

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Assemblymember Fran Pavley, Chair

WEDNESDAY, MARCH 12, 2003
STATE CAPITOL, ROOM 447
8:30 A.M.

ITEMS TO BE HEARD

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SUBCOMMITTEE OVERSIGHT ISSUES

Many challenges face the legislature this year in reviewing and adopting the budget. Natural resources and environmental protection are one of the few areas of the budget that receive less general fund than five years ago. These programs have benefited from voter approved bond funds in the last three years for investment in California's water quality, water supply, watersheds, habitat and parks.

This year the Legislature must be more thorough and critical in its review of every program to determine priorities and identify programs that should be streamlined to eliminate duplication.

To assist the Subcommittee in reviewing the budget several actions are being taken:

- The policy chairs and vice chairs of the relevant policy committees have been invited to participate in the subcommittee hearing.
- Four joint hearings with the policy committee to further explore key areas have been scheduled.
- Questions have been communicated to each agency and department to get a better understanding of funding levels, expenditure trends and departmental priorities.

Each agency and department was asked to provide the following information:

- The level of funding and PYs for your department and divisions within your department for 1998-99, 2000-01, 2002-03 and proposed budget.
- A list of which divisions or programs are funded by general fund.
- What actions were taken either voluntarily or by direction from the Governor in the last year to reduce expenditures?
- How have administrative expenses including travel and attendance at conferences been reduced? How has the OE & E schedule been reduced?
- What statutorily mandated work has not been done in the last year because of budget reductions? Has this work been deferred or stopped? If deferred, when do you anticipate completing it?
- How were priorities established for the funding reductions? What are those priorities?
- What programs did you consider shifting funding source including shifting to a fee basis? If you chose not to make the shift to fees, what was the basis of that decision? What programs could be shifted to a fee basis in order to replace general fund?
- If you were given a 10% additional unallocated cut what programs would you defer or eliminate?

For each program where there is a Budget Change Proposal:

- What is the purpose of the program and the source of funding?
- How does this funding level and source compare to prior years?
- Does the program have sufficient resources to meet its statutory obligations?
- What is the impact of the requested change in level or source of funding?
- Does this result in a reduction of positions or consulting dollars? If positions were eliminated, were the positions filed or vacant, limited term or permanent?
- If funding was reduced, why is this considered a lesser priority?
- Are there statutory changes that would remove implementation barriers to the program and allow you to better achieve program objectives with fewer resources?

0540 - OFFICE OF THE SECRETARY FOR RESOURCES

The Resources Agency, through its various departments, boards, commissions, and conservancies, administers programs that conserve, preserve, restore and enhance the rich and diverse natural resources of California. The Secretary for Resources, a member of the Governor’s Cabinet, is responsible for administering programs and policies governing the acquisition, development and use of the State’s resources to attain these objectives.

The Governor's proposed 2003-04 budget for the Secretary includes \$54.29 million (\$1.35 million General Fund) for the Secretary's activities.

SECRETARY FOR RESOURCES

(dollars in thousands)

FUND	CURRENT YEAR	BUDGET YEAR	CHANGE	
	2002-03	2003-04	AMOUNT	PERCENT
General	\$7,586	\$1,348	-\$6,238	-82.20%
Prop 12	35,931	200	-35,731	-99.4
Prop 13	9,426	16	-9,410	-99.8
Prop 204	316,895	0	-316,895	-100
Prop 40	57,518	14,602	-42,916	-74.6
Prop 50	0	34,753	34,753	100
Other	13,163	3,366	-9,797	-74.4
TOTAL	\$440,519	\$54,285	-\$386,234	-87.70%
Personnel Years	37	45	8	21.50%

ISSUE 1: Sierra Nevada Cascade, River Parkways and Urban Streams Restoration

The Governor's proposed 2003-04 budget requests \$44.93 million in Proposition 40 and 50 funds for the Sierra Nevada Cascade, River Parkways and Urban Stream Restoration Grant Programs.

BACKGROUND:

Urban Streams Restoration Program. \$4.66 million of the requested amount would support the Urban Streams Restoration Program (USRP), which provides technical assistance and grants for communities undertaking projects to address localized flooding and erosion. This program has provided over \$27 million to 242 projects since 1989 various funding sources including Proposition 13 and General Fund. Proposition 40 provided "no less than" \$5 million for the USPR to continue activities to restore urban streams and creeks, and to provide flood and erosion protection.

River Parkways Program. \$32.85 million (\$25 million Proposition 50 and \$7.85 million Proposition 40) is requested for continuing activities of the River Parkways Program. The 2002-03 budget Act appropriated all but \$7.85 million of the \$70 million provided for River Parkways in Proposition 40. Proposition 50 provided \$100 million for river parkway restoration and acquisition projects..

Sierra Nevada Cascade Grant Program. \$7 million (Proposition 50) is requested for this program for acquisition and development projects in the following areas: rivers and streams projects, trail projects, educational or interpretive nature trails; capital improvements that provide park and recreational opportunities; and acquisitions of parklands or recreational facilities.

