AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLY MEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, MAY 8, 2019

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

VOTE-ONLY CALENDAR

ITEMS TO BE HEARD

VOTE-ONLY

2600 CALIFORNIA TRANSPORTATION COMMISSION

VOTE-ONLY ISSUE 1: TRANSPORTATION SYSTEM OVERSIGHT

The Governor's Budget requests for the California Transportation Commission (CTC):

- $551,000 for three permanent positions and $1.1 million for eight two-year limited-term positions for increased workload associated with the Road Repair and Accountability Act of 2017 (SB 1), Chapter 95, Statutes of 2017 (SB 103), and Chapter 698, Statutes of 2018 (SB 1328).
- Converting $122,000 of The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) funding in the CTC's budget to State Highway Account (SHA) and Public Transportation Account (PTA) funding.
- Reducing the CTC's reimbursement authority by $276,000.

BACKGROUND

The CTC currently has 26 authorized positions. The three permanent positions requested will address increased workload in the Active Transportation Program, Local Streets and Roads Program, and provide advice and develop policy related to environmental issues. The eight limited-term positions will assist with the State Transportation Improvement Program, State Highway Operation and Protection Program, Trade Corridor Enhancement Program, Congested Corridors Program, and the Local Partnership Program. While the Commission received six additional positions for programs created by SB 1 in 2017-18, there has been additional unforeseen workload that the Commission is currently completing through redirection of resources and increased levels of overtime by existing staff.

The Department of Finance (Finance) is currently conducting a Mission Based Review of CTC, which helped it to identify the need for additional resources. Finance and the Commission will continue to work through the Mission Based Review to assess the impact of continued implementation and oversight of the SB 1 programs to ensure the CTC has adequate resources. The proposed conversion of $122,000 Prop 1B funding to SHA and PTA aligns the CTC's funding with its current workload. Also, a reduction in reimbursement authority is requested because workload for the Bay Area Toll Authority has decreased and accordingly so will reimbursements for this work.

Staff Recommendation: Approve as Budgeted.

2665 CALIFORNIA HIGH-SPEED RAIL AUTHORITY

VOTE-ONLY ISSUE 2: IT SECURITY

The Governor's budget requests five permanent positions and $2.2 million in 2019-20 and $1.53 million from the High-Speed Passenger Train Bond Fund (Proposition 1A) on an ongoing basis to improve the High-Speed Rail Authority's (HSRA) information technology (IT) security program.

BACKGROUND

Currently, HSRA's IT security staff consists of an IT Security Specialist and a Network Administrator. The Information Security Officer (ISO) oversees these two positions, in addition to performing duties supporting the Authority's IT infrastructure. The current approach, structure, and staffing level is not adequate to support the Authority's existing enterprise IT solutions and protect the State's information assets. A recent review by the California Military Department, along with internal reviews, have identified high-risk securities and vulnerabilities. Further, the Authority continues to deploy new business solutions, which also must be secured and supported.

The need for additional dedicated IT security resources has grown due to the following:

- Additional business systems have been deployed (e.g., cost management system, contract management system, risk management system);
- Increased complexity of Authority systems that are integrated and share critical data across domains, networks, and external service providers;
- The number of supported users (state and vendor staff) has increased as the overall construction program has grown;
- Evolving state and federal requirements and standards; and
- Evolving security threats, including cyber-attacks from foreign nations.

Over a multi-year period, the requested resources will mature the overall security program, including updating policies and procedures, implementing new security solutions, and mitigating security risks and incidents. To ensure the Authority's Information Security Officer (ISO) can better focus on creating and maintaining a proper IT security program, this request will add one (1) supervisor (IT Supervisor II) to oversee day to day network and security operations, two (2) IT Security Professionals (IT Specialist II), and two (2) IT Security/Network Administrators (IT Specialist I). It will also add software tools that monitor, analyze, mitigate, and report on IT security risks, in addition to staff training and consulting services.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 3: IT TRANSITION

The Governor's budget requests five permanent positions and $2.2 million from Proposition 1A to enhance Information Technology (IT) operational capabilities and acquire licensing and maintenance agreements required to support the cloud infrastructure.

BACKGROUND

Currently, HSRA has 15 IT staff, but is dependent upon contracted staff to support its cloud infrastructure, perform application development and support, and augment desktop support resources. The contractor also maintains multiple software licenses and third-party agreements. This request will add additional resources to provide oversight of application development and support services provided by the contractor and augment existing staff where current resources are inadequate to effectively support day-to-day IT operations. In addition, cloud services and infrastructure third-party agreements of approximately $1.3 million per year will transition to HSRA as part of this proposal.

These enhancements support continuity of operations and long-term sustainability of the high-speed rail program and provide increased control of state assets. This proposal includes:

- Five permanent positions;
- $1.3 million for cloud and infrastructure third-party agreements, software licenses, and maintenance costs; and,
- Ongoing training expense of $5,000 per position per year.

This request supports:

- Transition of licensing and third-party agreements associated with the cloud infrastructure to the Authority from its contractor; and,
- Increase of technical and oversight capabilities within the Authority to address IT operational risks (e.g., single points of failure, limited visibility/control, limited resources to mature the IT organization) in key areas, including:
  - Desktop and mobile support;
  - Infrastructure support;
  - Database administration; and,
  - Application development and support.

Staff Recommendation: Approve as Budgeted.

3360 CALIFORNIA ENERGY COMMISSION

VOTE-ONLY ISSUE 4: REAPPROPRIATION OF GREENHOUSE GAS REDUCTION FUNDS (APRIL FINANCE LETTER)

An April Finance Letter requests budget bill language to reappropriate the unencumbered balance (approximately $10 million) of $64 million in Greenhouse Gas Reduction Fund funding appropriated pursuant to AB 109 (Ting, Chapter 249, Statutes of 2017). The language would make the funds available for encumbrance or expenditure until June 30, 2020 and available for liquidation until June 30, 2024.

BACKGROUND

The Energy Commission has released two grant funding opportunities for the Food Production Investment Program as of February 2019 and is expected to encumber approximately $47 million by June 2019. Due to lack of sufficient proposals received, approximately $10 million is expected to remain unencumbered. With more time, the Energy Commission will release additional funding opportunities to give interested applicants another chance to receive an award. The Energy Commission expects an increase in the number of proposals for future opportunities as more applicants learn about the program and previously unsuccessful applicants re-apply with improved proposals. The reappropriated funds will provide an additional year to award energy efficiency and renewable energy grant projects to California food processing facilities and support renewable energy projects in the agricultural sector.

Staff Recommendation: Approve as Budgeted.

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION (CPUC)

VOTE-ONLY ISSUE 5: STRENGTHEN ADMINISTRATIVE CORE

The Governor's budget requests eight new permanent positions, limited-term funding for three positions, and $1.4 million from various funds to strengthen the administrative core.

BACKGROUND

CPUC increases its staffing levels each year to address responsibilities added through the legislative process. In part, because of the continuous expansion of its role, there is a need to expand the "business services" functions that supports the CPUC as a whole. Historically, CPUC's administrative core has not expanded as responsibilities have increased resulting in, "chronic understaffing," according to CPUC. To address this problem, last year, the Legislature approved the Administration's request for $2.6 million from various funds for 23 permanent full-time positions, training, and travel. Approval of this proposal would add the following staff:

Unit/ Office	Number of Positions
Budget	5
Accounting	3 (3-year limited-term)
Business Services	1
Contracts and Procurement	1
Public Records Act Response	1
Total	**11**

STAFF COMMENTS

This item was discussed in Subcommittee No. 3 on April 3, 2019. Staff has no concerns about the requests for additional staff in Accounting, Business Services, Contracts and Procurement, and for PRA Response. However, while there may be a need for additional resources in the Budget Unit, the need has not been fully demonstrated, nor has there been an explanation of what more would be accomplished with the proposed positions. Staff recommends approving only three of the requested positions for the Budget Unit.

Staff Recommendation: Approve as budgeted except only approve funding for the equivalent of three positions for the Budget Unit.

VOTE-ONLY ISSUE 6: PUBLIC ADVOCATE'S OFFICE—GREENHOUSE GAS REDUCTION AND ENERGY INFRASTRUCTURE

The Governor's budget requests, for the Public Advocate's Office (formerly known as the Office of the Ratepayer Advocate), $566,000 and three positions in 2019-20 and $563,000 and three positions ongoing to address increased workload in the areas of distribution infrastructure programs and transmission infrastructure projects.

