

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 ON RESOURCES

ASSEMBLYMEMBER VIRGINIA STROM-MARTIN, CHAIR

**WEDNESDAY, MARCH 17, 1999
STATE CAPITOL, ROOM 127
8:00 A.M.**

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3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

The Energy 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.

Summary of Program Requirements

	1997-98	1998-99	1999-00
Regulatory & Planning	19.127	19.980	21.217
Energy Resource Conservation	15.499	26.201	11.567
Development	64.399	195.119	196.982
Total	99.025	241.300	229.766

ISSUE 1: REORGANIZATION

The Commission, the Public Utilities Commission and the Electricity Oversight Board regulate energy in California. The recent restructuring of the state's electric industry resulted in the creation of two state-chartered market agencies, the Independent System Operator and the Power Exchange. Last year the commission began the process of internal restructuring to better manage new requirements brought on by restructuring.

COMMENTS:

In approving the commission's budget last year the Legislature requested the commission to "identify and statutory and administrative changes the commission believes are required to meet the evolving mission of the commission under deregulation of the electric industry and other aspects of utility deregulation. The report shall provide a full and detailed explanation of changes (and proposed changes) in the mission, and for each change detail the bases for (a) specific administrative changes that have been (or are planned to be) implemented, (b) proposed statutory changes, and (c) actual or proposed staffing changes.

In submitting the budget the Governor identified that it was important to reexamine the appropriate role of state government and its administrative agencies to benefit California consumers and ratepayers. The Governor directed the Secretary of Resources to take the lead in "developing through an open process, a comprehensive set of recommendations for a new state energy government structure. Guiding principles will include the concept that Californians must be able to rely on a safe and reliable utility system, public energy agencies, and market institutions should be fully coordinated and complement each other, and program products should be clearly defined and have a clear public view.

In addition, the restructuring appropriated approximately \$65 million year to carry out public interest research and development related to the electric industry. These funds are guaranteed through legislation through the end of 2001, but are continuously appropriated. Therefore the commission has broad discretion in terms of what they spend the money on and whom they give it to. Concerns have been expressed that the investor owned utilities have had a disproportionate share of influence in the allocation of funds. The commission should provide a list of the projects funded, including the recipients and subcontractors before the Legislature continues the continuous appropriation.

The commission should report on any internal changes they have made, the process that the Resources Secretary is setting up, and the status of the public interest research and development program.

ISSUE 2: DIESEL EMISSIONS INCENTIVE PROGRAM

Last year the Legislature passed legislation that created the Villaraigosa-Brulte Diesel Emissions Reduction Incentive Program and funded that program in the budget. However, the policy legislation was vetoed. Most of the program is proposed to be funded through the Air Resources Board (projected to be \$20 million in this budget) but a portion is administered through the Energy Commission. That portion is for alternative fuels infrastructure at \$2.5 million and advanced technology projects at \$2.5 million.

COMMENTS:

The committee could augment the budgets of the commission and the Air Resources Board to implement this program.

3460 COLORADO RIVER BOARD OF CALIFORNIA

The Colorado River Board is responsible for protecting California's rights and interests in the water and power resources of the Colorado River system. The board works with the other Colorado River Basin states and federal agencies. The ten member board is appointed by the Governor and includes one representative from each of the six major public agencies having rights to the use of Colorado River water and power, two from the general public, and the directors of the Department of Water Resources and Fish and Game.

Summary of Program Requirements

	1997-98	1998-99	1999-00
Protection of California's Colorado River rights and interests	1.051	1.064	1.071

ISSUE 1: CALIFORNIA 4.4 PLAN

The Secretary of the Interior has directed California to develop a plan to "live within its means", the 4.4 million acre feet annual entitlement from the Colorado River. Other states need and draw on Colorado River water has been less than their entitlement. The federal government has allowed California to acquire this surplus water at a relatively low cost. However, the needs of the other states are increasing and California has been put on notice to develop a water plan to live within its entitled allocation.