COMMENTS:

The Legislative Analyst has taken issue with the Sierra Cascade Grants Program and the River Parkways Program, citing a need for greater statutory direction to prioritize project. The Subcommittee should ask the Legislative Analyst to comment on the details of the concerns, and the Agency should respond.

The Legislature has organized several "working groups" to evaluate various Proposition 50 funding categories. The River Parkways Program is one of the categories being looked at by these groups. It is the understanding of the Subcommittee that the working groups will be making recommendations to the Legislature as it is deemed necessary for each of the working groups. As of this printing, no comments have been provided.

ISSUE 2: California Legacy Project and the California Environmental Resources Evaluation System (CERES)

Within the Agency's baseline budget, the Legislative Analyst has raised issue with two program costs, and has recommended a \$2.17 million (Environmental License Plate Fund) reduction.

BACKGROUND:

California Legacy Project. The California Legacy Project was created in the 2000-01 Fiscal Year to assist in statewide conservation assessment and planning, taking into account five different objectives: (1) terrestrial biodiversity, (2) aquatic biodiversity and watershed values, (3) working landscapes, (4) recreation lands, and (5) urban open space.

CERES. CERES is an information system developed by the Resources Agency to provide other state departments and the public with access to a variety of electronic data describing California's environments. According to the Agency, the goal of CERES is to improve environmental analysis and planning by integrating natural resource information from multiple contributors and making it available to a wide variety of users.

COMMENTS:

The Legislative Analyst should present on this issue and the Agency should respond.

ISSUE 3: Proposition 50 - Statewide Administration

The Governor's budget includes a request for \$2.34 million (Proposition 50) for the Resources Agency and the Department of Fish and Game for administration of Proposition 50. This funding is to carry out auditing, accounting, budgeting, bond coordination and is for general operating costs associated with the administration of the bond.

COMMENTS:

The Legislative Analyst has raised several issues with this proposal and has requested additional information from the Agency. The Legislative Analyst should present on the issues and report the status of conversations with the Agency as to the receipt of the requested information.

ISSUE 4: Additional Proposals

- \$105,000 (proposition 12) for continued funding and position authority for activities associated with 4 grant programs utilizing Proposition 12 funding.
- 1-year extension of the liquidation period for Proposition 13 River Protection Subaccount funds.

CONSERVANCIES

3810 - Santa Monica Mountains Conservancy

The Santa Monica Mountains Conservancy (SMMC) acquires, restores and consolidates lands in the Santa Monica Mountains Zone for park, recreation or conservation purposes. The powers of the Conservancy include authority to:

1. Lease, rent, sell, transfer or exchange these lands for park purposes;
2. Award grants or interest free loans to state and local agencies for purchase or restoration of park, recreation, conservation or buffer-zone purposes to ensure that the character and intensity of development on these lands is compatible with and does not adversely impact the zone;
3. Implement programs to improve access from the inner city areas surrounding the zone, thereby providing recreational opportunities for all residents;
4. Execute projects consistent with Division 23 of the Public Resources Code within the Rim of the Valley Trail Corridor to provide a recreational trail corridor; and
5. Work with local government to implement measures which help achieve the Conservancy's objectives.

BACKGROUND:

The Santa Monica Mountains Conservancy proposes three capital outlay expenditures including:

- \$12.0 million (Proposition 40) for the acquisition and development of key projects of the Rim of the Valley Trail, consistent with the five-year infrastructure plan.
- \$9.5 million (Proposition 50) for watershed protection activities in the San Gabriel and Los Angeles River Watersheds.
- \$77,000 (SMMC Fund) to implement the work program and the five-year capital outlay infrastructure plan.

3825 - San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy

The Rivers and Mountains Conservancy was established in 1999 to acquire and manage public lands in the main San Gabriel Basin, the San Gabriel River and its tributaries, the Lower Los Angeles River and its tributaries, and the San Gabriel mountains, and to provide open space, low-impact recreational and educational uses, water conservation, watershed improvement, and wildlife and habitat restoration and protection.

BACKGROUND:

The "Rivers and Mountains Conservancy" proposes two capital outlay expenditures as follows:

- \$4.5 million (Proposition 50) for acquisition, development of open space, as well as habitat protection, watershed improvements and recreational activities.
- \$12.4 million (Proposition 40) for funding of the Conservancy's first round of grants for urban river parkways, open space acquisition, and wildlife corridor protection in the San Gabriel Mountains and the Whittier Puente Hills.

RECOMMENDATIONS FOR DEMOCRATIC MEMBERS

Committee staff has raised no issues with these proposals.

3830 - San Joaquin River Conservancy

The San Joaquin River Conservancy was established in 1992 for the purpose of acquiring and managing public lands within the San Joaquin River Parkway. The Parkway consists of approximately 5,900 acres on both sides of the San Joaquin River between the Friant Dam and the Highway 99 crossing.