BACKGROUND

AB 327 (Perea, Chapter 611, Statutes of 2013) requires the electric investor-owned utilities (lOUs) to submit Distribution Resource Plans (DRP) to the CPUC. On an ongoing basis, the DRPs are to identify optimal locations for the deployment of low or no GHG-emitting distributed energy resources (DERs) onto the IOUs' electric distribution systems. The statute broadly defines distributed energy resources as distributed generation, energy efficiency, energy storage, electric vehicles, and demand response technologies. Pursuant to AB 327, the CPUC initiated the DRP rulemaking, in August 2014, to develop analytical methods and tools, and to establish policies and procedures to guide the utilities in implementing their DRPs. Subsequently, in July 2015, the IOUs submitted their initial DRPs to the CPUC. Since then, the Public Advocate's Office (PAO) has actively participated in all DRP-related activities, including providing written comments on CPUC and stakeholder proposals, attending numerous workshops and hearings, and meeting with CPUC commissioners and staff. The CPUC has adopted the majority of PAO's recommendations.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 7: ADMINISTRATIVE SERVICES STAFF COMPLEMENT- IT POSITIONS (APRIL FINANCE LETTER)

An April Finance Letter requests five permanent positions and $706,000 from various special funds to provide Information Technology (IT) support for 91 permanent and 33.5 limited-term positions proposed by CPUC and the PAO in the 2019-20 Governor's Budget and recently enacted bills.

BACKGROUND

Each CPUC bill analysis included a fiscal estimate of positions and resources needed to implement each bill. However, enactment of the bills in aggregate require the following additional IT positions: one IT Associate, two IT Specialist Is, and two IT Specialists. The bills that this request is based on are shown in the following table:

SB 100 (de Leon)	SB 1440/AB3187 (Hueso/ Grayson)	SB 1477/AB 3232 (Hill/Friedman)
SB 1000/AB 2127 (Lara/Ting)	SB 1013 (Lara)	SB 901 (Dodd)
SB 1131 (Hertzberg)	SB 1339 (Stern)	SB 1376 (Hill)

This request is based on the analysis performed by the Information Technology Services Division (ITSD). The ITSD Service Desk requires two positions to provide adequate support levels for increased staffing at the CPUC's Sacramento and Los Angeles regional offices. Additionally, three positions are requested to conduct Project Approval Lifecycle activities; business analysis; data, infrastructure, and security architecture; legislative impact analysis and management; strategic planning; and portfolio management activities related to legislatively-mandated requirements.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 8: BALANCING ACCOUNTS AND AUDIT POSITIONS (APRIL FINANCE LETTER)

An April Finance Letter requests seven permanent positions for the Utility Audit, Finance, and Compliance Branch and $830,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA).

Trailer bill language is also proposed to allow for both balancing account reviews or audits.

BACKGROUND

This budget request is being made to address the CPUC's current inability to comply with the Commission's statutory requirements for conducting audits. Due to the lack of resources, the inability to meet the auditing requirements has led to a lack of oversight of some regulated energy, telecommunications, and water utilities that are overseen by the CPUC.

In response to findings in 2013 by the State Auditor that CPUC was not meeting statutory requirements for conducting audits, CPUC received seven temporary positions in 2015-16 that were made permanent in 2018-19. In a December 2018 audit the State Auditor made similar findings. The seven permanent positions requested for 2019-20 and ongoing would help to meet the requirements for auditing telecommunications, energy, and Class A water utilities, as well as to audit balancing accounts on a three-year cycle.

The proposed trailer bill language would give the CPUC the authority to conduct audits in addition to balancing account reviews and develop procedures for auditing.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 9: CALIFORNIA CLEAN MILES STANDARD AND INCENTIVE PROGRAM IMPLEMENTATION (APRIL FINANCE LETTER)

An April Finance Letter requests one permanent position and $180,000 from the CPUC Transportation Reimbursement Account (PUCTRA) to implement SB 1014 (Skinner, Chapter 369, Statutes of 2018), the California Clean Miles Standard and Incentive Program, as well as two permanent positions and $379,000 from the CPUC Utilities Reimbursement Account (PUCURA) to provide expanded ongoing support for the Commission's transportation electrification initiatives.

BACKGROUND

SB 1014 requires the CPUC to adopt and enforce greenhouse gas (GHG) emissions reduction targets for transportation network companies and work with the California Energy Commission (CEC) and California Air Resources Board (CARB) in biennially updating an assessment of the electric vehicle charging infrastructure needed to support the levels of electric vehicle adoption to meet state goals of increasing the number of zero-emission vehicles on the road and reducing greenhouse gas emissions to 40 percent below 1990 levels by 2030. One requested position would work on new CPUC rulemaking implementing SB 1014. The other two positions would oversee and assist with the review of new utility transportation electrification applications; work with CEC and CARB to develop an assessment of electric vehicle charging infrastructure; and ensure transportation electrification efforts.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 10: DECENTRALIZATION-SACRAMENTO AND LOS ANGELES OFFICE SPACE (APRIL FINANCE LETTER)

An April Finance Letter requests $2.4 million in various special funds for additional office space and relocation costs.

BACKGROUND

Of the $2.4 million being requested for additional office space and relocation, $1.6 million is ongoing and $860,000 will be one-time costs for office relocation costs. CPUC needs additional space in Sacramento and Los Angeles due to agency growth and expansion throughout California. Existing CPUC office spaces are nearing workspace capacity in San Francisco, Sacramento, and Los Angeles. This is due to decentralization efforts pursuant to 2016 CPUC reform package entitled "Principles for Reform: Governance, Accountability, Transparency and Oversight of the California Public Utilities Commission" and is phase one of a two phase approach.

Efforts to relocate positions to the most appropriate location for the duties to be performed require the availability of space to accommodate staff. Further, substantial space is needed in Sacramento for Administration, Human Resources, and Information Technology Divisions to improve interaction with control agencies such as: State Controller Office; Department of Finance; California Department of Technology; Department of General Services; Financial Information System for California; and California Department of Human Resources. Program and policy staff will benefit by being located near the Capitol as well as other relevant agencies.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 11: DGS STATE BUILDING RENT INCREASES (APRIL FINANCE LETTER)

An April Finance Letter requests $967,000 annually beginning in 2019-20 for increased rental costs for the CPUC's state office leases for offices located at: (1) 505 Van Ness Avenue, San Francisco; (2) 455 Golden Gate Avenue, Suite 7525, San Francisco; and, (3) 320 West 4th Street, Suites 500 & 520, Los Angeles.

BACKGROUND

According to CPUC's proposal, the total annual budget year rent for all three locations is $7.3 million. The previous budget year rent for all three locations was $6.4, thereby the increase for the current budget year is $967,002.

Leased office space costs at the three locations are:

- 505 Van Ness Avenue, San Francisco: annual budget year rent of $5.8 million.
- 455 Golden Gate Avenue, Suite 7525, San Francisco annual budget year rent of $404,731.
- 320 West 4th Street, Suites 500 and 520, Los Angeles annual budget year rent of $1.1 million.

UPDATE: Since the release of the April Finance Letter, CPUC has found an error in calculation for two of the three sites and has revised its calculation with the accurate rates and CPUC is no longer requesting an adjustment for two of the three sites. CPUC respectfully asks to move forward with a reduced request of $595,000 for the increased rate applicable to 505 Van Ness and apologizes for the oversight.

Staff Recommendation: Approve revised request of $595,000.

VOTE-ONLY ISSUE 12: ELECTRICITY MARKET FRAGMENTATION RESPONSE (APRIL FINANCE LETTER)

An April Finance Letter requests three permanent positions and $495,000 from the PUCURA to address emerging regulatory needs for an evolving electricity market experiencing an unprecedented level of market fragmentation.