COMMENTS:

The Colorado River Board is the entity responsible for formally developing the California Plan. For the last year the Board has reported quarterly on its activities. At the hearing the board should report on the current status and the subcommittee could continue the requirement for the board to report to the Legislature.

3480 DEPARTMENT OF CONSERVATION

The Department of Conservation is responsible for protecting 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.

Summary of Program Requirements

	1997-98	1998-99	1999-00
Geologic Hazards & Mineral Resources Conservation	17.143	22.055	22.248
Oil, Gas & Geothermal Resources	12.907	11.537	12.026
Land Resource Protection	-4	18.724	3.793
Beverage Container Recycling & Litter Reduction Program	354.757	343.032	329.364
Total	384.803	395.348	367.431

ISSUE 1: BUDGET AUGMENTATIONS: AGRICULTURAL LAND STEWARDSHIP PROGRAM

The Governor's budget proposes \$2 million General Fund for the Agricultural Land Stewardship Program. This program purchases and conserves agricultural land that might otherwise be threatened by development. The Legislature augmented this program last year by \$13 million and required grants be prioritized to fund those projects that had public or private matching funds.

COMMENTS:

The department should report on the status of the program and what has been or is planned to be accomplished with last year's augmentation.

ISSUE 2: WILLIAMSON ACT AUDITS: PROGRAM ADMINISTRATION CHANGES

In 1996-97 and 1997-98 the department contracted with the Department of Finance's Office of State Audits and Evaluations to audit five counties for compliance with the program's requirements. The audits found numerous instances of inflated claims for state subventions, failure to pay cancellation fees owed to the state, and various other irregularities. The faulty reporting resulted in overpayments of at least several million dollars from the department to the counties over the past several years. According to the LAO the full extent of the overpayment to the 48 participating counties is likely to be many times this amount. The department requests an increase of \$90,000 to continue the audits on a regular basis.

COMMENTS:

Continuing efforts to monitor compliance with this program both to ensure the promotion of its goals and to guard against the inappropriate use of state funds is needed.

ISSUE 3: BEVERAGE CONTAINER RECYCLING PROGRAM ISSUES

This program was created 12 years ago to encourage voluntary recycling of beverage containers by guaranteeing a minimum payment for each container returned to certified recycling centers. The LAO has highlighted this program in its analysis. Several major provisions of the program expired on January 1, 1999 but were reinstated for one year through the enactment of SB1 earlier in the year. Other major provisions will expire on January 1, 2000.

COMMENTS:

The LAO should report on the issues of concern regarding the operation of the program, the decline of recycling rates, the growing reserve in the Beverage Container Recycling Fund that currently exceeds \$120 million.

3680 DEPARTMENT OF BOATING AND WATERWAYS

The Department of Boating and Waterways is responsible for planning and developing boating facilities on waterways throughout California; protecting the public's right to safe boating by providing financial aid to local law enforcement agencies; boating safety and education, licensing of yacht and ship brokers, aquatic weed control in the Sacramento-San Joaquin Delta, and beach erosion control along California's coast.

Summary of Program Requirements

	1997-98	1998-99	1999-00
Boating Facilities	34.242	37.222	27.530
Boating Operations	14.993	15.663	17.424
Beach Erosion Control	3.592	4.962	.526
Total	52.827	57.847	45.480

ISSUE 1: BUDGET AUGMENTATION: EGERIA WEED MANAGEMENT

The Governor's budget proposes a \$849,000 augmentation from the Harbors and Watercraft Revolving Fund for the Egeria aquatic weed management program in the Sacramento-San Joaquin delta, its tributaries and the Suisun Marsh.

COMMENTS:

This augmentation is needed so that the department can effectively carry out its legal requirements.

ISSUE 2: DEFERRAL OF LOCAL ASSISTANCE LAUNCHING FACILITY GRANTS

The Governor's budget defers \$16.563 million from the Harbors and Watercraft Revolving Fund for the public and private marina loan program until May Revise. The Department of Finance is conducting a review of the department's loan process to ensure that necessary steps have been taken to protect the state's interests and its funds.