BACKGROUND:

The San Joaquin River Conservancy budget includes five expenditure proposals including:

- \$114,000 (Proposition 40) for program delivery staff positions associated with Proposition 40.
- \$7.5 million (\$6.5 million Proposition 40, \$1.0 million reimbursement) for year-one funding of a three effort to develop the San Joaquin River Parkway.
- \$1.5 million (\$500,000 Proposition 40, \$1.0 million reimbursement) for completion of the initial phases to enhance and restore the Conservancy's Jensen River Ranch property.
- \$2.5 million (\$1.5 million Proposition 40, \$1.0 million reimbursement) to implement the Conservancy's five-year public access and recreation improvement program.
- \$9.9 million (\$5.9 million Proposition 12, \$4.0 million Proposition 13) reappropriation of previously authorized projects to provide sufficient time to complete two pending projects.

3835 - Baldwin Hills Conservancy

The Baldwin Hills Conservancy was established in 2000 and is charged with developing and coordinating an integrated program of resources stewardship so the Baldwin Hills area is managed for its optimum recreational and natural resource values while remaining consistent with the needs of the surrounding community and the region's long-term recreation and habitat preservation goals.

BACKGROUND:

The Baldwin Hills Conservancy has two proposed budget changes including:

- \$109,000 (Proposition 40) for program delivery staff support for the implementation of programs associated with Proposition 40 expenditures.
- \$8.2 million (\$7.2 million Proposition 40, \$1.0 million reimbursement) for the acquisition and development of open space property in the Baldwin Hills area.

3845 - San Diego River Conservancy

Established in 2002, the San Diego River Conservancy was created to acquire and manage public lands within the San Diego River Area, and to provide recreational opportunities, open space, wildlife habitat, species protection, wetland protection and restoration, and protection and maintenance of the quality of the San Diego River; to provide for the public's enjoyment, and to enhance the recreational and educational experience on public lands in a manner that protects the land, natural resources, and the economic resources of the area.

BACKGROUND:

The San Diego River Conservancy has one expenditure proposal consisting of \$265,000 (Environmental License Plate Fund) for operating expenditures of the Conservancy

3850 - Coachella Valley Mountains Conservancy

The Coachella Valley Mountains Conservancy was established in 1990 to acquire and hold, in perpetual open space, mountainous lands surrounding the Coachella Valley and natural community conservation lands within the Coachella Valley, and to provide for the protection of wildlife resources on, and the public's enjoyment of those lands.

BACKGROUND:

The Coachella Valley Mountains Conservancy's budget includes four funding requests. They are as follows:

- \$100,000 (ELPF) for baseline funding, shifting this funding from reimbursement.
- \$108,000 (Proposition 40) for support of program staff associated with Proposition 40 activities of the Conservancy.
- \$6.1 million (\$5.1 million Proposition 40, \$1.0 million reimbursement) for land acquisition activities consistent with efforts to protect lands within Natural Community Conservation Plan areas.
- \$2.94 million (Proposition 40) for acquisitions in the Santa Rosa and San Jacinto Mountains National Monument to protect and preserve mountain habitat and open space in the mountains surrounding the Coachella Valley.

3125 - CALIFORNIA TAHOE CONSERVANCY

Established in 1984, the California Tahoe Conservancy acquires and manages land to protect the natural environment, provide public access and recreational facilities, and preserve wildlife habitat areas. It also awards grants to other public agencies and nonprofit organizations for the purposes of its programs.

The Conservancy is not a regulatory agency. It was established to develop and implement programs through acquisitions and site improvements to improve water quality in Lake Tahoe, preserve the scenic beauty and recreational opportunities of the region, provide public access, preserve wildlife habitat areas, and manage and restore lands to protect the natural environment

TAHOE CONSERVANCY
(dollars in thousands)

FUND	CURRENT YEAR	BUDGET YEAR	CHANGE	
	2002-03	2003-04	AMOUNT	PERCENT
General	\$2,802	\$0	-\$2,802	-100%
Bond	26,149	16,104	-10,045	-38.40%
Federal	---	---	---	---
Other	8,235	4,505	-3,730	-45.30%
TOTAL	\$37,186	\$20,609	-\$16,577	-4.50%
Personnel Years	36.6	36.6	0	0%

ISSUE 1: Environmental Improvement Program (EIP)

The Governor's 2003-04 budget includes a request for \$11.7 million from various fund sources for local assistance activities associate with the Environmental Improvement Program. Specifically, the proposal requests \$5.51 million from Proposition 12, \$5.25 million from Proposition 40, \$713,000 from the Lake Tahoe Conservancy Fund, and \$244,000 in reimbursement authority to provide: \$7.5 million for the Soil Erosion Control Grants Program; \$250,000 for the Conservancy's land acquisition program; \$967,000 for the Stream Environment Zone and Watershed Restoration Program; and, \$3.0 million for the Public Access and Recreation Program.

BACKGROUND:

The Tahoe Environmental Improvement Program (EIP), a collaboration of over 50 state, federal, academic, local, and private interests, is a capital improvement program designed to achieve environmental standards in the Lake Tahoe basin. Program implementation began in 1997. Over a 20-year period, the program is estimated to cost approximately \$1.5 billion.

In 1997, the state signed memoranda of agreement with the federal government, Nevada, the Washoe Tribe, and the Tahoe Regional Planning Agency (TRPA) committing to implement and fund the Tahoe EIP. Over 50 entities are involved in implementing the program.