BACKGROUND

Over the past 15 years, three main investor-owned utilities (IOUs) serving all residential electric load and about a dozen energy service providers (aka ESPs or direct access, DA) provided electric service to a small quantity of non-residential customers. More recently, as a result of various legislative changes, the electricity market has evolved so there are nearly 40 load serving entities serving commercial and residential loads in California, including approximately 20 brand new service providers formed through local government structures, known as Community Choice Aggregators (or CCAs). IOUs served 90 percent of the electric load in 2014; ESPs- 10 percent, and CCAs- less than one percent. By 2018, electric load was served by IOUs (78 percent) and ESPs (9 percent) and CCAs (13 percent). CCAs' rapid growth is expected to continue and it is estimated that they will serve as much as 25 percent of the load in 2019.

Electricity market fragmentation in California, caused by a surge in the number of ESPs and CCA providers could lead to market instability and reliability issues in the near term. These issues could cause serious harm to the California economy. The fundamental shifts in California's retail electricity market conditions urgently requires that the Commission review and modify, as necessary, its long-term electric planning, resource adequacy requirements, and renewables portfolio standard compliance requirements. Recent and ongoing DA program expansion, occurring simultaneously with the severe uptick in CCA load and providers, is placing an unexpected strain on the Commission's existing procurement and reliability policies.

The CPUC requests three permanent positions that can review, and as necessary support modification of, electric procurement and reliability policies and programs (such as Renewables Portfolio Standard, Resource Adequate, and Integrated Resource Planning) that may need to change in light of Electricity Market Fragmentation. Together with existing Energy Division staff already focused on electricity market issues, these staff will form a new section in the Commission's Energy Division that will be wholly dedicated to customer choice and electricity market issues. The new section will allow the current Electricity Market Structure and Design section (that currently has 11 positions and one supervisor) to split into two separate sections with a more favorable supervisor to staff ratio. The new section will focus on Electricity Market Design issues, and the remainder of the prior section will focus on representing the Commission at the Federal Energy Regulatory Commission (FERC) and the Commission's participation in Transmission Rate cases that are litigated at FERC.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 13: RESOURCES FOR ENFORCEMENT ACTIVITIES (APRIL FINANCE LETTER)

An April Finance Letter requests one permanent Administrative Law Judge (ALJ) II position and $203,000 PUCURA for enforcement activities.

BACKGROUND

The Commission's enforcement divisions are tasked with ensuring that the entities regulated by the Commission provide safe and reliable services. The Safety and Enforcement Division (SED) has safety oversight in a number of industries, including: electric, natural gas, telecommunications, railroads, rail crossings, and rail transit. The Utilities Enforcement Branch of the Consumer Protection and Enforcement Division (CPED) investigates allegations of consumer fraud, marketing abuse and other utility misconduct committed by electric, gas, telecommunications and water companies. The Transportation Enforcement Branch of the CPED has regulatory and safety oversight over for-hire passenger carriers and Transportation Network Companies.

Over the past three years, there has been an increasing amount of pre-formal investigatory work (for example, the 2015 Aliso Canyon storage facility gas leak, the 2017 Wildfires and the 2018 Wildfires) that is expected to ultimately lead to an ALG needing to develop a record for the Commission to make its decisions. SED and CPED cannot investigate incidents and bring forward enforcement actions in a timely manner without ALJ resources to adjudicate these actions. This request aligns ALJ resources with anticipated workload.

Staff Recommendation: Approve as Budgeted.

2720 CALIFORNIA HIGHWAY PATROL

ISSUE 14: TASK FORCE: ORGANIZED CRIME (AB 1065)

The Governor requests $5.8 million General Fund in 2019-20 and 2020-21 to fund 16 positions and associated costs, to comply with the requirements of AB 1065 (Jones-Sawyer, Chapter 803, Statutes of 2018).

The Administration also proposes trailer bill language to extend the program's sunset date by six months, to July 1, 2021.

BACKGROUND

In November 2014, California voters passed Proposition 47, the Safe Neighborhoods and Schools Act, which requires shoplifting, defined as entering a commercial establishment with the intent to commit larceny where the property taken does not exceed $950, be punished as a misdemeanor. Proposition 47 requires that the act of shoplifting be charged as shoplifting, and prohibits a person who is charged with shoplifting from being charged with burglary or theft of the same property.

AB 1065 creates, until January 1, 2021, the crime of organized retail theft, which would be defined as acting in concert with one or more persons to steal merchandise from one or more merchant's premises or online marketplace with the intent to sell, exchange, or return the merchandise for value, acting in concert with two or more persons to receive, purchase, or possess merchandise owing or believing it to have been stolen, acting as the agent of another individual or group of individuals to steal merchandise from one or more merchant's premises or online marketplaces as part of a plan to commit theft, or recruiting, coordinating, organizing, supervising, directing, managing, or financing another to undertake acts of theft. The bill makes these crimes punishable as either misdemeanors or felonies.

AB 1065 also, until January 1, 2021, requires the California Highway Patrol to, in coordination with DOJ, convene a regional property crimes task force to assist local law enforcement in counties identified by the California Highway Patrol as having elevated levels of property crime, including, but not limited to, organized retail theft and vehicle burglary. The bill requires the task force to provide local law enforcement in the identified region with logistical support and other law enforcement resources, including, but not limited to, personnel and equipment, as determined to be appropriate by the Commissioner of the California Highway Patrol in consultation with task force members.

The CHP requests funding for the following 16 positions to convene and support a regional property crimes task force:

- Three sergeant positions to supervise operational units in regions targeted by the task force.
- Nine officer positions to perform specialized investigations and enforcement targeting organized retail crime. These investigators work together as a team and cooperatively with DOJ to abate organized crime.
- One Associate Governmental Program Analyst position to provide statewide program coordination and administrative support to the task force. This position will serve as the subject matter expert for AB 1065 requirements and all AB 1065 related activities.
- Three Office Technician positions to support the task force and AB 1065 related activities at the regional level. These positions will provide daily office and administrative functions.
- In addition, CHP requests $2.1 million to contract with the Department of Justice. Exactly what DOJ would do is still being considered by the two departments.

STAFF COMMENTS

This issue was previously discussed in Subcommittee No. 3 on April 10, 2019. Given that this is new and temporary workload (1.5 years) and the level of resources CHP needs is unclear, staff recommends reducing the requested level of resources to create a single, statewide taskforce to work with local law enforcement and the DOJ. Staff recommends approve of one sergeant, two officers, and one Associate Governmental Program Analyst position to provide statewide program coordination and administrative support to the task force. Also, since it is unclear what CHP would contract with DOJ for, staff recommends rejection of the $2.1 million. (Staff notes that DOJ has separately requested $327,000 in resources to implement AB 1065.)

In addition, staff recommends rejecting the proposed trailer bill language to extend the sunset date to July 2021; because, this extension would be in conflict with a November 2020 ballot initiative that would go into effect on January 2021 if passed by voters.

Staff Recommendation: Approve funding for four positions and reject the proposed trailer bill language.

VOTE-ONLY ISSUE 15: CALIFORNIA HIGHWAY PATROL ENHANCED RADIO SYSTEM: REPLACE TOWERS AND VAULTS PHASE 1 (REAPPROPRIATION) APRIL FINANCE LETTER

An April Finance Letter requests a reappropriation of $320,000 from the Motor Vehicle Account for the acquisition phase of the Sawtooth Ridge site for the California Highway Patrol Enhanced Radio System (CHPERS): Replace Towers and Vaults Phase 1.

BACKGROUND

The overall CHPERS Phase 1 project includes a fully operational 120-foot, self-supporting communications tower and associated support infrastructure at seven sites. For the Sawtooth Ridge site, total project costs are estimated at $7,123,000, including acquisition ($440,000), preliminary plans ($535,000), working drawings ($477,000), and construction ($5,671,000). The construction amount includes $4,491,000 for the construction contract, $225,000 for contingency, $485,000 for architectural and engineering services, and $470,000 for other project costs. Acquisition is estimated to be completed in November 2019. Preliminary plans were started in January 2017 and are estimated to be approved in February 2020. Working drawings are estimated to begin in March 2020 and estimated to be completed in December 2020. The project schedule estimates construction will begin in April 2021 and be completed in September 2022. Sawtooth Ridge will be the primary communications tower for the Needles, Barstow, Morongo Basin, and Victorville CHP Area offices.

Staff Recommendation: Approve as Proposed.

