

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 3
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION****Assemblymember Ira Ruskin, Chair****WEDNESDAY, MARCH 12, 2008
STATE CAPITOL, ROOM 447
9:00A.M.****Hearing Items**

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CONSENT CALENDAR

ITEM	DEPARTMENT	SUMMARY
0540	Resources Agency	Proposition 84 SJ River Restoration: \$13.9 million in FY 2008/09 and \$15.9 million in FY 2008/09.
3110	Special Resources Program	Angora Fire Rebuilding: \$95,000 in state support to fund additional staff resources to facilitate the required Angora Fire Recovery Effort.
3125	Tahoe Conservancy	Baseline Budget: \$558,000 in Prop12/40/50 funds and Lake Tahoe License Plate Funds to maintain baseline budget.
3125	Tahoe Conservancy	EIP Funding: \$8.2 million (Prop 84) for its activities to support the implementation of the Environmental Impact Program for Lake Tahoe.
3480	Department of Conservation	Watershed Coordinator Prop 50: \$3 million to continue Watershed Coordinator Grant program for Resource Conservation Districts.
3480	Department of Conservation	Watershed Coordinator Prop 84: \$10 million for Watershed Coordinator Grant program for Resource Conservation Districts.
3480	Department of Conservation	Field Rules Implementation: \$129,000 (Geothermal Administrative Fund) to update the effective administration of field rules for California oil and gas fields.
3480	Department of Conservation	Minerals Classification Funding: \$350,000 (Mine Reclamation Account) for increased workload in the Mineral Land Classification Program.
3480	Department of Conservation	Abandoned Mine Lands Unit Staffing: Authorization of 2 permanent positions for mine land inventory and remediation activities.
3480	Department of Conservation	Well Record Scanning: \$500,000 three year limited term (Special Fund) to scan oil and gas well records to PDF and TIFF files.
3480	Department of Conservation	Prop 84 Farmland Conservancy Program: \$10 million to fund ongoing farmland conservancy program.
3480	Department of Conservation	Court Ordered Vested Rights Determinations: \$125,000 (reimbursements) three year limited term to conduct vested rights determinations for mines under Board authority.
3480	Department of Conservation	Orphan Wells Elimination: \$4 million (Geothermal Admin Fund) baseline augmentation to expedite the plugging of 264 orphan wells statewide.
3480	Department of Conservation	SB 1021 Implementation: \$318,000 to implement \$15 million in grants from (CBCRF) to increase multi family unit recycling.
3560	State Lands Commission	Energy Workload: \$85,000 (Reimbursements) to support growing workload in application processing and lease compliance.
3560	State Lands Commission	School Lands: \$120,000 (Reimbursements) to perform due diligence and property transactions for the new investment properties for the School Land Bank Fund.
3560	State Lands Commission	Marine Invasive Species Program Research: \$300,000 (Marine Invasive Species Control Fund) to conduct research on ballast water treatment technologies.
3760	Coastal Conservancy	Public Access Program: \$700,000 (Coastal Access Account and Coastal License Plate Fund) for the implementation of the Conservancy's Public Access, Education and other related programs.

3790	Department of parks and Recreation	Off Highway Vehicle Recreation grants and cooperative Agreements Program Expansion: \$913,000 (Off Highway Vehicle Fund) for 9 positions for increases in grant program workload.
3790	Department of parks and Recreation	Implementation of SB 742: \$13.9 million 80 pys to enact changes directed by statute to the OHV program.
3790	Department of parks and Recreation	SB 742 Route Designation Planning: \$5.6 million (OHV Fund) for federal OHV route designation process.
3790	Department of parks and Recreation	Local Assistance Program: Funds for the Local Assistance Program from special and federal funds for grants to various agencies.
3820	San Francisco BCDC	CALTRANS Agreement: \$184,000 to implement ongoing interagency agreement with CALTRANS for various permit related workload.
3830	San Joaquin River Cons.	Proposition 84: \$122,000 for existing position to implement Prop 84 expenditures.
3830	San Joaquin River Cons.	Proposition 84: \$8 million to the WCB to develop the San Joaquin River Parkway.
3855	Sierra Nevada Cons.	Proposition 84: \$17 million in local assistance grant funding for ongoing conservancy programs.