The objective of the Tahoe EIP is to meet nine categories of environmental standards for the Tahoe region that were established by a regional working group in the 1980s. These standards include numeric and measurable targets for categories such as water quality, soil conservation, wildlife, recreation, and air quality. Pursuant to a California-Nevada bi-state compact, TRPA performs evaluations every five years to determine whether the region is "on track" to meet the environmental standards.

COMMENTS:

The Conservancy should explain to the Subcommittee how this component of local assistance fits into previous years' activities and implement the EIP.

ISSUE 2: Capital Outlay Proposals

- \$1.5 million (Proposition 12) for the acquisition of environmentally sensitive lands consistent with the EIP for the Lake Tahoe Basin.
- \$2.0 million (\$1.52 million Proposition 12, \$480,000 Habitat Conservation Fund) to the Wildlife Enhancement Program.
- \$1.5 million (Proposition 12) for various public access and recreation projects in the Lake Tahoe Basin.

COMMENTS:

The Environmental Improvement Program for the Lake Tahoe Basin includes the commitment to capital outlay, local assistance, and various programmatic approaches to reduce the decline of resources and public recreation within the Tahoe basin.

ISSUE 3: Funding Status - Environmental License Plate Fund

In the 2002-03 Budget Act, the Legislature reduced General Fund Support for the Tahoe Conservancy by \$2.83 million and back-filled this with \$2.83 million from the Environmental License Plate Fund (ELPF).

BACKGROUND:

ELPF derived revenue almost entirely from the sale of specialized environmental license plates. ELPF supports several different environmental programs and is often the funding source of choice for environmental expenditures from new programs to fund shifts like this one.

COMMENTS:

In recent years, other natural resources-related funding sources including the Natural Resources Infrastructure Fund (NRIF), the Salmon and Steelhead Trout Restoration Account, and the Resources Trust Fund have received less revenue, which has put a greater burden for the support of environmental programs on the General Fund and funds like ELPF.

The Conservancy and the Department of Finance should report to the Subcommittee on the current status of the ELPF and provide any trending information as it relates to historic ELPF balances.

3360 - ENERGY RESOURCES CONSERVATION & DEVELOPMENT COMMISSION

The Energy Resources Conservation and Development Commission works to ensure a reliable supply of energy to meet California's needs, while complying with environmental, safety and land use goals. The Commission processes applications for siting new power facilities, encourages measures to reduce wasteful and inefficient use of energy, and monitors alternative ways to conserve, generate and supply energy.

The Governor's budget proposes commission expenditures totaling \$350 million from various state special funds and federal funds in 2003-04. This is \$29.8 million, or 9 percent, more than current-year estimated expenditures. A significant new source of funds is \$30 million from a revenue bond sale by the California Consumer Power and Conservation Financing Authority that would be used as loans to local public entities for energy efficiency projects. Staffing declines by 5 personnel-years (PYs) to 477. About 80 percent of the CEC's proposed spending is for project funding, research contracts, and energy conservation and development financing programs.

ENERGY COMMISSION

(dollars in thousands)

FUND	CURRENT YEAR 2002-03	BUDGET YEAR 2003-04	CHANGE	
			AMOUNT	PERCENT
General	\$250	\$0	-\$250	-100.0%
Energy Conserv. Assistance Acct.	6,778	37,500	30,722	453.3%
Public Interest Energy Research	116,166	66,982	-49,184	-42.3%
Renewable Res. Trust Fund	108,613	183,456	74,843	68.9%
Energy Resource Programs Acct.	47,797	46,388	-1,409	-2.9%
Energy Tech. Research, Dev. & Demo. Account	2,765	958	-1,807	-65.4%
Local Government Geothermal Res. Subaccount	6,119	1,300	-4,819	-78.8%
Katz School Bus Fund	0	1,988	1,988	
Renewable Energy Loan Loss Fund	9,900	0	-9,900	-100.0%
Other	26,677	17,156	-9,521	-35.7%
Loan repayments	-4,848	-5,691	-843	17%
TOTAL	\$320,217	\$350,037	\$29,820	9.4%

ENERGY COMMISSION PROGRAM EXPENDITURES

(dollars in thousands)

PROGRAM	CURRENT YEAR 2002-03	BUDGET YEAR 2003-04	CHANGE	
			AMOUNT	PERCENT
Regulatory and Planning	\$28,360	\$25,918	-\$2,442	-9%
Energy Res. Conservation	42,605	56,395	13,790	32%
Development	254,100	273,415	19,315	8%
Policy, Mgmt., and Admin.	(11,203)	(12,007)	(804)	7%
Personnel-Years	482	477	-5	-1%

ISSUE 1: Program and Funding Oversight

In order to assist the subcommittee in fulfilling its oversight responsibility, the chair has requested that agencies provide information concerning their funding history and priorities, and describe recent steps taken to reduce spending. The Energy Commission has been requested to provide the following information:

- Funding and PYs for the commission in 1998-99, 2000-01, 2002-03 and the proposed budget.
- A brief description of the commission's major programs and organizational units, along with the funding and staffing for each.
- A description of how the CEC measures the cost-effectiveness of these programs and evaluates their success.
- Actions taken either voluntarily or by direction from the Governor in the last year to reduce expenditures.
- Administrative expense reductions, including travel and attendance at conferences, and other reductions in operating expenses and equipment.
- Statutorily mandated work not done in the last year because of budget reductions, including whether the work has been deferred or stopped, and if deferred, when completion is anticipated.
- The CEC's priorities for the funding reductions and the basis for those priorities
- Programs or activities that would be deferred or eliminated with an additional 10% funding cut.