ITEMS TO BE HEARD

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION (CALTRANS)

ISSUE 1: PROJECT DELIVERY WORKLOAD (MAY REVISION)

The California Department of Transportation requests a net increase of $8.8 million and 48 full time equivalents from the 2019-20 Governor's Proposed Budget for the Capital Outlay Support (COS) Program project delivery workload. This proposal reflects Caltrans maintaining the traditional split of 90 percent state staff, and 10 percent contract staff.

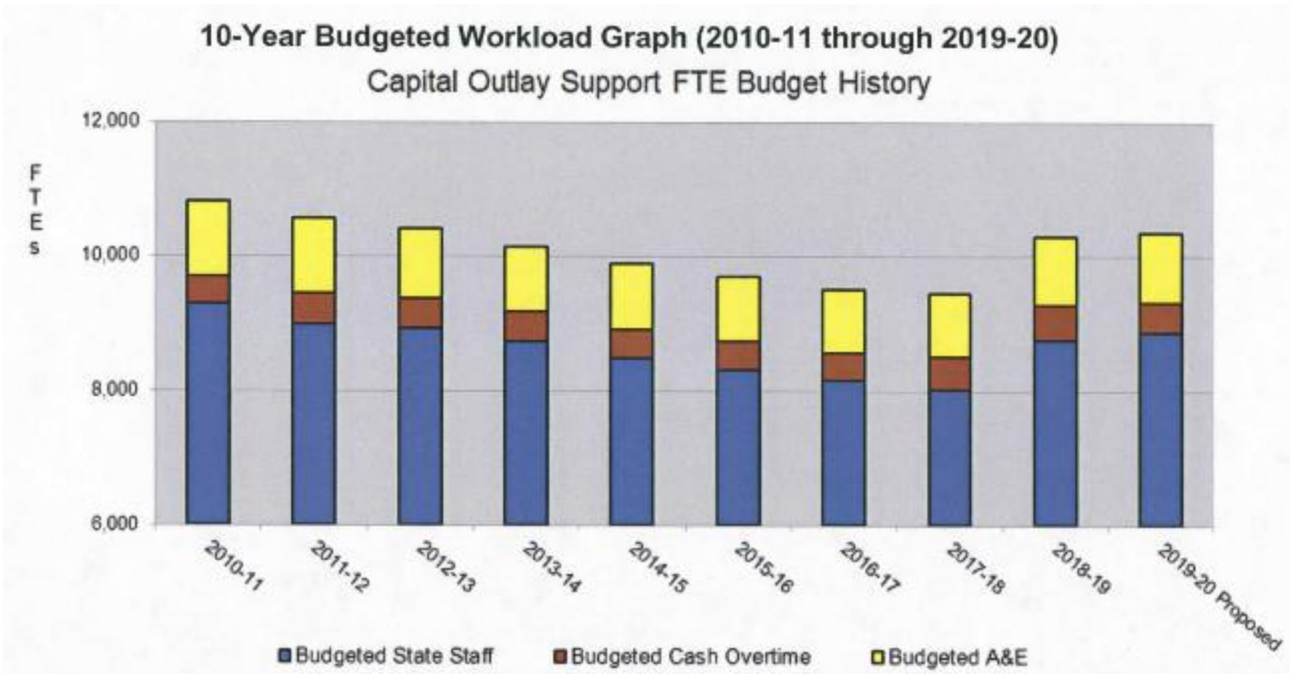
BACKGROUND

COS staff deliver transportation projects to construction and oversee the construction of projects currently funded or expected to be funded by the California Transportation Commission, or by local partners. The requested staffing level considers budget year needs within the context of a five-year workload projection. The figure below shows the requested level of resources compared to the 2018-19 COS authorized budget, the 2019-20 January budget proposal, and the 2019-20 May Revision proposal.

	Personal Services Staff	Cash Overtime Position Equivalent	Architectural and Engineering Contracts (Position Equivalent)	Total Request
2018-19 COS Program Authorized Budget	8,770.4	516.4	1,031.8	10,318.6
Mid-Year Jan. 10 Adjustments	-13.0	0	0	-13
2019-20 January 10, Governor's Proposed Budget	8,757.4	516.4	1,031.8	10,305.6
2019-20 COS Program Proposed Budget Changes	+123.2	-75.0	0	+48.2
2019-20 COS Proposed Budget (May Revision)	8,881.6	441.4	1,031.8	**10,353.8**

The COS Program budget is growing to deliver projects to meet Senate Bill (SB 1) requirements.

The following chart shows the change in staffing levels at Caltrans over the last decade:



The chart below shows how the positions would be allocated by the type of work performed:

Table 3: COS Program Workload Changes (Full Time Equivalents)

Workload Categories (Includes all fund sources)	Governor's Budget 2019-20*	May Revision 2019-20	Change 2019-20
SHOPP (including SB 1)	6,275	6,099	(176)
Overhead and Corporate	1,930	1,947	17
Partnership (Includes Measure/Locally Funded)	904	996	92
STIP	712	682	(30)
Real Property Services	109	109	0
Toll Bridge Seismic Retrofit Program	59	47	(12)
Traffic Congestion Relief Program	54	48	(6)
Prequalifying Laboratories and Materials	53	53	0
High Speed Rail	37	39	2
Proposition 1B Bond	32	43	11
Materials Engineering & Testing Services	27	27	0
Geotechnical Borehole Mitigation	25	10	(15)
Non-SHOPP SB 1	89	254	165
Total Proposed COS Workload	**10,306**	**10,354**	**48**

*Includes 13 positions redirected to OIG (BCP 2660-007-BCP-2019-GB)

STAFF COMMENTS

Caltrans has made significant progress in hiring capital outlay support staff since the enactment of the 2018-19 Budget, and as of April 23, 2019, hired 1,176 staff. In addition, with the achieved successes in hiring, none of Caltrans' planned project commitments have been negatively affected due to inadequate staffing levels and the COS Program continues to use consultants as it was traditionally intended, as a flexible resource. Through March, the Capital Outlay Support Program estimates to have used approximately 785 architectural and engineering full-time equivalents of the budgeted 1,032 A&E FTEs (which equates to about 76 percent of the amount budgeted).

Staff has no concerns with the requested level of resources and is pleased to see the addition of staff that are environmental planners and increased funding of $3 million for interagency agreements with permitting Agencies. These types of agreements help to expedite projects through the permitting process.

Staff Recommendation: Hold Open.

ISSUE 2: INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS TRAILER BILL LANGUAGE

The California Department of Transportation requests trailer bill language that clarifies and expands the Independent Office of Audits and Investigations' authority.

BACKGROUND

Each year, California spends billions of dollars for transportation. Several state agencies are responsible for this spending, either through direct expenditures or through grants to local government, nonprofits and other private entities.

In 2017, the Legislature passed the Road Repair and Accountability Act of 2017 (Beall, Chapter 5, Statutes of 2017), which increased several taxes and fees, to generate roughly $55 billion over ten years, to fund repairs and maintenance of the state's transportation system. SB 1 also provided for enhanced oversight of the state's transportation funding and created within Caltrans the Office of Inspector General to ensure that revenues raised by the fuel tax and vehicle registration would be spent effectively, efficiently and legally.

The proposed language gives Caltrans' Inspector General (IG), as the director of the Audits and Investigations Office, access and authority to examine all records, files, documents, accounts, reports, correspondence, or other property of the department and external entities that receive state and federal transportation funds from the department. In addition, any information obtained by the IG may be kept confidential and disclosure would not be required under the California Public Records Act. The language also provides that not complying with providing information to the IG is a misdemeanor.

STAFF COMMENTS

The Legislature has considered creation of an independent inspector general with broad investigative authority over all the state's transportation spending. In 2012, the Legislature passed SB 878 (DeSaulnier); however, Governor Brown vetoed the bill, recommending the state use existing auditing and investigative resources. Currently, AB 380 (Frazier) is being considered through the policy process and it would eliminate the existing Inspector General within Caltrans and create an external Inspector General.

The proposed trailer bill language regarding what is disclosed in under the California Public Records Act goes beyond the authority that the California State Auditor has and it is unclear why the Inspector General would need this authority. The Subcommittee may wish to ask if there are specific examples of why this language and authority is needed.

In general, staff finds that further consideration of this proposal would be more appropriate for the policy process.

Staff Recommendation: Reject without prejudice to the proposal and direct the Administration to seek further consideration through the policy process.

