund and 8.5 positions to implement SB 27 (Hill, Chapter 758, Statutes of 2015).

SB 27 (Hill, Chapter 758, Statutes of 2015). SB 27 enforces limits on antimicrobial use in livestock and requires CDFA to develop stewardship guidelines, track antimicrobial sales and collect information about on-farm use, sample pathogens for resistance trends and report to the legislature.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 49: SHORT-LIVED CLIMATE POLLUTANTS (SB 1383)

The Governor's budget requests an ongoing appropriation of \$312,000 from the Cost of Implementation Account and two permanent positions to implement SB 1383 (Lara, Chapter 395, Statutes of 2016).

SB 1383 (Lara, Chapter 395, Statutes of 2016) requires the Air Resources Board to develop dairy/livestock manure methane regulations and analyze progress in consultation with CDFA.

Staff Recommendation: Approve as Budgeted

3960 DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

VOTE-ONLY ISSUE 50: STRINGFELLOW SUPERFUND REMOVAL AND REMEDIAL ACTION

The Governor's budget request \$2.5 million General Fund in 2017-18, \$3 million in 2018-19, and \$2.6 million in FY 2019-20 for removal and remedial at the Stringfellow Hazardous Waste Site.

The Stringfellow site, located in Riverside County in Pyrite Canyon, was originally a rock quarry operated by the Stringfellow Quarry Company. In 1956, the Stringfellow Quarry Company opened the site for dumping toxic waste. The hazardous waste disposal facility operated from 1956 until 1972. In its 16 years of operation, more than 35 million gallons of liquid industrial waste were disposed in unlined ponds. The wastes included spent acids and caustics, metals, solvents, and pesticide byproducts from metal finishing, electroplating, and pesticide production.

California became the primary responsible party in 2002 and the US EPA assumed the role of lead regulatory agency for the site. DTSC, on behalf of California, has been remediating, operating, maintaining, and monitoring the Site. Failure to perform could subject the state to regulatory enforcement action by the US EPA.

Staff Recommendation: Approve as Budgeted

3480 DEPARTMENT OF CONSERVATION

VOTE-ONLY ISSUE 51: TBL - CA AG LANDS PLANNING GRANT PROGRAMS - GRANT LIMITS

The Governor's budget proposes trailer bill language to revises the purpose of the Agricultural Protection Planning Grant Program to incorporate climate change goals. The trailer bill also includes language to increase the grant limits from \$500,000 to \$750,000.

Including greenhouse gas reduction goals in the Agricultural Protection Planning Grant would better position the Department to accomplish the goal of comprehensive agricultural land protection planning that also achieves greenhouse gas reduction targets. This request would improve decision-making at the local level on where to target easement acquisitions in order to maximize farmland protection and avoid increases in greenhouse gas emissions.

Staff Recommendation: Adopt Trailer Bill Language as Proposed.

VOTE-ONLY ISSUE 52: AB 2729 IMPLEMENTATION, IDLE WELL TESTING

The Governor's budget requests \$1,500,000 (\$2,500,000 ongoing) from the Oil, Gas and Geothermal Administrative Fund and 15.0 permanent positions to develop the new Idle Well Management Program.

AB 2729 (Williams and Thurmond, Chapter 272, Statutes of 2016) enacted substantive changes to the management of idle wells. AB 2729 ensures that funding is available to cap idle wells and creates disincentives for operators to maintain large numbers of idle wells. Specifically, AB 2729 does the following:

- Redefines "idle well" and "long-term idle well" to ensure that the testing and monitoring necessary to ensure public safety and environmental protection occurs.
- Increases idle well fees and provides an alternative to paying idle well fees for operators who develop and implement a plan to aggressively reduce their long-term idle well inventory.
- Eliminates exemptions and requires that all idle wells and long-term idle wells are subject to either idle well fees or an approved idle well management plan. Requires the Division of Oil, Gas, and Geothermal Resources to update idle well testing and monitoring requirements to detect risks to public health and the environment.

Under the new definitions of idle and long-term idle wells, DOGGR estimates there to be 29,565 idle wells in CA. Pursuant to AB 2729, DOGGR would need to perform additional testing of idle wells, review test results for anomalies, ensure testing is done according to a prescribed schedule. DOGGR would also need to issue notices of violation when it is not, review and approve idle well management plans, and evaluate risks posed to underground sources of drinking water, and require additional testing based on identified risks or proximity to ground water. It is a fairly extensive undertaking that represents a substantial overhaul of how idle well are dealt with in the state.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 53: WELL STATEWIDE TRACKING AND REPORTING (WELLSTAR)

The Governor's budget requests an appropriation of \$21,087,000 in 2017-18, \$15,012,000 in 2018-19, \$5,545,000 in 2019-20, \$2,540,000 in 2020-21, and \$1,327,000 ongoing from the Oil, Gas, and Geothermal Administrative Fund; and 2.0 permanent positions, and 12.0 three-year limited term positions to further develop and implement the Well Statewide Tracking and Reporting, a centralized database system to help run operations and meet the requirements of recent legislation.

The Legislature approved 10 million in 2015-16 and another \$10 million in 2016-17 for an oil and gas data management system, WellSTAR. WellSTAR is designed to give

DOGGR, other state agencies, industry, and the public an integrated information system that provides the information on oil and gas production operations that is required by recent legislation and U.S. EPA. DOGGR entered into an agreement with the California Department of Technology (CDT) to complete a “Stage/Gate” process with assistance and direction of staff from the CDT Consulting and Planning Division. This process consists of providing legal and technical evidence of the project’s vitality, sustainability, and cost-effectiveness.

The initial stages of the project revealed the complex nature of the task to identify all of the system requirements necessary to meet legislative and U.S. EPA requirements. Notably, during one of the initial stages, 473 requirements were identified. However, a later in-depth analysis revealed the initial analysis was incomplete, and a total of 1,384 requirements were documented and confirmed by DOGGR. The division states that because of the rigorous process that was followed to gather, document, and reconfirm requirements, it is confident in the final requirements for the new system.

Staff Recommendation: Approve funding for the first year of development of WellSTAR, \$21.1 million in 2017-18.