ISSUE 2: "Fungible" Funds

Although the CEC's budget does not include any General Fund support, some of the special funds that support the CEC are "fungible" with the General Fund. Money in those funds could be transferred to the General Fund by the Legislature to help address the budget shortfall. For example, the Legislative Counsel has determined that the following funds contain tax revenues, making them available for General Fund purposes at the Legislature's discretion:

Energy Resources Programs Account (ERPA). This account receives revenue from the electricity surcharge added to utility bills. It is the primary source of general operating support for the commission. Money has been transferred from the account to the General Fund to address past budget shortfalls. The budget indicates that the ERPA will have \$59 million of total resources in 2003-04 and proposes expenditures of \$50.1 million (primarily to support the CEC). Also, the budget proposes a \$6.2 million loan from the ERPA to the California Consumer Power and Conservation Financing Authority. The projected year-end balance of ERPA is \$3.3 million (6.6 percent of spending).

CEC Could Increase Electricity Surcharge. The commission also has authority (provided in budget trailer legislation last year) to increase the electricity surcharge from the current 0.2 mill/kilowatt-hour up to a maximum of 0.3 mill/kilowatt-hour. The law requires the CEC to consider any increase at a public hearing in November. Consequently, any increase probably would take effect around January 2004. The potential half-year revenue gain would be up to \$12 million in 2003-04. The additional ERPA revenue could be used, for example, to support energy-related activities at the commission in lieu of other funding that could be transferred to the General Fund.

Public Interest Research, Development, and Demonstration Fund. This fund supports the Public Interest Energy Research (PIER) Program. The PIER Fund receives a portion of "public goods" charges added to the utility bills and collected by the investor-owned utilities under state law. The fund supports research and development of energy technologies that are not adequately funded by the utilities or other sources. The program focuses on renewable energy, environmentally preferred technologies, and energy efficiency. The budget indicates that the fund will have \$68.5 million of total resources in 2003-04 and proposes expenditures of \$67 million. The projected year-end balance is \$1.7 million (2.5 percent of spending). The current-year budget transfers \$5.5 million of interest earnings to the General Fund.

Administrative Costs of PIER Program. During last year's budget hearings, the CEC identified about \$9 million in annual administrative costs for the PIER Program.

Renewable Resource Trust Fund (RRTF). This fund also receives a portion of "public goods" charges added to the utility bills and collected by the investor-owned utilities under state law. The RRTF supports operating subsidies to electricity generators who use renewable resources. These subsidies are one means of assisting utilities in meeting the Renewable Energy Portfolio Standard established by Chapter 516, Statutes of 2002 (SB 1078, Sher). The budget indicates that the fund will have \$183.5 million of total resources in 2003-04 and proposes expenditures of \$183.5 million. The projected year-end balance is essentially zero. The current-year budget transfers \$7 million of interest earnings to the General Fund. The current-year budget also includes a \$150 million loan from the RRTF to the General Fund and an \$8.9 million loan to the California Consumer Power and Conservation Financing Authority, which replaced an equivalent General Fund loan to the Power Authority. The budget indicates that \$4.3 million of the Power Authority Loan will be repaid by the end of 2003-04 (however, this will be more than offset by a new loan from the ERPA). In addition, the mid-year reduction legislation will return \$6.3 million to the General Fund that was provided by AB 29X (Kehoe) of 2001.

COMMENTS:

The combined resources of the ERPA, PIER Fund and the RRTF total \$311 million in 2003-04. Increasing the ERPA surcharge could produce up to \$12 million of added funds. The CEC should provide the subcommittee with the following information:

1. Identify the amount of proposed 2003-04 expenditures from the ERPA, the PIER Fund, and the RRTF to which the state is legally committed and the nature of those commitments.
2. What would be the programmatic impact of funding reductions of 5 percent, 10 percent or 25 percent in expenditures from each of these funds?
3. Identify other funds supporting the commission that contain fungible revenues, and identify the fungible amount in each.
4. Identify expenditures that could be funded from increased ERPA surcharge funds thereby freeing up funds that could be transferred to the General Fund.

ISSUE 3: Commission Budget Change Proposals

The commission's 2003-04 budget request includes the following budget change proposals (BCPs):

- Redirection of \$800,000 in contract funds from power plant siting activities to assessment of price and supply relationships between natural gas and electricity and the identification and quantification of risks to the natural gas and electricity supply system.
- \$1.6 million for annual ongoing contract funds for additional data collection and analysis of electricity usage and demand in the current market and regulatory environment.
- \$1.9 million (Katz Schoolbus Fund) to replace approximately 20 older school buses that have high emissions and do not meet current safety standards and to fund one limited-term position for program administration. The proposal also seeks to shift funding (\$219,000) for 3 transportation energy positions from the Diesel Emissions Reduction Fund to the ERPA.