2665 CALIFORNIA HIGH-SPEED RAIL AUTHORITY

SB 1420 (Kopp, Chapter 796, Statutes of 1996) established the High-Speed Rail Authority (HSRA) to plan and construct a high-speed rail system that would link the state's major population centers. HSRA is governed by a nine-member board appointed by the Legislature and Governor. In addition, HSRA has an executive director, appointed by the board, and a staff of about 226. Most work is carried out by consultants under contracts with HSRA. In November 2008, voters approved Proposition 1A, which specified certain conditions that the system must ultimately achieve, as well as authorized the state to sell bonds to partially fund the system.

The Governor's budget proposes a total of $666 million in 2019-20 for HSRA, a decrease of $944 million (or 59 percent) below the estimated level of funding in 2018-19.

ISSUE 3: PROJECT UPDATE REPORT (INFORMATIONAL ONLY)

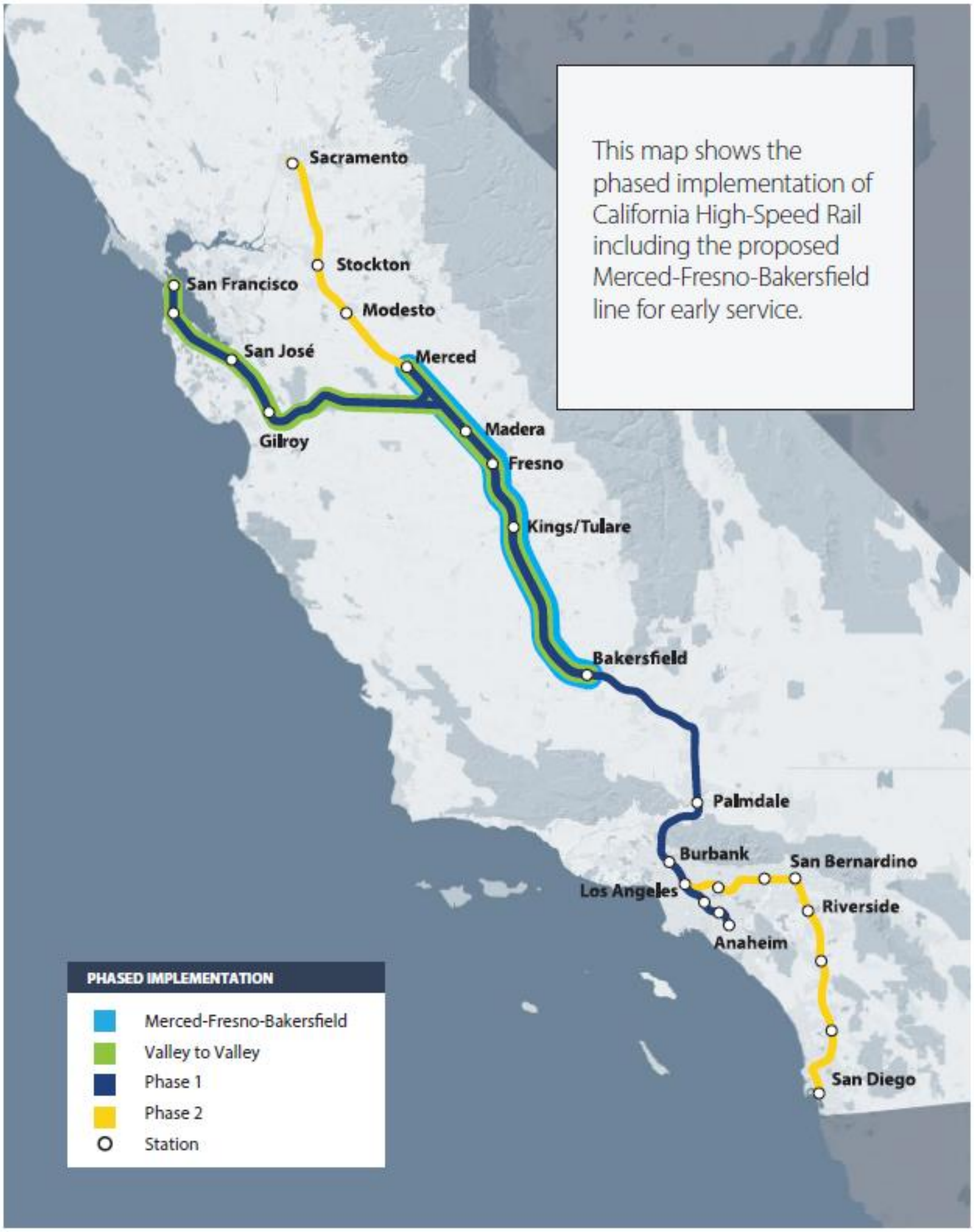
The Project Update Report (PUR) released on May 1, 2019 proposes to spend $20.4 billion to complete the following:

- A train line from Merced (Merced Station) to Fresno to Bakersfield (F Street Station) by 2028 that would provide early interim service,
- Bookend projects, and
- Environmental work for the project.

BACKGROUND

Project Delivery Plan

The high-speed rail project is divided into two phases. Phase I would provide service for about 500 miles from San Francisco to Anaheim. Phase II would connect the system to Sacramento in the north and San Diego in the south as shown in the figure on the following page:



Bookend and Connectivity Projects. HSRA has partnered with local authorities to initiate a variety of bookend and "connectivity" projects on commuter rail lines in the Bay Area and Southern California that will facilitate high-speed rail, as well as provide benefits to existing rail and transit systems. These projects include the planned electrification of the Caltrain corridor to allow for high-speed rail to share Caltrain's tracks, a major grade separation project near Los Angeles, and an upgrade to Los Angeles' Union Station.

Project Funding

The high-speed rail project has funding from three main sources:

- **Proposition 1A Bonds.** Proposition 1A authorized the state to sell about $10 billion in general obligation bonds to support the development of the high-speed rail system. This includes $9 billion for the planning and construction of the high-speed rail system, with the remainder to support the connectivity projects discussed above. (Of this $9 billion, HSRA has set aside $1.1 billion as contributions to locally administered bookend projects and $450 million for project administration.) At this time, the Legislature has appropriated $5.5 billion in Proposition 1A bond funds, with about $2.7 billion having been spent—$2 billion on the high-speed rail project and about $700 million on connectivity projects.

- **Federal Funds.** The federal government has awarded HSRA a total of $3.5 billion, subject to certain matching requirements and project deadlines. First, the state received $2.6 billion in American Recovery and Reinvestment Act (ARRA) funds in 2009. HSRA fully expended the ARRA funds and expects to complete the state match requirement in 2019-20. Second, the state received a $929 million grant from the federal High-Speed Intercity Passenger Rail program in 2010 (FY10 Federal Grant), which expires at the end of 2022 and requires a state match of $360 million. The state must meet certain conditions under the FY10 Federal Grant agreement, including: (1) completing its match to the ARRA grant before it can spend these funds; (2) using the funds to support infrastructure that provides intercity passenger rail service; and, (3) completing all environmental reviews for Phase I of the high-speed rail project by 2022. The grant agreement also includes a provision that allows the federal government to terminate the grant under certain conditions, such as failing to make reasonable progress on the project. On February 19, 2019, the federal government notified the state of its intention to terminate the FY10 grant under this provision.

- **Cap-and-Trade Auction Revenue.** In 2014, the state began providing cap-and-trade auction proceeds to HSRA for the project. (Cap-and-trade auction proceeds are revenue generated by the state from the sale of emissions allowances as part of the state's efforts to reduce greenhouse gas emissions.) This includes $650 million in one-time cap-and-trade revenues, as well as the continuous appropriation of 25 percent of cap-and-trade revenues, beginning in 2015-16. To date, the project has received about $2.4 billion in cap-and-trade revenues and spent about $600 million.

Project Status

Environmental Review. HSRA must comply with both the California Environmental Quality Act and the National Environmental Policy Act. Both laws require environmental reviews to assess the extent to which the high-speed rail project could cause significant environmental impacts. HSRA has completed the environmental reviews for the Merced-to-Fresno and Fresno-to-Bakersfield sections. The environmental reviews for the remainder of Phase I are currently underway, while the environmental reviews for Phase II have not yet started.