ITEMS TO BE HEARD

3860 DEPARTMENT OF WATER RESOURCES

3940 STATE WATER RESOURCES CONTROL BOARD

3600 DEPARTMENT OF FISH AND WILDLIFE

ISSUE 1: OPEN AND TRANSPARENT WATER DATA ACT (AB 1755) - SFL

A Spring Finance Letter requests \$2.9 million from the Water Data Administration Fund in 2017-18 and \$2 million in 2019-20 and ongoing to support eight positions across three departments to implement the Open and Transparent Water Data Act.

BACKGROUND

Local, state, and federal agencies in California currently keep numerous data sets on water ranging from urban use to environmental use and everything in between. Those data sets are not coordinated and as a result do not produce a complete water information picture. The piecemeal approach diminishes the value of these numerous data sets since they may or may not address overlapping problems of supply, use, and efficiency. Having all water data in the state compiled and publicly available in a useable fashion would drive water policy innovation and likely produce many of the benefits that robust useable data have had on energy policy.

AB 1755 (Dodd, Chapter 506, Statutes of 2016) established the Open and Transparent Water Data Act to improve access to water data by creating a statewide information system to integrate critical water data in a user friendly, publicly accessible website to simplify and expedite decision-making. The Act requires the Department of Water Resources, in consultation with the State Water Resources Control Board, the Department of Fish and Wildlife, and the California Water Quality Monitoring Council to create and maintain a statewide-integrated water data platform by August 1, 2020.

LAO COMMENTS

The LAO notes that this budget proposal does not actually provide any funding to implement the new activities required by Chapter 506 of 2016 (AB 1755, Dodd). Rather, it authorizes the departments to spend funding if it received donations from outside entities. DWR has indicated that should sufficient funding not be received (and none has yet been donated), it will not be able to accomplish the activities required by the legislation. If implementing Chapter 506 is a high priority for the Legislature, it may wish to appropriate funding to ensure the activities are accomplished by the timeline set forth in statute. Such funding could potentially come from redirections within the departments' budgets, or from the General Fund. The Legislature could direct the administration to

report back on potential funding sources that would be more certain than potential outside donations.

STAFF COMMENTS

The Subcommittee may wish to ask the Department whether it anticipates donations and whether the department contemplated alternative funding sources for implementing the Act.

Staff Recommendation: Approve as Budgeted

3860 DEPARTMENT OF WATER RESOURCES
3940 STATE WATER RESOURCES CONTROL BOARD**ISSUE 2: WATER CONSERVATION AS A WAY OF LIFE - TBL**

The Governor's budget proposes trailer bill language to make water conservation a way of life. Specifically, the proposal would:

- Require the State Water Resources Control Board (SWRCB), in consultation with the Department of Water Resources (DWR) to set long-term urban water use efficiency standards by May 20, 2021;
- Authorize SWRCB, in consultation with DWR, to adopt interim standards for urban water conservation and water use by emergency regulation.
- Require SWRCB, prior to adopting emergency regulation, to provide at least 60 days for the public to review and comment on the proposed regulation, and to hold a public hearing.
- Authorize the SWRCB authority to issue cease and desist orders to enforce all adopted regulations in the same manner that they have been able to for emergency conservation regulations during the drought.
- Authorize the SWRCB to set emergency conservation regulations for one year instead of 270 days.
- Require urban water suppliers to submit a water shortage contingency plan and conduct a drought risk assessment every five years, and submit a water budget forecast annually.
- Expand existing requirements to require agricultural water suppliers providing water to over 10,000 irrigated acres of land to prepare, adopt, and submit plans by April 1, 2021, and every five years thereafter.
- Require agricultural water suppliers to:
 - Develop an annual water budget for the agricultural water service area.
 - Identify agricultural water management objectives and implementation plans.
 - Quantify measures to increase water use efficiency, and
 - Develop an adequate drought plan for periods of limited supply.

BACKGROUND

The past five years have brought historic drought conditions to California, with 2012-14 being the four driest consecutive years of statewide precipitation. The drought had significant impacts on the environment, agricultural water supply, and urban water supply. Current climate change models predict that severe drought will become a more common occurrence in the future.

On January 17, 2014, the Governor proclaimed a drought state of emergency, requesting Californians to reduce water consumption by 20 percent. The governor's drought declaration also called upon local urban water suppliers and municipalities to implement their local water shortage contingency plans immediately in order to avoid or forestall outright restrictions that could become necessary later in the drought season. Furthermore, the Governor directed local water agencies to update their legally-required Urban and Agricultural Water Management plans, which can help plan for extended drought conditions.

On January 27, 2014, Governor Brown released a California Water Action Plan to address the ongoing drought and long-term challenges such as environmental protection, population growth and climate change. The Plan proposed ten broad actions to make California's water system more resilient to extreme weather cycles like the recent historic drought. One of the ten actions is making water conservation a California way of life.

On May 9, 2016, the Governor issued Executive Order B-37-16 that aims to bolster California's climate and drought resilience. Built on the temporary statewide emergency water restrictions, this Executive Order directed five state agencies (DWR, SWRCB, CPUC, CDFA, and CEC) to develop a new approach to long-term water conservation that will make the state more resilient to future droughts. The trailer bill language that is being considered contains the proposal by the five agencies, which was released in April 2017.

Urban Water Management Plan

Under current law, urban water suppliers must include a water shortage contingency analysis as a component of their Urban Water Management Plan submitted to the Department of Water Resources, which must be updated every five years. Water shortage contingency planning informs emergency efforts to alleviate water supply crises when they happen. Current planning efforts are not consistent across water agencies. Suppliers with adequate water shortage planning and well-defined contingency actions showed high levels of resiliency during the drought.

The proposed trailer bill seeks to strengthen local drought resilience through improved planning and annual assessments.

Agricultural Water Management Planning

Currently, agricultural water suppliers that provide water to more than 25,000 irrigated acres are required to (1) adopt and submit an Agricultural Water Management Plan to the Department, and (2) implement efficient water management practices including the measurement and volumetric pricing of water deliveries. Initial reports were due in 2012 and, beginning in 2015, Ag Water Management Plans must be updated every five years.