COMMENTS:

No issues have been raised by LAO regarding these proposals. However, consistent with the chair's oversight policy, the commission should be prepared to respond to the Subcommittee questions for each of the BCPs. Specifically:

- What are the purpose of the program and the source of funding?
- How does this funding level and source compare to prior years?
- Does the program have sufficient resources to meet its statutory obligations?
- What is the impact of the requested change in level or source of funding?
- Does this result in a reduction of positions or consulting dollars? If positions were eliminated, where the positions filed or vacant, limited term or permanent?
- If funding was reduced, why is this considered a lesser priority?
- Are there statutory changes that would remove implementation barriers to the program and allow you to better achieve program objectives with fewer resources?

ISSUE 4: California Climate Action Registry Activities

The Subcommittee has requested that the CEC provide the Subcommittee with an update of its activities related to climate change and greenhouse gas emissions. The CEC has a statutory responsibility to provide technical assistance to the California Climate Action Registry. It also is responsible, in conjunction with the Air Resources Board, for developing a strategy to reduce petroleum dependence.

ISSUE 5: Power Plant "Siting" Fees

The budget proposes \$17.4 million for the siting program in 2003-04. This is \$3.7 million (18 percent less) than the current year. This reduction largely reflects the sunset of 40 limited-term positions provided in 2000-01 to expedite the siting of power plants during the electricity crisis. The siting program, along with the majority of CEC's general operations, is primarily funded by the ERPA. The 2002-03 Governor's Budget, however, proposed a \$25,000 flat siting fee to cover a nominal amount (less than 5 percent) of the commission's average costs of siting a power plant. This particular fee proposal was not adopted by the Legislature.

BACKGROUND:

The CEC licenses thermal power plants of 50 megawatts (MW) or greater, as well as related transmission lines, fuel supply lines, and other facilities. The commission also monitors compliance of licensed facilities with permit condition and applicable federal, state, and local laws. The commission also approves any modifications or expansions of existing plants.

2002-03 Supplemental Report Requirements. The Legislature adopted Supplemental Report language in the 2002-03 Budget directing the CEC to report on fee alternatives for power plant siting. The language also directed the Legislative Analyst's Office (LAO) to review the study and report its findings and recommendations in the *Analysis of the 2003-04 Budget Bill*.

CEC Prefers Status Quo. The commission's siting fee study recommends against adopting fees for the siting program. The CEC maintains that the public's perception that the commission is objective and independent is paramount, and that establishing siting fees on power plant developers may undermine this objectivity. However, CEC recognizes that the power plant developer is a direct beneficiary of the services provided by the siting program. Despite this bottom-line recommendation, the commission's study does evaluate alternative fee structures, as directed by the supplemental report language. Table 2 lists CEC's suggested criteria for a fee structure should one be implemented.

CEC's Suggested Criteria For a Siting Fee Structure

- Fee level should represent 50 percent of the total average cost of processing the application.
- Fee should be scaled based on the size of the power plant.
- Fee should have a floor and ceiling.
- Developer should be notified of fee level before the start of the application process.
- Annual compliance fee should be assessed on licensed power plants.
- Renewable projects should be exempt from the fees.
- Fees should be deposited in the General Fund to maintain the independence of the commission.
- Siting program expenditures should continue to be budgeted through the legislative budget process.

LAO Recommendations. The LAO, in contrast with the CEC, recommends the enactment of legislation to establish siting application fees and an annual compliance fee. LAO believes that a fee that covers at least 50 percent of CEC's program costs would be reasonable based on the direct financial benefits that accrue to power plant developers. Specifically, the LAO recommends the following fee structure, which would be consistent with the CEC's criteria:

- A minimum fee of \$100,000.
- An additional fee of \$250/megawatt up to a maximum total fee of \$350,000.
- An annual compliance fee of \$15,000.

LAO points out that the maximum siting fee of \$350,000 is about half of the average CEC cost of siting a power plant. Fee legislation should provide credit for fees paid under the cost-reimbursement provisions of the "use-it-or-lose-it" legislation [Chapter 567, Statutes of 2002; SB 1269 (Peace)]. Also, LAO points out that the Legislature may wish to consider fee waivers or reductions for power plants using renewable resources that will help utilities meet the SB 1078 Renewable Energy Portfolio Standard.

The LAO makes the following points in support of instituting power plant siting fees:

- 1) California ratepayers should not pay the full cost of siting (through the electricity surcharge) for power plants that will operate in a deregulated market and are not dedicated to the ratepayers.
- 2) The fees are too small to be a deterrent to power plant construction, and other states typically impose power plant siting fees.

COMMENTS:

The Energy Commission should identify the potential implementation timetable for power plant siting fees and the resulting ERPA savings in 2003-04 and ongoing.