Right-of-Way Acquisition. Once the alignment of a section is finalized and the relevant environmental review of a project section is complete, HSRA can acquire the right-of-way in that section as needed for construction subject to funding availability. Because HSRA has finalized the alignment and completed the environmental reviews of the sections between Merced and Bakersfield, it is able to acquire right-of-way in those sections. As of March 2019, HSRA has identified 1,816 parcels of land necessary for construction in the Central Valley and has acquired 1,501 of them.

Project Construction. In 2015, HSRA initiated construction on the ICS. To date, HSRA has spent about $3.8 billion on construction of the ICS. This includes the completion of major structures, such as the construction of the Fresno River Bridge and Tuolumne Street Bridge, and the realignment of a portion of State Route 99. As indicated above, HSRA currently estimates it will complete the ICS by 2022.

Jobs Created. Developing, planning, and building the project has stimulated job growth across the state. As of March 2019 HSRA estimates it has created nearly 3,000 jobs. Overall the investment has supported between 37,600 and 42,600 job-years of employment and generated $6.8 billion to $7.6 billion in total economic activity.

2019 Project Update Report

The 2019 PUR addresses issues raised in the 2018 Business Plan, specifically:

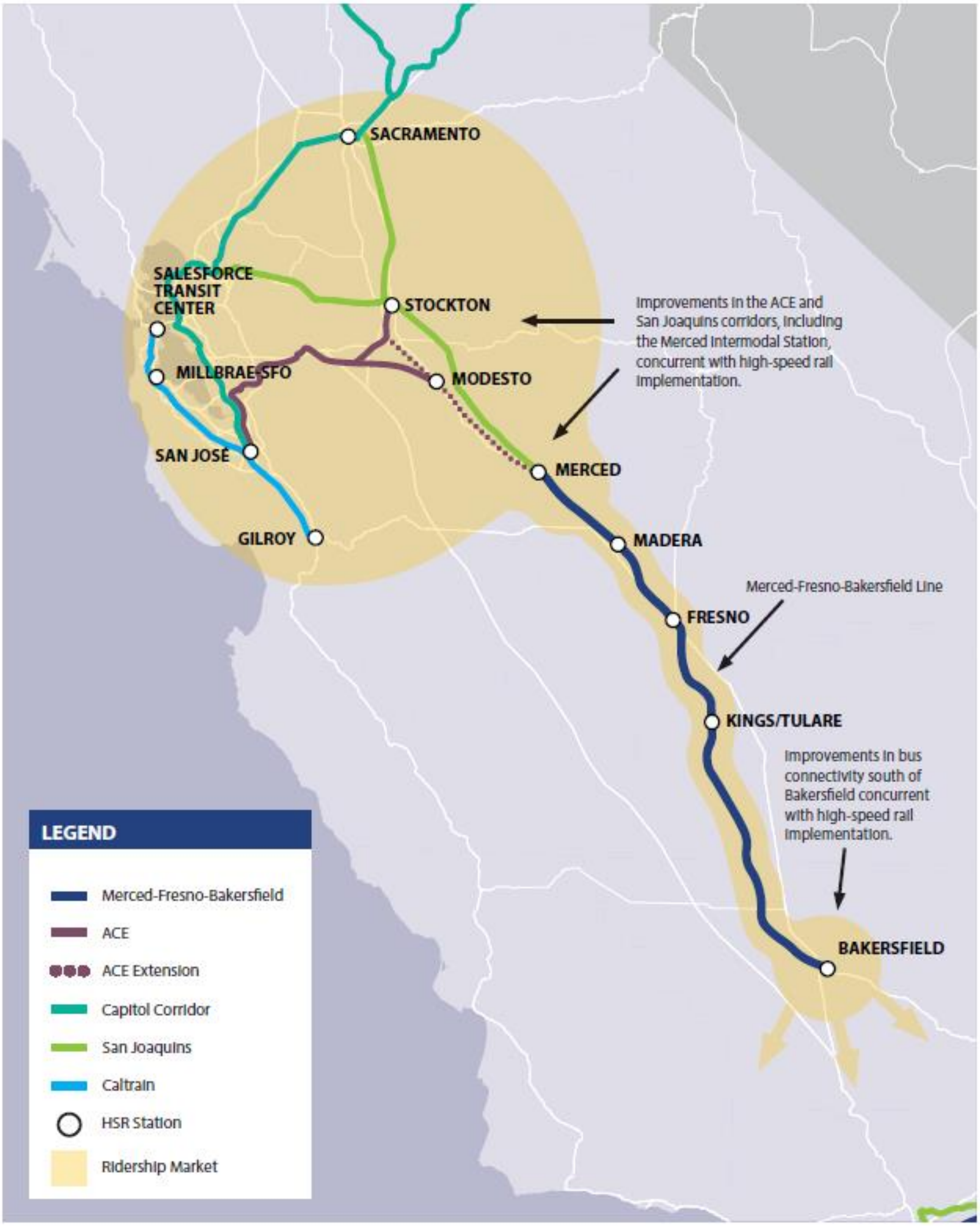
- Early Train Operator's (ETO) analysis of early, interim service options deemed worthy of consideration in the 2018 Business Plan in both the Central Valley and the Peninsula in Northern California.
- ETO's review of capital costs contained in the 2018 Business Plan.
- Refine and update scope and cost to complete the work in the Central Valley

Based on the ETO's analysis the following conclusions were made:

- The best option for early service in the Valley is the Merced- Fresno-Bakersfield segment integrated with the Altamont Corridor Express (ACE) and the San Joaquin intercity service, while HSRA continues to prepare the Valley-to-Valley service for construction as additional funding becomes available.

- HSRA should complete the environmental work statewide and maintain commitments to complete the bookend projects in the Silicon Valley and the Los Angeles Basin.

HSRA envisions an early interim service that looks like the following:



Project Costs

The estimated total cost of the components of the project as presented in the PUR is $20.4 billion and is comprised of the following:

Component	Cost (in billions)
Merced to Bakersfield construction	$16.3
Trains	$0.7
Phase 1 environmental studies	$0.8
Bookend projects	$1.3
Other costs	$1.3
Total	**$20.4**

Project Funding

The figure from the PUR on the following page summarizes the forecasted funding for the project through 2030, the amount spent through January 2019, and the remaining funds available. Whether or not the state can afford to construct the early interim service, bookends, and complete environmental work under current conditions depends on the following:

- Stable Cap and Trade revenues.
- Retaining all previously committed federal funds.
- Appropriation of the remaining Prop 1A bond funds by the Legislature.
- No significant future construction cost increases.
- Reengagement by the Federal Railroad Administration.

Funding Source	Total Authorized Funding A	Total Appropriated / Received	Total Expended to Date B	Total Remaining C = A - B
Federal Funds				
ARRA Construction	$2.06	$2.06	$2.06	-
ARRA Planning	$0.49	$0.49	$0.49	-
FY10	$0.93	$0.93	-	$0.93
State Funds				
Proposition 1A Planning	$0.68	$0.58	$0.43	$0.25
Proposition 1A Central Valley Segment Construction	$2.61	$2.61	$1.44	$1.17
Future Proposition 1A for Silicon Valley to Central Valley Line Construction	$4.17	-	-	$4.17
Proposition 1A Bookends	$1.10	$1.10	-	$1.10
Cap-and-Trade Received through December 2018	$2.42	$2.42	$0.61	$1.81
Subtotal	**$14.45**	**$10.18**	**$5.02**	**$9.43**
Future Cap-and-Trade*	$6.00 – 9.00	$6.00 – 9.00	-	$6.00 - $9.00
Total	**$20.45 – 23.45**	**$16.18 – 19.18**	**$5.02**	**$15.43 – 18.43**

**Future Cap-and-Trade funding assumes a low of $500 million to a high of $750 million per year from 2019 to 2030 (12 years). The Authority's February 2019 Cap-and-Trade quarterly auction receipt was $213 million, and is not yet included in the total.*

Federal Railroad Administration (FRA) Update:

On March 4th, HSRA submitted two letters to the FRA challenging its intended action to de-obligate $929 million in federal fiscal year 2010 funding for the project. To date, it has not received a response. While the FRA has disengaged on the environmental review process, HSRA continues to move forward with state approvals for California Environmental Quality Act (CEQA) purposes, and will continue to prepare work for FRA approval when and if it re-engages in this process.