Additionally, agricultural water suppliers that provide water to 10,000 and up to 25,000 irrigated acres are currently not required to prepare and submit plans unless state funds are available to support the planning efforts. Current law also permits water suppliers that are contractors under the Reclamation Reform Act or Central Valley Project Improvement Act requirements to submit their federal plans in lieu of a plan meeting the criteria established in SB X7-7 (Chapter 4, Statutes of 2009).

The proposed trailer bill seeks to expand existing requirements to include drought planning and preparation of an annual water budget and have its requirements applicable to agricultural water suppliers providing water to over 10,000 irrigated acres of land.

Pending Legislation Aimed at Water Conservation

There are eight measures moving through the legislative process that seeks to improve water conservation. All eight measures passed out of the Assembly Committee on Water, Parks, and Wildlife on April 25, 2017.

- **AB 869 (Rubio)** – Exempts recycled water from conservation requirements under all conditions.
- **AB 968 (Rubio)** – Requires new 2025 water use efficiency targets for urban water suppliers. Provides options for the targets, protects water rights, and exempts recycled water.
- **AB 1000 (Friedman)** – Requires CEC to certify innovative water conservation and water loss detection and control technologies.
- **AB 1323 (Weber)** – Requires DWR to convene a stakeholder workgroup to develop proposals for new long-term water use targets.
- **AB 1654 (Rubio)** – Requires new drought shortage response procedures in urban water management plans. Defines emergency supply, and protects water suppliers that comply with the plans from any state action in times of drought.
- **AB 1667 (Friedman)** – Requires all agricultural water suppliers report water budgets, have drought plans, and expands efficient water management practices.
- **AB 1668 (Friedman)** – Requires new drought shortage response with detailed levels of response. Incorporates climate change, enhances water supply analysis, and strengthens the enforceability of urban water management plans and drought response plans.

- **AB 1669 (Friedman)** – Authorizes and requires SWRCB to adopt long-term water use efficiency standards.

A comparison of the similarities and differences between the bills and the trailer bill is as follows:

- **Long-Term Water Conservation:** Policy bills and the trailer bill increase water-use efficiency, through either proportional reductions (AB 968) or urban water-use efficiency standards (AB 1669 and trailer bill).
- **Urban Water Management Plans and Drought Preparedness:** AB 1654 (Rubio), AB 1668 (Friedman) and the trailer bill strengthen local drought resilience through improved planning and annual assessments of each water agency's urban water management plan, which current law requires urban water suppliers to adopt every five years.
- **Agricultural Water Management Plans:** AB 1667 (Friedman) and the trailer bill expand existing agricultural water management plans to include drought planning and an annual water budget. In contrast to 2009 legislation on this issue, AB 1667 applies the requirements to water agencies serving as few as 10,000 acres. Under current law, agencies serving between 10,000 and 25,000 acres are required to develop the plans only if the State provides funding.
- **Development Process:** AB 1669 (Friedman) and the trailer bill require SWRCB to adopt urban water-use efficiency standards. AB 1323 (Weber) would require DWR to convene a stakeholder process to develop long-term water use targets. AB 968 (Rubio) relies on water agencies to determine how best to achieve the State's water conservation targets set by statute.
- **Recycled Water:** AB 869 (Rubio) and AB 968 (Rubio) would exempt recycled water from water-use efficiency requirements. AB 1669 (Friedman) and the trailer bill would apply the water-use efficiency standards to recycled water.

LAO COMMENTS

The LAO highlights some key questions for the legislature to consider when weighing the trailer bills and the pending legislative measures:

- What are the water conservation goals the state is trying to accomplish?
- How should targets be structured to accomplish those goals?
 - How should targets account for regional variation?
 - How should progress towards achieving those goals be measured?
 - To what extent could other tools or approaches be employed to encourage efficient water use?
- What role does the legislature want to play in developing and overseeing water conservation policies?
 - Which policies should be adopted through legislation and which through regulations?

- Which decisions should be determined through state policies and which left to local discretion?
- How can the state ensure that efficiencies in water use are sustainable?
 - What objectives, practices, and policies can realistically be maintained for the long term?
- How should potential uncertainties be incorporated into water use planning?
 - How should water use standards incorporate long-term hydrological forecasts and climate change?

STAFF COMMENTS

Increasingly extreme weather conditions coupled with a growing population is placing a lot of pressure on our water supply. Better water resource management is needed to accommodate the increasing needs. The LAO provided very thoughtful questions to consider when weighing policy to better manage water resources.

The proposed trailer bills seek to augment various aspects of urban and agricultural water planning. Simultaneously, there are a number of pending legislative measures that seek to accomplish a similar goal of achieving long-term water conservation and drought resilience. Some of the bills propose a very similar approach to the trailer bill and some of the other bills propose competing approaches. Virtually all of the proposed language in the trailer bills is contained within Assembly Bills 1667, 1668, and 1669.

The proposed trail bill presents a significant policy shift. The subcommittee may wish to consider whether this conversation is better suited for the legislative process.

Staff Recommendation: Hold Open

3860 DEPARTMENT OF WATER RESOURCES

ISSUE 3: PROPOSITION 13 SAN JOAQUIN RIVER FISH POPULATION ENHANCEMENT – SFL

A Spring Finance Letter requests \$21 million from Proposition 13 for the Department of Water Resources to construct facilities to improve fish populations in the San Joaquin River Watershed. The funding will support four existing positions and projects over five years (\$3.73 M in 17-18, \$4.12M in 18-19, \$4.31 M in 19-20, \$4.42M in 20-21 and 21-22).

BACKGROUND

The San Joaquin River is one of the two major rivers of California and is the second longest river in California. The river provides drinking water to over 22 million California citizens and was once one of the richest river ecosystems in California.

The largest historic run of spring-run Chinook in the Central Valley once occurred in the San Joaquin River. Those runs ended when the Friant Dam was constructed in 1942, and the water was diverted to provide drinking water and to irrigate crops. Since then, environmental organizations have been fighting to restore water flows and reviving the decreasing fish populations.

The San Joaquin River Restoration Program (SJRRP) was formed in response to a 2006 settlement of an 18 year-old lawsuit between the U.S. Departments of the Interior and Commerce, the Natural Resources Defense Council, and the Friant Water Users Authority. The goal of the settlement is to restore and maintain fish populations in “good condition” in the main stem of the San Joaquin River below Friant Dam to the confluence of the Merced River, including naturally-reproducing and self-sustaining populations of salmon and other fish.