0540 – SECRETARY FOR RESOURCES

ISSUE 1: AGENCY-WIDE BUDGET BALANCING REDUCTIONS

To address budget year revenue shortfalls, the Administration included in their 2008-09 proposed budget a 10 percent across the board cut, or Budget Balancing Reductions (BBR), to all General Fund expenditures. As directed by the Department of Finance (DOF), the ten percent cut was applied evenly statewide to the "workload" budgets of all General Fund supported programs (a "workload" is determined by building upon a base General Fund budget all additional costs deemed non discretionary because either caseload growth or statutory direction). In certain instances, the Administration exempted a select few programs, deemed essential, from the reductions.

As detailed in Figure 1, total General Fund reductions and lost fee revenue and federal funds proposed for the various departments, boards and commissions in the Resources Agency equal \$91,337 million. These reductions are offset by \$44 million in new revenue from an Administration proposed surcharge on homeowners' insurance policies.

As an alternative to the 10 percent across the board approach, the Legislative Analysts Office (LAO) has proposed in their 2008-09 budget analysis various options for addressing the General Fund shortfalls in the Resources Agency. Many of these proposals include increased revenue from new or existing fees which would serve to backfill some of the proposed cuts and replace other proposed revenue generating proposals. In total, the LAO estimates that their recommendations, as listed in Figure 2, would generate \$416.90 million in savings to the General Fund which could be used to backfill proposed reductions, replace baseline General Fund support and expand program funding.

Staff Comments: While the direction to spread a 10 percent General Fund cut across all state agencies was made with a rationale of equity, staff feels that this approach unfairly strips the General Fund from some programs that do not have alternative funding sources - leading to impacts that are often greater than the General Fund savings they provide. Because BBRs did not include the option of either prioritizing cuts beyond the program level or using creative solutions to provide General Fund savings, staff feels that there is dispersed opportunity throughout the proposed Resources Agency budget where the Subcommittee should consider alternative solutions. Building upon those proposals recommended by the LAO, staff feels that where appropriate, all potential options should be considered by the Subcommittee including:

- Prioritization of cuts
- Alternative funding sources
- Special Fund Loans to the General Fund
- Efficiencies in program delivery

Staff Recommendation: Direct Staff to work with the Administration and LAO on additional alternative budget solutions.

Figure 1

Resources Agency Budget Balancing Reductions

	General Fund	Other funds	PYs
Secretary for Resources	-625	0	0.0
- CALFED Bay Delta Program	-607	0	0.0
- Administration of the Resources Agency	-18	0	0.0
California Tahoe Conservancy	-22	0	0.0
- Program reductions	-22	0	0.0
California Conservation Corps	-3,764	0	-5.7
- Training and Work Program	-3,309	0	0.0
- Administration and Program Support	-455	0	-5.7
Department of Conservation	-512	-500	-6.2
- California Geological Survey	-512	-500	-6.2
Department of Forestry and Fire Protection	-52,684	44,700	-66.50
- State Fire Marshal	-315	0	-1.9
- Resource Management	-2,953	0	-20.9
- Administration	-4,764	0	-43.7
- Fire Protection	-44,652	44,700	0.0
State Lands Commission	-946	0	-7.6
- Mineral Resources Management	-335	0	-1.9
- Land Management	-611	0	-5.7
Department of Fish and Game	-5,733	0	-23.8
- Biodiversity program	-3,580	0	-20.9
- Hunting Fishing and Public Use	-1,189	0	-2.9
- Administration and Program Support	-964	0	0.0
- Enforcement	-2,634	0	-36.1
Wildlife Conservation Board	-20	0	0.0
- Program Reductions	-20	0	0.0
California Coastal Commission	-1,181	0	-15.2
- Coastal Management Program	-956	0	-14.3
- Coastal Energy Program	-52	0	0.0
- Administration and Program Support	-173	0	-1.9
Native American Heritage Commission	-79	0	-1.4
- Program Reductions	-79	0	-1.4
Department of Parks and Recreation	-13,322	-3,700	129.2
- State Park System	-8,883	-3,700	-117.8
- Administration and Program Support	-4,439	0	-11.4
SF Bay Cons. and Dev. Commission	-457	0	-3.8
- Program Reductions	-457	0	-3.8
Department of Water Resources	-7,292	0	0.0
- Water Management	-1,583	0	0.0
- Flood Management	-5,373	0	0.0
- Central Valley Flood Board	-200	0	0.0
- Watermaster Program	-136	0	0.0
Total Resources Agency BBRs	-86,637	40,000	