STAFF COMMENTS

The PUR outlines the key risks to the project which are the state's relationship with the Federal Railroad Administration (FRA), funding, cost increases, schedule delays, and other construction and program risks. The Subcommittee may wish to have HSRA discuss these risks in more detail. In addition, staff raises the following issues for consideration:

Early Interim Service

- Much of the value of an early interim service is contingent on a highly integrated rail service from Sacramento, Oakland, and San Jose into the Bay Area. Will connecting existing systems to the new high-speed rail line require additional transportation projects? Are these projects currently underway? What is the cost and source of funding for these projects and timeline for completion?
- Is the proposal to operate an early interim service with a subsidy consistent with Proposition 1A? How large of a state subsidy would be needed to operate the Merced-Fresno-Bakersfield rail line?
- What are the transportation options going south beyond Bakersfield?

Federal Risks

- Does the FRA have to approve an interim option approach? Does this approach put at risk any federal funds the state has already spent?
- How will the project move forward without the FRA engaging on the environmental review process and other activities where the state needs its federal partner? By what date does the state need FRA to reengage to avoid significant project delays?
- What happens if HSRA cannot meet the federal funding ARRA commitments by December 2022?

Funding

- Is the flow of funds from the state's Cap and Trade program sufficient to not delay construction and increased costs due to inflation from construction delays?

Bookend Projects

- Does this proposal delay the bookends projects at all?
- Do bookend projects need federal environmental approvals?

HSRA Structure and Administration

- When will CHSRA have a structure and staff that are adequate to deliver this project so that the state isn't so heavily reliant on consultants?

Staff Recommendation: Informational Only.

ISSUE 4: CONTRACT MANAGEMENT & FINANCIAL OFFICE RESOURCES (MAY REVISION)

The May Revision requests for the California High-Speed Rail Authority (HSRA) 35 permanent positions and $4.5 million (Proposition 1A) to shift certain administrative and contract management responsibilities from its Rail Delivery Partner to state staffing resources.

BACKGROUND

A recent report by the State Auditor identified areas where HSRA's reliance on contractors for contract management and other administrative functions has contributed to problems with control of costs and performance of contractors. Without additional state positions, HSRA runs the risk of not being equipped with the appropriate resources to effectively manage contracts.

Positions are also requested for the Financial Office. The Accounting and Budget Branch play a key role in contract management, among their other state and federal mandated requirements, such as managing the allocation of funds to execute contracts and processing payments. The branches also assist with monitoring balances and available cash to provide timely information to management for decision making.

The requested positions and cost increases/decrease are summarized below:

BRANCH / UNIT	POSITION REQUESTED	COST ($M)	CONSULTANT REDUCTION	REDUCTION ($M)
RESPONSE TO AUDIT CHAPTER 2				
Contract Management				
Contract Administrative Branch	5.0	0.6	<5.0>	<0.8>
Contract Management Branch	12.0	1.6	<12.0>	<1.8>
SUBTOTAL	**17.0**	**2.2**	**<17.0>**	**<2.6>**
Financial Office				
Accounting Branch	11.0	1.4	<12.0>	<1.9>
Budget Branch	3.0	0.4	<3.0>	<0.5>
Grants Unit	3.0	0.4	<3.0>	<0.4>
Business Economics Branch (position authority only)	1.0	0.0	<0.0>	<0.0>
SUBTOTAL	**18.0**	**2.2**	**<18.0>**	**<2.8>**
TOTAL *	**35.0**	**$4.5**	**<35.0>**	**<$5.3>**
Net Total Dollars <$0.8M>				

** TOTAL is higher than sum of subtotals due to rounding*

STAFF COMMENTS

HSRA has grown from 41.5 positions in 2010-11 to 226 positions in 2018-19.Filling vacancies has been an ongoing issue and the vacancy rate for the last couple of years has been about 20 percent and key management positions have often been vacant. The Subcommittee may wish to ask what the current level of vacancies is, especially for management positions, and how HSRA intends to fill and retain qualified staff for the proposed positions.

Staff Recommendation: Hold Open.

3360 CALIFORNIA ENERGY COMMISSION

ISSUE 5: ENERGY RESOURCES PROGRAMS ACCOUNT STRUCTURAL DEFICIT RELIEF (APRIL FINANCE LETTER)

An April Finance Letter requests for the Energy Commission a series of actions to reduce the Energy Resources Programs Account (ERPA) structural deficit by $8.5 million in 2019-20, $9.4 million reduction in 2020-21, and a $10.5 million reduction in 2021-22.

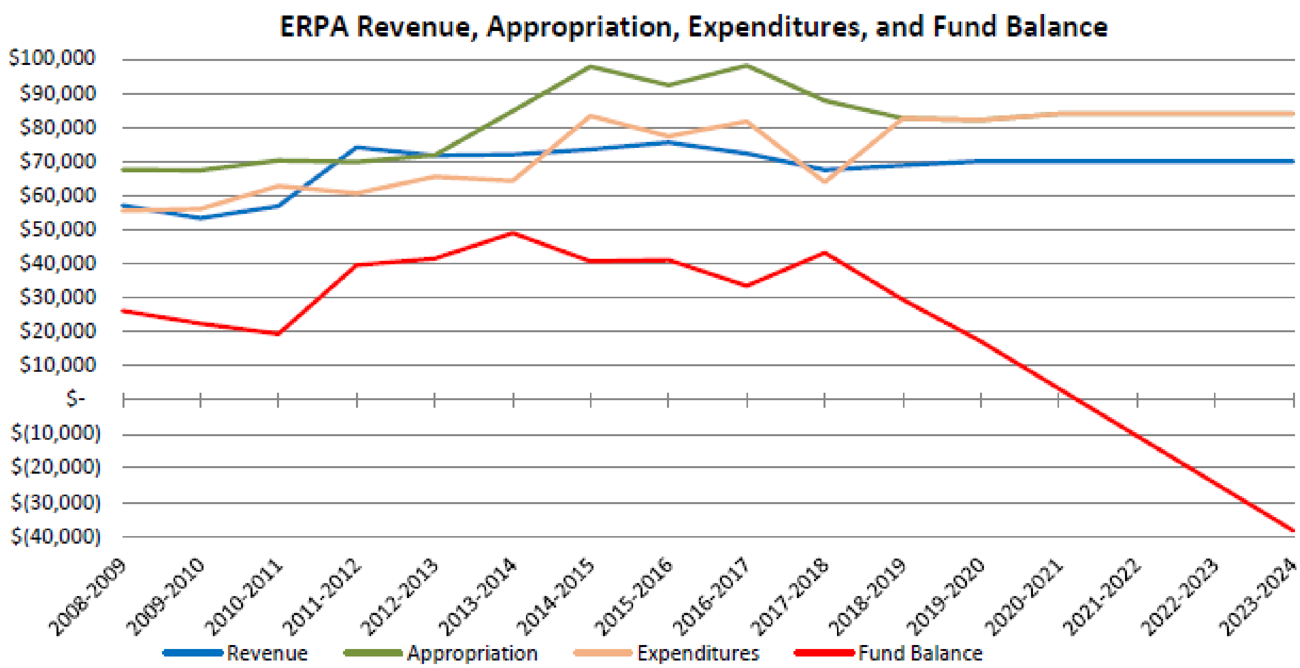
Proposed actions include:

- Shift 11 positions from ERPA to the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF) for a reduction of $1.65 million.
- Shift seven enforcement and compliance positions from ERPA to the Appliance Efficiency Enforcement Subaccount (AEES) for a reduction of $1.05 million.
- Shift seven existing ERPA staff supporting the renewables program to the Renewable Resource Trust Fund (RRTF) for a reduction of $1.05 million.
- Proposition 39 Program phase out. Eliminate nine positions and contract authority by $0.7 million for a total reduction of $2.08 million in 2019-20, six positions and $1 million in 2020-21, and seven positions and $0.3 million in contract authority for a total of $1 million in 2021-22. This reduction is consistent with existing law and workload related to Proposition 39.
- Eliminate 15 ERPA-funded positions supporting thermal power plant siting and transmission planning for a reduction of $2.25 million.
- New Solar Homes Partnership (NHSP). Shift 14 staff and $0.2 million in contract funding from the RRTF and ERPA to PUCURA for a reduction of $2 million. These resources support the administration of the NSHP program. This need will go through 2021-22. Thereafter, one position will be needed for 2022-23 only.
- Solar Equipment Listing - Shift seven staff responsible for administration of the Solar Equipment Listing from the RRTF to PUCURA/Reimbursements, shift $0.1 million in ERPA contract dollars, for an RRTF and ERPA reduction of $1 million and a PUCURA cost of $1 million. Funding for the Solar Equipment Lists will be an interagency agreement between the Energy Commission and CPUC, funded with PUCURA at the CPUC and as reimbursements to CEC.
- One new position and $0.17 million will be authorized from PUCURA and reimbursements via an interagency agreement with CPUC.