DWR assists with various aspects of the planning, design, and construction of physical improvements identified in the settlement, including projects related to flood protection, levee relocation, design and construction of facilities to provide for fish passage and to minimize fish entrainment, the establishment of riparian habitat, and water surface and water quality monitoring. DWR also assists with various aspects of the implementation of the Water Management Goal.

DWR indicates that this proposal would dovetail with the SJRRP. The request focuses on improving fish populations in the San Joaquin River Watershed through technical and financial assistance to any local, state, and federal government entities and private land owners operating in concert with government entities implementing the SJRRP. The request does this by focusing on projects that will provide improved ecological performance on public or private lands in the San Joaquin River system that the SJRRP is focused on but not actively working on.

LAO COMMENTS

The LAO recommends providing \$4 million for one year, and requiring the department to update the Legislature on program activities and progress and request additional funding in next year's budget. This is a new effort the department is undertaking, and it is not yet able to provide adequate detail on which specific projects will be funded or how projects will be selected or prioritized. To provide sufficient oversight and ensure funds are being used effectively, the Legislature would benefit from additional information on how this new effort develops and evolves.

STAFF COMMENTS

DWR indicates that the funds would be initially used to support two partnerships currently being developed by DWR's Riverine Stewardship Program. One of the partnerships is to remediate fish passage barriers on the Calaveras River and the other is to enhance work on restoring marginal farm lands to riparian and floodplain habitat at the confluence of the Tuolumne and San Joaquin Rivers. Staff concurs with the LAO's comments and recommends approving funding for the first year to retain sufficient oversight and ensure the funds are being used effectively.

Staff Recommendation: Approve \$4 million for 2017-18.

3900 AIR RESOURCES BOARD

ISSUE 4: ARB SOUTHERN CALIFORNIA CONSOLIDATION PROJECT

The Governor's Budget requests \$413 million in lease revenue bonds for the construction phase of a new emissions testing and research facility in Riverside County. This project would consolidate and replace existing testing and research facilities.

A Spring Finance Letter requests to shift \$82,624,000 from lease revenue bond funds to the Air Pollution Control Fund.

BACKGROUND

The Air Resources Board (ARB), among other things, is tasked with developing strategies and programs to reduce smog-forming pollutants emitted by mobile sources. To fulfill this regulatory mandate, the ARB develops methods for measuring emissions, conducts emissions testing, and research. The emission testing and research results are used for a broad range of ARB programs:

- Develop new and advanced methods for measuring emissions;
- Quantify and characterize emissions from various types of mobile sources;
- Evaluate the effects of different fuel formulations on engine emissions;
- Prepare emission inventories;
- Conduct research on new emission control technologies and new vehicles;
- Develop new regulations and update existing regulations;
- Assess vehicle and engine manufacturer compliance with existing regulations; and
- Assess the regulator compliance of aftermarket parts.

Most of the ARB's mobile source regulatory activities occur at the California Haagen-Smit Laboratory (HSL) facilities located in Southern California. HSL began operations in 1971, covering 54,000 square feet with about 40 staff. Over time, the program went from testing just gasoline-powered passenger vehicles to include testing, research, and certification on many other types of vehicles and engines. The list of pollutants tested also expanded from simple pollutants such as carbon monoxide and nitrous oxide to include hundreds of organic compounds, particulate matter, toxic air contaminants, and greenhouse gases.

As activities expanded, so did the facilities. HSL now encompasses most of the five leased buildings adjacent to the original HSL, with approximately 400 staff. Yet, HSL facilities are still unable to manage the work load. The ARB additionally conducts testing of heavy-duty diesel engines and trucks at the Los Angeles County Metropolitan Transit Authority facility, which is 10 miles away from HSL.

Infrastructure Associated with ARB's Southern California Operations

Facility	Purpose	Square Footage	Lease Term
9530 Telstar Avenue Annex IV El Monte	Light-Duty Emissions Test Facilities, Auditorium, and General Office Space	13,871	Nov. 1, 2013 to Oct. 31, 2021
Haagen-Smit Laboratory 9528 Telstar Avenue El Monte	Light-Duty Emissions Test Facility, Chemical Laboratory, and General Office Space	53,797	State-Owned Facility
9500 Telstar Avenue Annex II El Monte	General Office Space	23,904	February 1, 2016 to January 31, 2026
9480 Telstar Avenue Annex I, Suite 1 and Suite 4 El Monte	Portable Emission Measurement System Testing Area and General Office Space	13,933	April 1, 2016 to March 31, 2026
9460 Telstar Avenue Annex III, Suite 1 El Monte	Portable Emissions Measurement System Testing Area and General Office Space	6,935	February 1, 2016 to January 31, 2026
9440 Telstar Avenue Annex V, Suites 7, 8, and 9 El Monte	General Office Space and Warehouse Space	16,692	July 1, 2016 to June 20, 2026
MTA 470 Bauchet Street Los Angeles	Heavy-Duty Emissions Test Facility and Limited General Office Space	3,911	Operating under a Memorandum of Understanding; September 15, 2015 to September 14, 2022
TOTAL SPACE		133,043	

The existing research facilities are at capacity and additional space is needed to address evolving program needs and effectively meet future emissions testing and research needs. The proposed facility would add additional space for light-duty testing, heavy-duty testing, portable emissions measurement systems, a chemistry laboratory, office and shared space, administrative services, and parking and outside facilities.

In FY 2015-16 the ARB received \$6.4 million to assess the suitability of two potential sites, Riverside and Pomona, and develop performance criteria. At the time that the 2015-16 budget was adopted, the total estimated project cost was \$366 million. The most recent estimated cost is estimated to be \$419.5 million. According to the ARB, the four primary reasons for the 15 percent cost increase are:

- **Building Design Modifications:** The addition of mezzanines and basements to increase design square footage of the building also increased the cost of the building. These modifications account for about one-quarter of the cost increase.
- **Site-Specific Considerations:** The addition of a central plant for power, the increased sitework associated with a larger site, and local utility cost increases account for about one-quarter of the cost increase.