COMMENTS:

Action on this area of the budget should be postponed until the Administration proposes program revisions in the May Revise.

3720 CALIFORNIA COASTAL COMMISSION

The Commission manages California's coastal resources through implementation of the Coastal Act of 1976. The commission is also designated as the state coastal management agency for the purposes of administering the federal Coastal Zone Management Act. The Commission is comprised of 12 voting and four non-voting members.

Summary of Program Requirements

	1997-98	1998-99	1999-00
Coastal Management Program	9.502	10.970	11.734
Coastal Energy Program	.514	.516	.517
Total	10.56	11.954	12.716

ISSUE 1: BUDGET AUGMENTATION: INCREASED STAFFING

The Governor's budget proposes to fund ongoing workload needs related to reviewing coastal permits, working with local governments to complete their conservation plans, and enforcement of the Coastal Act. Most of this augmentation was included in the 1998-99 budget by the Legislature but was vetoed. The proposed augmentation include:

- \$257,000 General Fund to provide technical assistance (water planner, biologist, geologist) to the Commission's Regulatory, Planning and Energy Programs.
- \$160,000 General Fund to develop and implement LCPs, updates expired LCPs and complete regional cumulative impact assessments.
- \$128,000 General Fund to help enforce coastal development regulations, reduce the backlog of enforcement cases and accelerate the processing of coastal development permits.
- \$80,000 General Fund to assist with the GIS and mapping elements of local coastal programs and boundary determinations.
- \$356,000 General Fund to reestablish the Commission's North Coast Area Office.
- \$260,000 state operations and \$130,000 local assistance for promotion of the Adopt-a-Beach and Coastal Clean up Day activities and to provide grants to local governments and non-profit organizations for coastal and marine environmental education programs.

COMMENTS:

This augmentation is consistent with past actions of the Legislature and would restore the commission's technical capabilities that have been reduced in the 1980's and 1990's.

3840 DELTA PROTECTION COMMISSION

The Commission provides a regional approach to protecting the Sacramento-San Joaquin Delta's resources through comprehensive regional land use planning implemented by local government in its local land use planning procedure and enforcement. The Commission, comprised of 13 local and six state government officials, prepared and adopted a "comprehensive long-term resources management plan" for land uses within the Delta. Last year the Legislature extended the Commission until January 1, 2010 to ensure that local governments conform their general plans and development permit decisions to the requirements of the regional plan and to adopt amendments to the regional plan as necessary.

Summary of Program Requirements

	1997-98	1998-99	1999-00
Delta Protection	.2554	.286	.287

COMMENTS:

There are no issues with this budget proposal.

3860 DEPARTMENT OF WATER RESOURCES

The Department of Water Resources is responsible for protecting, conserving, developing and managing California's water resource. This includes supplying suitable water for personal use, irrigation, industry, recreation, power generation, and fish and wildlife, flood management, dam safety and public education. The Governor's budget reflects a ten percent decrease from estimated current year expenditures. This decrease reflects a reduction of \$59 million for flood control subventions and elimination of a one-time expenditure in the current year of \$35 million for groundwater supply development to help the state live within its allocation of Colorado River water.

Summary of Program Requirements

	1997-98	1998-99	1999-00
Formulation of the California Water Plan	59.124	135.249	95.041
State Water Resources Development System	191.220	209.077	214.029
Public Safety and Damage Prevention	60.348	114.061	46.279
Total	314.259	463.227	360.167

ISSUE 1: BUDGET AUGMENTATION: CALFED BAY-DELTA PROGRAM

The Governor's budget proposes \$6 million General Fund and 44 positions for the CalFed Bay-Delta program. Since 1995 CalFed has been developing a long-term comprehensive plan to improve water management and preserve the ecological health of the Bay-Delta. This program is housed in the department and coordinates the activities of 15 state and federal agencies and receives state support through the Department's Budget. The program's administrative costs are split evenly between the state and federal government. Under the state's current contact with the federal government the program continues through the end of 2000. However, the LAO asserts that the program will continue in some form for the next decade or two in order to provide oversight of the long-term implementation of the Bay-Delta "solution" being developed by the program.