BACKGROUND

ERPA was established to provide funds for ongoing energy programs and energy projects, including the operations of the Energy Commission. The ERPA fund is fed from a statutory surcharge on electricity consumption. The surcharge was increased to its statutory maximum - from $0.00029 to $0.0003 per kilowatt-hour (kWh) - by the Energy Commission effective January 1, 2019. The surcharge generated approximately $67.5 million in 2017-18 and costs the average household $2.01 annually.

ERPA is in a structural deficit that has overspent revenues by more than $17.4 million since 2014-15 as shown in the figure below in the bottom line of the chart which represents the fund balance. The structural deficit results from the Energy Commission's growing role in implementing aggressive climate policies that reduce electricity consumption thereby reducing ERPA revenues. ERPA revenue peaked at $75.5 million in 2015-16 and declined to $67.5 million in 2017-18.



Assumptions:

- ERPA surcharge remains unchanged at $0.0003 per kWh.

- Out-years exclude future employee compensation/benefit adjustments.

The Energy Commission has exercised stewardship over the fund by obtaining statutory fee authority for amending power plant certifications; partnering with the CPUC in transmission siting, saving the CPUC money and offsetting ERPA costs; implementing several cost-cutting actions, including heightened scrutiny on contract expenditures; and, taking a series of actions in the 2017-18 and 2018-19 Budget Acts to reduce costs, increase revenue, and align activities with appropriate fund sources. These actions have reduced the ERPA deficit by more than $27 million over two budget cycles.

LAO COMMENTS

In the last two budgets, the Legislature took a variety of actions to partially address the ERPA structural deficit. The CEC proposes several additional actions to partially address the remaining ERPA deficit and the LAO recommends the Legislature adopt these changes. However, even if the Legislature adopts the Administration's proposed changes, an estimated $6 million to $8 million annual deficit would remain, and the fund is projected to become insolvent in 2022-23.

The Legislature might want to consider taking additional actions to partially or fully address the remaining deficit. Some options that the Legislature might want to explore—and that are identified in a recent CEC report—include: (1) raising additional revenue by extending the current electric surcharge to behind-the-meter electricity; (2) directing PUC to eliminate the 10 percent cap on reimbursements to CEC for administrative costs for the Electric Program Investment Charge Program; and, (3) shifting funding for certain activities—such as water efficiency activities at the Department of Water Resources—to other fund sources. The LAO recommends the Legislature adopt Supplemental Report Language requiring the Administration to develop a plan to fully address the ERPA deficit next year, similar to language that was adopted in the last two budgets.

STAFF COMMENTS

The Energy Commission has worked hard and identified expenditures that can be directed towards more appropriate funding sources, while at the same time improving the health of the Energy Resources Program Account. While the proposal makes progress, it does not bring revenue and expenditures into balance for more than three years. A funding shortfall of $1.3 million reappears in 2022-23 and grows to $10.9 million in 2023-24.

Additional actions need to be taken to fully address the operational funding shortfall. Staff recommends the Subcommittee: (1) approve all of the actions proposed in the April Finance Letter; and, (2) adopt supplemental report language directing the Administration to prepare a report on options to fully address the structural deficit in ERPA by no later than April 1, 2020. This report should include a discussion of the feasibility and implications of implementing options recommended in previous reports that have not been adopted, and new options that would impose fees to fund: (1) the development and utilization of solar equipment listing; and, (2) the energy and natural gas forecasts that are prepared by the CEC.

Staff Recommendation: Approve as proposed and adopt placeholder supplemental report language requiring the Energy Commission to develop options to fully address ERPA's structural deficit.

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

ISSUE 6: CPUC RESPONSE TO UTILITY BANKRUPTCY (APRIL FINANCE LETTER)

An April Finance Letter requests $28 million from the Public Utilities Commission Utilities Reimbursement Account for a legal services contract. This proposal also requests budget bill language to make this appropriation available for encumbrance until June 30, 2022, and liquidation until June 30, 2024.

BACKGROUND

Currently, California is experiencing increasingly destructive wildfires that threaten the lives and property of its citizens. The amount of costs utilities are projected to absorb from wildfires is extremely high. For example, estimates for total 2017-2018 wildfire costs and liabilities for Pacific Gas and Electric (PG&E) reach up to $30 billion. It is not clear what additional costs and liabilities PG&E will be required to absorb in 2019 and beyond. Southern California Edison (SCE) and, to a lesser extent, San Diego Gas and Electric (SDG&E) are also facing their own liabilities for wildfires.

Most notably, on November 14, 2018, PG&E drew down its revolving credit facility, an action perceived in the financial markets as one that would be taken by a company with financial challenges. PG&E lost its investment grade status in early January 2019. PG&E then filed a Chapter 11 Bankruptcy proceeding on January 29, 2019. In connection with this filing, PG&E obtained $5.5 million of Debtor In Possession (DIP) financing for two years, with a one-year extension option. The terms of the financing imply PG&E plans to spend up to three years in bankruptcy court.

The CPUC represents the interests of ratepayers in bankruptcy proceedings. The CPUC must have funds in its budget to pay for expert representation in the PG&E Bankruptcy proceeding. In addition, the CPUC must have expert counsel who can advise on corporate finance and restructuring questions that other utilities might face. The funding will also cover a Financial Advisor hired as a subcontractor by counsel, which is typical in restructuring matters. Counsel must be able to rely on an advisor to evaluate complex financial conditions and arrangements, as well as the flow of information in the financial markets, allowing counsel to provide informed advice to the CPUC. Counsel will also provide advice on debt securitization, including securitizations related to the exit from bankruptcy.

When PG&E filed for bankruptcy in January, 2019, the CPUC was in the process of renewing its legal services contract with bankruptcy counsel. Counsel were, at that time, engaged on an "as needed" basis under a legal service contract which was set to expire in June 30, 2019. The CPUC required immediate assistance on the PG&E bankruptcy and worked with counsel to develop a case plan. As is usual in complex restructurings, the CPUC also sought to obtain a financial advisor who could work with counsel to understand the financial condition of PG&E, evaluate the various exit plans as they were proposed, and help the CPUC with its communications with the financial community. The CPUC also expects this Financial Advisor to provide advice on the two remaining utilities who are not in bankruptcy, since the financial condition of all California utilities is an issue the CPUC must face.

The CPUC is entering into a new legal services contract with its counsel, which will include the PG&E bankruptcy and have an estimated budget that will allow counsel and the financial advisor to effectively represent the CPUC. The contract is for a three-year period, mirroring the DIP financing. The budget for this legal services contract is, after an initial 6-month ramp-up period: approximately $500,000 per month for legal counsel, billed at hourly rates, and $450,000 a month for the financial advisor.

STAFF COMMENTS

CPUC will need to engage outside counsel and an advisor in order to be able to effectively participate in the PG&E bankruptcy proceeding, and to effectively conduct its own regulatory proceedings reviewing electric utilities' financial structure in a post-wildfire environment. It is unknown at this time exactly how much funding will be needed. Staff recommends holding open to allow time for further consideration.

Staff Recommendation: Hold Open.

VARIOUS DEPARTMENTS

ISSUE 7: VARIOUS INVESTMENT REQUESTS

The Subcommittee is in receipt of various proposals for investments in resources, environmental protection, energy and transportation from Members of the Assembly. The proposals reflect individual Member priorities, and each Assembly member will have an opportunity to present at this time.

Staff Recommendation: Hold all proposals open for consideration with other proposals.

This agenda and other publications are available on the Assembly Budget Committee's website at: https://abgt.assembly.ca.gov/sub3hearingagendas. You may contact the Committee at (916) 319-2099. This agenda was prepared by Farra Bracht.