- **Sustainability Features:** The addition of photovoltaic panels and electric vehicle charging infrastructure, account for about one-quarter of the cost increase.
- **Escalation and Fee Increases:** Increase in design-build fees, escalation in building costs, and other miscellaneous fees, equipment, and contracts account for about one-quarter of the cost increase.

LAO COMMENTS

The LAO recommends the following modifications to the ARB proposal to shift \$83 million from lease revenue bonds to Volkswagen (VW) civil penalties deposited in the APCF:

- **Allocate Additional VW Civil Penalties to Construction Costs.** The administration proposes to use \$83 million of the expected \$154 million in VW civil penalty revenue to reduce the amount of lease revenue bonds. We recommend the Legislature consider using all of the VW civil penalties to reduce the amount of lease revenue bonds issued to finance the project. Under our approach, less VW penalty revenue would be available to fund some of ARB's anticipated regulatory activities over the next several years. However, even without the VW penalties available in future years, the APCF is projected to have a slight operating surplus and a large fund balance (over \$150 million in 2018-19).
- **Consider Using VW Penalties to Offset Motor Vehicle Account (MVA) Costs.** The administration's January budget planned to make annual debt service payments from three funds—MVA (65 percent), APCF (20 percent), and the Vehicle Inspection Repair Fund (15 percent). The administration proposes to use the VW penalty revenue to eliminate only the APCF portion of debt service payments. As discussed above, the APCF is projected to be balanced over the long term and have a large fund balance. The Legislature should consider using the penalty revenues to offset costs for the other two funds. In particular, the Legislature might want to use the penalty revenues to offset costs from the MVA, which is barely balanced over the next few years and could face a modest operational shortfall in certain years.

STAFF COMMENTS

Staff has no concerns with the consolidation project. However, staff agrees with the LAO's suggestion to allocate additional VW civil penalties to the construction cost to reduce the amount of lease revenue bonds issued and offset the MVA costs.

Staff Recommendation: Approve \$413 million for the construction phase. Restructure the cost share by allocating all VW settlement funds, to the extent practicable, to the construction cost.

ISSUE 5: IMPLEMENTATION OF VOLKSWAGEN CONSENT DECREE

The Governor's Budget requests \$2.3 million Air Pollution Control Fund and 14 positions to implement provisions of the Volkswagen Consent Decree.

BACKGROUND

Between 2009 and 2015, Volkswagen (VW) sold 2.0 liter 3.0 liter diesel vehicles equipped with "defeat devices," to sidestep vehicle emissions standards. These vehicles emit up to 40 times more nitrous oxide (NOx) than what is allowed under the U.S. EPA and California light-duty vehicle regulations. NOx is an air pollutant that contributes to the formation of ozone and particulate matter. It can greatly aggravate health problems such as asthma and cardio-pulmonary disease. Roughly 70,000 of these otherwise non-compliant vehicles were sold in California.

In October 2016, the courts finalized a partial settlement, better known as the consent decree, between VW, U.S. EPA, and ARB which fully mitigates the 2.0 liter diesel cars on the road and the environmental harm from the violations. The Consent Decree contains four parts, each described in a separate appendix. The ARB requests a total of \$2.3 million and 14 positions to administer and implement the Consent Decree for activities related to:

- Emissions Modification Program - \$1.6 million and ten positions.
- ZEV Investment Plans - \$135,000.
- Mitigation Trust - \$490,000.

Each appendix and the associated workload are described below.

- **Appendix A (Buyback, Lease Termination, and Vehicle Modification Recall Program)** – requires VW to offer affected consumers with the option of either a buyback or lease termination or the option of an emissions modification in accordance with Appendix B.
- **Appendix B (Vehicle Recall and Emissions Modification Program)** – requires VW to implement engine and emission control system modifications in order to bring affected vehicles into compliance. ARB is responsible for ensuring that VW's emissions modifications adequately control NOx emissions.

Under Appendix B, the emission modification program, the ARB would be required to do the following:

- Approve/disapprove VW's Proposed Emissions Modifications following engineering evaluation.

- Conduct testing to ensure the emissions modification meets all requirements of the Emission Modification Proposal as described in the Consent Decree.
 - Evaluate VW's certification proposal related to the emissions modification.
 - Approve/disapprove some or all parts of the emissions modification.
 - Ensure VW's timely submittals of certification documents related to the emissions modification.
 - Ensure continued compliance of the emissions modification throughout the vehicles useful life.
 - Ensure extended warranty is honored and mediate any consumer complaints.
 - Identify noncompliance with terms of the Consent Decree and impose stipulated penalties.
- **Appendix C (ZEV Investment Commitment)** – requires VW to invest \$800 million in California over a 10-year period to support the increased use and availability of zero-emission vehicles (ZEV). VW will implement these investments in four \$200 million 30-month cycles. VW also is required to prepare a series of California ZEV Investment Plans, outlining the details of its proposed investments, for ARB's review and approval. VW's first investment plan was submitted to ARB at the end of February and is currently under review.

Under Appendix C, the ZEV Investment Commitment, the ARB would be required do the following:

- Advise VW in the development of the ZEV Investment Plans, such as infrastructure locations and equipment types.
 - Monitor investment plan progress.
 - Review and approve/disapprove public education materials and activities to enhance effectiveness.
 - Review annual reports
 - Receive, process and share required utilization and effectiveness data from VW's investments
 - Coordinate with stakeholders.
 - Review the ZEV Investment Plans and either approve/disapprove them.
 - Review progress and approve creditable costs towards VW's investment commitment.
 - Conduct a public input process prior to each investment plan submittal.
- **Appendix D (Environmental Mitigation Trust)** – requires VW to put \$381 million into a mitigation trust over a three-year period for projects to fund projects that reduce NOx, such as replacing older and dirtier heavy -duty diesel vehicles and equipment with cleaner vehicles and equipment. This Mitigation Trust will be overseen by a lead agency determined by the Governor. Many speculate the

designee will likely be the ARB. The designee is likely to be able to make allocations from the Mitigation Trust this summer.