ISSUE 6: Current-Year Solar Schools Program

In a letter dated December 4, 2002, the Director of Finance notified the Joint Legislative Budget Committee (JLBC) of his intent to approve an augmentation of \$2.25 million to the CEC under Control Section 28.50 of the 2002 Budget Act. The funds are to supplement the commission's Emerging Renewables Buydown and Bright Schools Program, which subsidizes public schools' purchase and installation of solar photovoltaic systems. The money would be provided to the CEC via the California Consumer Power and Conservation Financing Authority from payments by the Calpine and Constellation Corporations in negotiated settlements with the Attorney General. The \$2.25 million will enable the CEC to increase the school subsidy from 50 percent to 90 percent of the cost of solar photovoltaic systems.

Objection by Joint Legislative Budget Committee. On January 6, 2003, the Assembly Budget chair (acting as JLBC chair at that time) objected to the proposed augmentation on the basis that the Legislature should have the opportunity to evaluate, and potentially provide statutory direction regarding the expenditure of these and similar cash settlements. The objection was without prejudice to the merits of the Solar Schools Program.

BACKGROUND:

The CEC should provide the subcommittee with the following information:

- Describe the existing Solar Schools Program and its funding.
- How will the additional \$2.25 million be used, and how will the schools receiving these funds be selected?
- Is this program the most cost-effective approach to reducing electricity consumption or increasing renewable generation? Compare the cost per unit of electric energy or capacity displaced by this program with similar costs for other renewable energy and energy conservation programs.
- What role did the CEC play in determining the proposed use of these funds?

COMMENTS:

Tip of the Iceberg. The state and local governments are scheduled to receive a total of \$200 million in cash and assets under the settlements that have been negotiated with Calpine, Constellation, and Williams Energy. Currently, the use of these funds is at the discretion of the Attorney General and the signatory parties. In addition, the Attorney General's staff anticipates substantial additional settlements with other companies. The LAO has recommended that the Legislature establish a special fund for these settlements, which would be subject to legislative appropriation. Subcommittee 4 will hear the LAO recommendation at a later date.

Not the DWR Contract Settlements. The settlements at issue here are of allegations of unfair or improper business practices on the part of the energy companies in their dealings with the state. These are related, but legally separate, from the actual contract renegotiations and the state's claims before the Federal Energy Regulatory Commission of violations of federal law and regulation.

ISSUE 7: Loan to the Power Authority

The budget proposes a loan of \$6,165,000 from the ERPA to the Power Authority. Of this amount, \$2.91 million would fund Power Authority expenses in 2003-04. The remaining \$3.255 million would be used for partial repayment of the \$8.9 million loan provided from the RRTF to the authority in the current year. Because the ERPA is fungible with the General Fund, this proposed loan is similar to a General Fund loan.

COMMENTS:

The Department of Finance should explain the rationale for the new loan and the proposed repayment schedule.

Subcommittee 4 will hear the Power Authority budget on April 22.

3480 - DEPARTMENT OF CONSERVATION

The Department of Conservation protects public health and safety, ensures environmental quality, and supports the State’s long-term viability in the use of California’s earth resources. The department provides policy direction, education, regulation and dissemination of information concerning agricultural and open space lands and soils; beverage container recycling; geology and seismology; and mineral, geothermal and petroleum resources.

DEPARTMENT OF CONSERVATION
(dollars in thousands)

FUND	CURRENT YEAR 2002-03	BUDGET YEAR 2003-04	CHANGE	
			AMOUNT	PERCENT
General	\$21,435	\$5,396	-\$16,039	-74.83%
Bond	22,302	917	-21,385	-95.89%
Federal	1,665	1,685	20	0.01%
Other	509,360	533,140	23,386	0.05%
TOTAL	\$554,762	\$541,138	-\$13,624	2.46%
Personnel Years	627.9	601.2	26.7	-4.25%

ISSUE 1: Strong Motion Instrumentation Program and Seismic Hazard Mapping Program

- **Strong Motion Instrumentation Program.** The Governor's 2003-04 budget proposes a \$1.0 million (Strong Motion Instrumentation Program Special Fund) augmentation to support program activities to provide instrumentation to measure the motion of structures during seismic events to assist emergency response to locations impacted by the strongest ground motion and to assist in retrofit activities.
- **Seismic Hazard Mapping Program.** The Governor's 2003-04 budget proposes a \$1.2 million (Seismic Hazard Identification Fund) increase in expenditure authority to back-fill, for one year, the funding gap.
- **Statutory Changes Would Provide for Sustained Levels of Activities.** The Subcommittee should look at the possibility of merging the Strong Motion Instrumentation Fund and the Seismic Hazards Mapping Fund into one fund. Currently, both funds receive monies from building fees. However, 70% of the building fees are deposited in the Strong Motion fund and 30% are deposited in the Seismic Hazards Mapping fund.

As originally conceived, though, the Seismic Hazards fund would also receive money from the Residential Earthquake Recovery fund and with that money, both strong motion instrumentation and seismic hazards mapping would have been equally funded. The Residential Earthquake Recovery Fund dissolved several years ago and the balance of funding for seismic hazard mapping has, until the end of this Fiscal Year, come from federal emergency response grants following the Northridge Earthquake. Merging these two funds would allow the Administration and the Legislature to equitably fund these two seismic hazard identification programs without constraints premised on changed circumstances.

COMMENTS:

Staff has raised no issues with the Departments two proposals in this area. The Subcommittee should consider the adoption of trailer bill language to merge the two funds, thereby providing a continuity of programmatic service for future-year budget development.