COMMENTS:

The LAO has raised the issue of the difficulty of oversight over this program because expenditures are not identified or displayed in the Governor's budget. The program's staffing comes mainly from employees loaned to the department from other state agencies or hired under the department's blanket authority for temporary help further limiting the Legislature's ability to review the CalFed program.

There are three areas of interest in the CalFed program the lack of sufficient data to evaluate the program, the expenditures for surface storage in Northern California, and the unresponsiveness to the Legislature's request to conduct economic and financial alternative analysis during the development of a draft preferred alternative.

1. The Department has been asked to provide the following information to the subcommittee for better evaluation of the program:
 - Expenditures, broken down by fund source, for the CalFed Bay-Delta program for 1997-98, 1998-99 (estimated), and 1999-00 (proposed); and
 - Staffing for the CalFed Bay-Delta Program in 1997-98, along with an estimate for 1998-99 and a projection for 1999-00. This information should identify the position authority for all staff working in the program and include information on any interagency loan agreements.
1. Report on the workplan and expenditures for the \$10 million for surface storage that was appropriated in the 1998-99 budget.
2. In approving funds for CalFed last year the Legislature asked CalFed to conduct economic and financial analysis of the various strategies prior to the selection of a draft-preferred alternative as a condition of approving the state portion of their budget. This was anticipated to occur in December 1998. However, that action has been postponed until later this year and the analysis has not yet been completed. The Department and CalFed should report on the status of this analysis and provide the Committee with a date for completion of this analysis.

ISSUE 2: CAPITAL OUTLAY

The Governor's budget proposes \$206.54 million for capital outlay from various special funds.

COMMENTS:

The LAO is still resolving some issues on these requests and will report on any unresolved issues at the hearing.

ISSUE 3: LOCAL FLOOD CONTROL SUBVENTION ARREARAGES

The Governor's budget does not provide funding for the state share of costs for local flood control projects, increasing the amount owed to local governments to \$189 million by the end of the budget year.

Under current law, the state and federal government must authorize the locally sponsored flood control projects and there is a cost-sharing formula. The federal government pays for between 50 percent and 75 percent of a project's total costs. The state is responsible for 70 percent and the local government is responsible for 30 percent of the nonfederal share of the project.

"Large projects" or those costing more than \$5 million must be authorized by the Legislature and small projects by the department. Congress must authorize "large projects" to receive federal funds. Last year the Legislature adopted a requirement that "large projects" must receive state approval prior to seeking congressional approval in an attempt to increase state prioritization of flood control projects.

Due to the state's budget condition the state has been unable to pay its full share of costs for these flood control projects. According to the department, this has caused construction to be delayed or stopped on a number of projects.

In 1996 the voters approved Proposition 204 which included \$60 million in bond funds and these funds were fully allocated by the end of 1997-98. The 1998-99 Budget Act provided \$40 million from the General Fund. At the same time the Legislature adopted legislation that would appropriate \$44 million for 1999-00 and the two subsequent years. The Governor's budget seeks to rescind this commitment.

COMMENTS:

There are several issues raised by this proposal that should be addressed by the department, the Resources Agency and the Department of Finance at the hearing:

1. Should the Legislature repeal its planned commitment of \$44 million for each of the next three years, should it keep the commitment and make it a priority for any General Fund revenues in May Revise, or should it amend the arrearage repayment schedule and perhaps spread it over more years?
2. What is the appropriate state role in funding future local flood control projects? This discussion should include a determination of what types of future local projects ought to be funded and what the appropriate cost-sharing ratio ought to be.

The current scheme creates a state fiscal obligation but there is no guarantee when state funding will be available. Nor is there a state policy that projects funding priority will be given to projects that address the most critical statewide public safety needs or improve flood plain management.

3. What is the appropriate revenue stream to support the state's share of local flood control projects? Should the funding source be provided in a bond?
4. Should the state amend its law so those new projects require state approval but are constructed with only local and federal funds?