LAO COMMENTS

The LAO recommends the Legislature approve a portion of the request—ten positions and \$1.6 million—related to testing and monitoring VW’s vehicle modifications. We recommend the Legislature withhold action on the remaining four positions related to overseeing Zero Emission Vehicle (ZEV) investment plans and administering programs funded from the Mitigation Trust, pending additional information on the Legislature’s role in directing these funds and how the funds will fit into the state’s broader ZEV and air quality strategies. After the Legislature has had an opportunity to evaluate this information and determine the extent to which ARB’s plans are consistent with the authority and direction provided to ARB by the courts and the Legislature, it could act on the Governor’s proposal accordingly. We also recommend reducing the ARB’s budget by \$1.2 million (Air Pollution Control Fund) and two positions because the ARB no longer has workload associated with litigating VW civil penalties.

STAFF COMMENTS

For the most part, the requested resources are justified. VW submitted its ZEV investment plan in late February and the public version plan appears to have missed the mark in terms of alignment with California’s priorities as it relates to investments in disadvantaged communities. The public version of the investment plan also provided little evidence that VW is coordinating its infrastructure investments with other existing plans, including those by the investor-owned utilities and local governments, nor little guidance as to how this first round of investment fits into VW’s larger 10-year strategy for the Investment Commitment.. The ARB is working with VW to refine and better align the investment plan, as well as ways to monitor progress.

The Wilmington Trust has been identified as the trustee for the Mitigation Trust, however the Governor has yet to name the ARB as the lead agency to select and oversee the NOx reduction projects funded out of this trust. It is unclear at this point the ARB’s role/workload related to Appendix D. The committee may wish to request the lead agency, when it is determined, to communicate with staff to assure that investments made with the Mitigation Trust align with Legislative priorities for NOx reductions.

Staff Recommendation: Hold Open

ISSUE 6: IMPLEMENTATION OF THE 3.0 LITER VOLKSWAGEN CONSENT DECREE - SFL

A Spring Finance Letter requests \$25 million in local assistance from the Air Pollution Control Fund for 2017-18, 2018-19, 2019-20, and 2020-2021 to support the zero-emission vehicle-related aspects of the Enhanced Fleet Modernization Program Plus-Up program or the zero-emission vehicle-related aspects of similar vehicle replacement programs.

BACKGROUND

On December 20, 2016, a Second Partial Consent Decree between the State of California and Volkswagen was filed in the United States District Court for the Northern District of California for violations of the Clean Air Act caused by a "defeat device" in 3-liter diesel passenger cars sold by Volkswagen, Audi and Porsche.

Under the terms of this consent decree, Volkswagen is required to make a payment of \$25 million to the Air Resources Board by July 1, 2017 to support the zero-emission vehicle related aspects of the Enhanced Fleet Modernization Program Plus-Up program or the zero-emission vehicle-related aspects of similar vehicle replacement programs in California. The ARB has funded these programs since 2014-15 with Greenhouse Gas Reduction Funds.

The ARB could potentially use the funds in the following ways:

- Provide additional funding to the existing EFMP Plus-up vehicle scrap and replacement program in order to meet additional consumer demand.

EFMP Plus-up program helps low-income households get rid of old polluting vehicles and purchase cleaner and more fuel-efficient cars. The funding comes from GGRF and is currently awarded by ARB as grants to local air districts who administer the program. The EFMP Plus-up funding provides additional funding on top of the base EFMP program, which provides up to \$4,500 to low-income drivers toward the purchase of a (new or used) clean replacement vehicle and is funded with vehicle registration fees.

- Provide additional funding to ARB financing assistance programs in order to fund additional ZEV-related vehicle replacement transactions. These programs offer assistance such as loan loss guarantees, interest rate buy-downs, and vehicle price buy downs to help lower-income consumers buy new or used ZEVs, plug-in hybrids, or hybrid vehicles and associated charging equipment.

ARB designed these financing assistance programs to coordinate with EFMP Plus-up and the Clean Vehicle Rebate Project. Financing assistance funding is currently awarded by ARB via competitive solicitations as grants to non-profit organizations or local agencies who administer the program with funding from Low Carbon Transportation budget appropriations from GGRF.

- Revise the EFMP Plus-up program or financing assistance programs to add new program elements to further support the availability of ZEVs in California using the funds.
- Designing a new vehicle replacement program, and use the funds to support the ZEV-related aspects of the program. As part of the program development, ARB would determine the how these funds are awarded.

The ARB intends to use a public process to identify how the \$25 million would be spent.

STAFF COMMENTS

The \$25 million received as part of the 3.0-liter VW settlement is one-time money. The Subcommittee may wish to direct the ARB to use these funds for existing programs, perhaps with some expansions to those programs in order to minimize the amount of money needed for administration.

Staff Recommendation: Hold Open

ISSUE 7: SHORT-LIVED CLIMATE POLLUTANTS (SB 1383)

The Governor's Budget requests \$826,000 from the Cost of Implementation Account and five positions to investigate, research, develop, enforce, and implement a strategy that will reduce emissions of short-lived climate pollutants in the state.

BACKGROUND

Short-lived climate pollutants (SLCPs) are a class of greenhouse gases or climate pollutants that remain in the atmosphere for a relatively short period of time. SLCPs, such as methane and black carbon (soot), remain in the atmosphere anywhere from a few days to a few decades. This is in contrast to carbon dioxide, which remains in the atmosphere for centuries.

Though short-lived, SLCPs have an exponentially greater impact on global warming than other climate pollutant due to their molecular ability to trap heat. As a result, there are targeted efforts to reduce SLCP emissions.

SB 605 (Lara and Pavley, Chapter 523, Statutes of 2014) directed the Air Resources Board to develop a short-lived climate pollutant (SLCP) strategy by January 1, 2016.

This required the ARB to complete an inventory of sources and emissions of SLCPs in the state based on available data, identify research needs to address data gaps and existing and potential new control measures to reduce emissions. In September of 2015, ARB released a draft SLCP strategy.

SB 605 directed the ARB to come up with a plan, but did not provide explicit authority to implement the plan. Subsequent legislation, SB 1383 (Lara, Chapter 395, Statutes of 2016) gave the ARB this authority. SB 1383 directed ARB to implement the SLCP strategy, required by January 1, 2016 pursuant to SB 605 (Lara).

STAFF COMMENTS

Targeting SLCPs emission reduction is in furtherance of California's climate goals. Approving the requested resources would enable to ARB to implement a SLCP emissions-reduction strategy and work toward meeting our air quality and climate goals.