This proposal, while not put forth by the Department of Finance or the Department of Conservation, will assist the Department in the development of future budget proposals and would ensure that these earthquake safety programs continue at appropriate levels of funding.

ISSUE 2: Surface Mining and Reclamation Act (SMARA) Fund Restoration

\$900,000 (\$680,000 Renewable Resources Investment Fund, and \$220,000 increased reimbursement authority) augmentation.

BACKGROUND:

The Surface Mining and Reclamation Act (SMARA) of 1975 mandates oversight of reclamation plans and policies, and mineral classification and designation policies. Additionally, it requires review of reclamation plans by the Department of Conservation and the classification of mineral lands by the State Geologist.

The SMARA Fund receives its core funding from federal royalties paid to the State for mineral leases. The amount of funds depends upon the total amount of funding dispersed by the federal government. As a result of reduced federal funding, the SMARA fund is realizing a \$900,000 reduction for the 2003-04 Fiscal Year. The Department is seeking to maintain the total funding for programs supported by the SMARA Fund in order to prevent the loss of ability to meet some statutory obligations.

COMMENTS:

The Department's proposal requires trailer bill language to permit the increased expenditure authority proposed here. In its capacity as "lead agency", the State Mining and Geological Board does not retain the same reimbursement authority as other lead agencies and the Department is requesting statutory correction.

Staff has been in discussion with the Department in attempts to craft appropriate trailer bill language. Staff recommends the following language to for adoption:

Insert in Public Resources Code, Division 2

2200.5. For the purposes of this chapter, "Lead agency" means the city, county, San Francisco Bay Conservation and Development Commission, or the board which has the principal responsibility for approving a surface mining operation or reclamation plan pursuant to this chapter

ISSUE 3: Additional Departmental Proposals

- \$1.25 million (various special funds) increase to fulfill the new lease agreement negotiated by the Department of General Services for facility costs.
- \$965,000 (CA Beverage Container Recycling Fund) to expand activities by the Dept. of Justice relating to fraud investigations associated with the Beverage Container Recycling Program.

COMMENTS:

These requests reflect technical changes to the Department's budget.

3760 - STATE COASTAL CONSERVANCY

The State Coastal Conservancy develops and implements programs to protect, restore and enhance resources in the coastal zone pursuant to the California Coastal Act of 1976. The State Coastal Conservancy provides grants to local agencies or directly funds the following projects and acquisitions:

1. Acquire agricultural lands to prevent the loss of such lands to other uses and to assemble such lands into parcels of adequate size to permit continued agricultural production;
2. Restore areas that may be adversely affecting the coastal environment or impeding orderly development due to poor lot layout, scattered ownerships, incompatible land uses, or other conditions;
3. Enhance natural and scenic values threatened by dredging or filling, improper location of improvements and other conditions;
4. Preserve significant coastal resource areas until other public agencies are willing or able to acquire such sites; and,
5. Acquire and develop coastal public access trails and rights-of-way.

COASTAL CONSERVANCY

(dollars in thousands)

FUND	CURRENT YEAR	BUDGET YEAR	CHANGE	
	2002-03	2003-04	AMOUNT	PERCENT
General	\$2,014	\$0	-\$2,014	-100%
Bond	381,572	66,083	-315,489	-82.60%
Federal	3,653	2,117	-1,536	-42%
Other	29,006	9,945	-19,061	-66%
TOTAL	\$416,245	\$78,145	-\$338,100	-81.20%
Personnel Years	67.8	67.4	-0.4	0.60%

ISSUE 1: Capital Outlay Proposals

- \$22.0 million (Proposition 40) for grants to public agencies and nonprofit organizations to preserve biodiversity in coastal areas and for grants to acquire and develop public accessways. These include wetland restoration and enhancement projects to complete on-going projects of the Southern California Wetlands Recovery Project, from Point Conception to the Mexican Border, and public access facilities with an emphasis on the completion of the California Coastal Trail.
- \$4.0 million (Proposition 40) for the Conservancy's Watershed / Water Quality Protection and Enhancement Program for direct funding and grants to acquire, protect and enhance coastal watersheds.
- \$6.0 million (Proposition 40) for the Conservancy's San Francisco Bay Conservancy Program to provide direct funding and grants to acquire, protect and enhance projects consistent with the San Francisco Bay Conservancy Program objectives, including projects to emphasize the completion of the Bay Area Ridge Trail.

BACKGROUND:

The Coastal Conservancy develops projects utilizing its 1997 Strategic Plan and in conjunction with the goals and objectives of the Conservancy's programs.

ISSUE 2: Funding Status - State Coastal Conservancy Fund

In the 2002-03 Budget Act, the Legislature reduced General Fund support for the State Coastal Conservancy by \$2.2 million and shifted these expenditures to the State Coastal Conservancy Fund. The Coastal Conservancy Fund receives revenue primarily from bond funds and from sale or lease of lands.

COMMENTS:

The Conservancy and the Department of Finance should report to the Subcommittee on the current disposition of the funds and its ability to continue support for the state operations portion of the Conservancy's budget.