Staff Recommendation: Approve as Budgeted.

ISSUE 8: ENVIRONMENTAL JUSTICE UNIT

The Governor's Budget requests four positions and \$857,000 to better incorporate “environmental justice (EJ)” considerations into Air Resources Board’s program planning, development, and implementation decisions. The requested resources would help implement the legislative intent of Chapter 586, Statutes of 2015 (AB 1288, Atkins).

BACKGROUND

Environmental justice is the fair treatment of all people regardless of race, national origin, or income, with respect to environmental laws, regulations, and policies.

AB 32 (Pavley and Nunez, Chapter 488, Statutes of 2006), among other things, directed the ARB to convene an Environmental Justice Advisory Committee to advise the ARB on developing greenhouse gas emission reduction measures.

To further underscore the importance of taking environmental justice (EJ) considerations into account, the legislature enacted AB 1288 (Atkins, Chapter 586, Statutes 2015), which added two EJ-focused members to the ARB. By adding two new members who work directly with diverse communities most affected by high levels of pollution to the ARB, enables the ARB to effectively integrate the needs and perspectives of California’s diverse residents.

The effort to effectively integrate EJ considerations is being implemented through the creation of an Assistant Executive Officer for Environmental Justice, who will guide the efforts of the EJ staff to be established pursuant to this request.

In 2016-17 ARB received one position dedicated to EJ enforcement activities as part of the CalEPA coordinated effort.

STAFF COMMENTS

Polluting facilities are disproportionately located in disadvantaged communities and communities of color. As awareness of the disparate impact of air emissions increase, efforts are made to focus resources in the most vulnerable communities. This proposal would help further that cause by providing the resources for ARB to adequately engage EJ communities to integrate that participation into planning, development and implementation process.

Staff Recommendation: Approve as Budgeted.

ISSUE 9: MOBILE SOURCE HEAVY-DUTY IN-USE PROGRAM IMPROVEMENTS

The Governor's Budget requests five positions and \$2.24 million from the Motor Vehicle Account to support heavy-duty diesel emission reduction efforts. Of the requested funds, \$500,000 in ongoing contract funding will be used to procure heavy-duty vehicles and remove engines to facilitate testing, and \$1,000,000 in one-time local assistance will be used to fund a pilot Heavy-Duty Diesel engine Repair Program for low-income truck owners with high emitting trucks operating in disadvantaged communities.

BACKGROUND

Heavy-duty diesel engines remain a major contributor to statewide emissions of nitrogen oxides, particulate matter and greenhouse gases. California is relying on substantial future emission reductions from the heavy-duty diesel engines sector to meet the Sustainable Freight Action Plan, Greenhouse Gas Scoping Plan and the State Implementation Plan.

In a 2014 field investigation report, the ARB found that heavy-duty diesel engines had high warranty rates, durability issues, and defective parts. In this report, ARB also committed to several areas of program improvement that included holding engine manufacturers accountable by enacting new in-use measures to better enforce engine certification standards, enhancing certification programs, and developing stronger vehicle inspection programs.

STAFF COMMENTS

Despite California's advances in cleaning up the air, heavy-duty diesel remain a major contributor to statewide emissions of nitrogen oxide, particulate matter and greenhouse gas. Providing ARB with the requested resources would enable CA to work toward meeting California's GHG targets.

Staff Recommendation: Approve as Budgeted.

ISSUE 10: IMPLEMENTATION OF OIL AND GAS METHANE REGULATION - SFL

A Spring Finance Letter requests \$2,318,000 in 2017-18 and \$1,816,000 ongoing thereafter from the Cost of Implementation Account to support implementation of the Air Resources Board's Oil and Gas Methane Regulation. The request includes 2.0 permanent positions and onetime equipment costs of \$285,000 from the Oil, Gas, and Geothermal Administrative Fund.

BACKGROUND

Methane is a potent greenhouse gas and is about 30 times more effective at trapping solar heat than carbon dioxide over a 100-year period. A recent study conducted by Stanford's School of Earth, Energy & Environmental Sciences found that the bulk of methane emissions in the United States can be traced to a small number of natural gas wells. Natural gas consists predominately of methane, so even small leaks from these wells can create large climate concerns. The study further suggests that identifying these wells and fixing the leaks will go a long way toward reducing methane emissions.

On March 2017, the ARB voted to adopt a regulation to reduce methane from oil and gas operations. The ARB worked closely the local air districts, Division of Oil, Gas, and Geothermal Resources to develop the proposed regulation. Portions of the regulation will supersede DOGGR's emergency regulations adopted after the Aliso Canyon natural gas leak.

LAO COMMENTS

The LAO recommends the Legislature reduce ARB's request for Cost of Implementation Account funds to implement oil and gas methane regulations from \$2.3 million to \$1.9 million in 2017-18 and from \$1.8 million to \$1.6 million ongoing. This action would make the budget allocation for contracts with local air districts more consistent with available cost estimates. ARB estimated costs for the major component of the request—contracts with local air districts—were \$1.6 million in 2017-18 and \$1.3 million in 2018-19. These estimates were based on the estimated the number of equipment components and idle wells that will be subject to the regulation and the cost of monitoring each. However, the ARB rounded the estimated costs up to \$2 million in 2017-18 and \$1.5 million ongoing to account for uncertainty in the estimates. Although we acknowledge that implementation costs are uncertain, if the actual costs are found to be higher than estimated once the air districts begin implementing the regulation, the ARB can submit a request for additional resources at that time.

STAFF COMMENTS

Staff has no concerns with this request. Methane has devastating effects to the climate because of how effectively it absorbs heat. The largest industrial emission of methane is from the oil and gas industry. Funding this request would provide the resources for the ARB and local air district to enforce the methane regulation and reduce methane emissions from the oil and gas sector.

Staff Recommendation: Hold Open

ISSUE 11: LOCAL AIR DISTRICTS' ROLE IN EMISSION REDUCTION

The Subcommittee will receive a briefing from the local air districts on their role in reducing air pollution.

BACKGROUND

The Air Pollution Control Act of 1947 authorized one or more counties to form local air districts. California has 35 districts; they range from small, single county districts such as Lassen, to multi-county agencies such as the Bay Area and South Coast AQMDs.

In general, the local air districts are responsible for control of stationary sources of emissions. These sources range in size from small gas stations and autobody shops, up to large power plants, refineries, and manufacturing facilities. Additionally, as agencies responsible to the public for local public health initiatives, they implement many unfunded or underfunded programs unrelated or only indirectly related to stationary sources, including the following programs:

- **Emergency Response:** Provide emergency response to emergencies (such as accidental releases, train wrecks, fires, and other explosions) that require quick response air monitoring.
- **Attainment Planning:** Develop plans and regulations to achieve and maintain the state ambient air quality standards under the CA Clean Air Act, which require districts to “consider the full spectrum of emission sources and focus particular attention on reducing emissions from transportation and area wide emission sources.” The Act contains numerous requirements for development, assessment, and maintenance of inventories, models, plans, and regulations. Since more than 50% of the ambient air pollution is generated by mobile sources, stationary source fees cannot fund the entire effort.
- **Area-wide Source Activities:** Develop and implement programs to address emissions from area-wide sources under the CA Clean Air Act. Examples of area wide sources include architectural coatings, consumer products, hot water heaters, wood heating devices, road dust, farming activities, and lawnmowers. Activities to address these sources involve enforcement at point-of-sale, implementation through land-use or building permits, public education and outreach, and incentive programs.
- **Diesel Risk Reduction Activities:** The air toxics control measures adopted under the state’s Diesel Risk Reduction Plan regulate sources that are largely exempt from local permits and fees, and although these typically are not traditional district stationary sources, enforcement, oversight, or public outreach assistance by the district is usually required to ensure promised levels of air toxics reductions.
- **Air Monitoring:** Develop air-monitoring networks for specified pollutants in accordance with the guidelines developed by the state board under the CA Clean Air Act. Air monitoring has increased significantly in the past decade, not only

with stationary monitors used for attainment purposes, but also special purpose monitors used for informational purposes and monitors used for emergency response and health messaging. In addition, separate monitoring networks for air toxics such as Lead and Hexavalent Chromium have become an increasingly important tool to identify local public health impacts and inform the need for increased regulations.

- **Public Outreach:** Establish public assistance programs.
- **Environmental Justice:** Local districts are directed to address environmental justice concerns raised by members of the public, requiring increased outreach and including multilingual methods of communication. In allocating grant funds, often districts are required to expend a proportion of funds in areas with low income or communities of color that are disproportionately impacted by air pollution (AB 1390, Firebaugh, 2001). Doing this often requires additional outreach, data analysis, and modifying programs as an accommodation.
- **Climate Change:** For California to meet its goals to reduce carbon dioxide and equivalents, and short-lived climate pollutants, districts will have to play a large role. District's abilities to fund this effort however, is challenging. Many non-traditional "stationary sources" that have previously only been lightly regulated such as refrigeration units, compost facilities, wastewater treatment plants, and oil and gas transportation and storage will become subject to regulation for refrigerants or methane, which are difficult to fit into district fee schedules designed for criteria pollutants such as particulate and Oxides of Nitrogen, yet could be regulated more efficiently by districts already familiar with the sources. Districts also regularly serve as responsible agencies for purposes of CEQA and provide advice to local entities on projects and other planning efforts.

The local air districts receive subvention funds to support program activities. These funds are allocated from the Motor Vehicle Account through the budget of the California Environmental Protection Agency, under the Air Resources Board. Local subvention funds were initially provided in 1972, and were increased several times to address the costs of inflation. For roughly twenty years, however, there were no adjustments for inflation, which doubled district costs over that period. In addition, there were substantial increases in programmatic responsibilities during those twenty years. Both environmental and industry groups recognized the need for, and actively supported, adequate funding for these programs. In the budget for FY 2000-2001, the Legislature therefore increased local subvention by \$7.6 million dollars (equal to the cost of inflation during those twenty years) and the Governor approved the increase. The total amount of local subvention remained unchanged in the budget for FY 01-02. For most districts, the subvention funds received account for ten percent or less of the total district budget, however the programs supported with these funds cannot be fully funded in any other way. Unfortunately, subvention funds were cut by 33% in FY 02-03, and have remained the same until today. Since FY 02-03, however, inflation has increased by over 35%. In addition to subvention, local air districts rely, in varying amounts, on the following funding sources:

- Permit fees;

- Per capita fees assessed on the county or cities, for districts with city representation on their governing boards;
- U.S. EPA 103 and 105 grants for particulate matter monitoring and attainment planning;
- Penalties;
- Motor vehicle fees (AB 2766).

Most of these funding sources have limits placed on their use by legislation or various initiatives (prop 218 and 26).

When the Legislature increased the amount of local subvention in the FY 00-01 budget, it stipulated that the new funds were to be used for enforcement and compliance assurance activities, and that the funds could not supplant fees on stationary sources. The ARB provided explicit guidance on the allowable uses of the funds, and required that districts identify expenditures in their submittal packages in order to receive the funds. The ARB expressed a strong preference for using the funds to hire additional enforcement/compliance staff, and districts complied. The subsequent reduction in subvention allocations by \$5,000,000 in FY 02-03 thus resulted in districts responding in several different ways. In response to the cut in subvention in FY 02/03, air districts:

- Raised fees
- Depleted reserve funds
- Deferred equipment maintenance
- Cut programs
- Laid off staff

Over the last several years, there has been an increasing emphasis (including legislative mandates) on district efforts to address environmental justice concerns, especially with respect to air toxics and public outreach. Stakeholders have increasingly demanded assignment of staff and other resources to this effort; and the erosion of the value of subvention funding due to inflation makes it extremely difficult for districts to do this while maintaining other vital programs. In addition, the focus on climate change and strategies to reduce greenhouse gases and short-lived climate pollutants will continue to require district participation, planning, and enforcement, yet districts rarely receive the financial consideration provided to state agencies. Finally, there has been a dramatic increase in demand for air agencies to have emergency response capability; districts will need significant funding for the specialized personnel and equipment needed to accomplish this.

STAFF COMMENTS

Given the air districts important role in attaining California's air quality goals, the Subcommittee may wish to consider increasing Subvention funding support.

Staff Recommendation: Informational