Figure 2

LAO General Fund Savings Proposals: Resources Agency

Department	Savings	Summary
Conservation Corps	\$1 million	\$1 million from special fund to backfill proposed General Fund cuts with special fund balances and reject \$2 million in proposed General Fund cuts.
Forestry and Fire Protection	\$265 million* (estimate)	Impose a fee on residential properties within State Responsibility Lands to support 50% of the State's fire protection costs (about \$265 million).
Parks and Recreation	\$25 million	\$25 million in increased user fees, to backfill BBRs and provide \$11.7 million more for park maintenance.
Parks and Recreation	\$3 million	\$3 million in General Fund saving by rejecting proposal for new park rangers for fire protection.
Coastal Commission	\$2.5 million	Coastal development permitting—allow Coastal Commission to spend the \$2.5 million of regulatory fee/penalty revenues that it collects, to backfill BBRs and create an additional \$1 million in General Fund savings.
Multiple Departments	\$23.1 million	Timber harvest plan review—\$23.1 million in new regulatory fees, to backfill BBRs and create additional General Fund savings (\$21.2 million).
Fish and Game	\$6.7 million	\$6.7 million in new and increased regulatory fees, to backfill BBRs and create additional General Fund savings (\$4.6 million).
Water Resources	\$40 million	\$40 million in new benefit assessment fees, to create General Fund savings of a like amount.
Water Resources Control Board	\$29.8 million	\$29.8 million in new and increased regulatory and benefit assessment fees, to backfill BBRs and create additional General Fund savings (\$26.6 million).
Wildlife Conservation Board	\$20.8 million	\$20.8 million from proposition to fulfill required contributions to the habitat conservation fund currently provided by the General Fund.
Total	\$416.90 million	

* To achieve budget year revenue projects, it is necessary for the fee to be approved early in the 2007-08 budget year.

ISSUE 2: SB 97 (DUTTON) IMPLEMENTATION

The Resources Secretary is requesting a baseline augmentation of \$177,000 in 2008-09 and \$425,000 in 2009-10 for staff and scientific expertise contracting in order to begin implementation of the statutory mandates of Senate Bill 97 (Dutton).

SB 97 (Dutton) makes three principle requirements:

1. Directs the Office of Planning and Research to develop CEQA guidelines for how greenhouse gas (GHG) emissions are considered and mitigated for in the CEQA process.
2. Directs the Resources Agency to promulgate the guidelines through a rulemaking process.
3. Provides safe harbor for Bond funded projects during the period that the guidelines are being developed and approved.

Background. Established in 1970, CEQA is the state's primary environmental law calling for analysis and disclosure of potentially significant environmental impacts before a public agency approve a project. Specifically, CEQA requires that a public agency consider the potential environmental impacts of a proposed project or permit. Under CEQA's review process, the public agency must initially analyze the potential impact of the project on the physical environment and whether methods of reducing or eliminating any such impacts are feasible.

In recent years with the passage of AB 32 (Núñez) and other executive and legislative actions related to climate change, questions have been raised as to whether and how applicants should consider, within the CEQA process, the harmful effects of GHG emissions on the physical environment.

Negotiated in the 2007-08 budget agreement, SB 97 (Dutton) will attempt to resolve these questions through the development of new GHG related CEQA guidelines. To achieve this, the bill directs the Office of Planning and Research to develop draft guidelines for the Resources Agency to promulgate through a formal rulemaking process consistent with the Administrative Procedures Act. Following their approval, the Agency is to update these guidelines as new information becomes available.

Staff Comments. As the responsible party for moving these guidelines through the rulemaking process, the Resources Agency will need to elevate agency technical and legal expertise levels as well as respond to a very high level of public input that are anticipated because of the controversial nature of the subject and the wide ranging impacts these guidelines will have on statewide development.

Through discussions with Agency staff, out-year workload remains unclear primarily because of the uniqueness and controversial nature of this subject matter. To address this uncertainty, the Agency built into this proposal an increase in contracting funds which are more flexible in nature than full time position funding. Staff feels that as a baseline, the proposed funding and positions are appropriate for the budget year and potentially insufficient for 2009-10. As such, staff recommends that the budget change proposal be approved but that the Resources Agency continue to report back to the Subcommittee on their progress of promulgating these regulations.

STAFF RECOMMENDATION: Approve as budgeted

ISSUE 3: CALFED SCIENCE PROGRAM GRANTS

The Governor's budget is requesting a total \$26.4 million in bond funds (\$8 million from Proposition 84 and \$18 million from Proposition 509 for the Secretary for Resources for the CALFED Science Program. These Funds would be used by the California Bay Delta Authority (CBDA) within the Resources Agency to award grants for scientific research that serve highest priority needs of the Delta. Priorities will be determined by a Topic Selection Panel consisting of high level stakeholders, agency managers and academics and submitted for public review.

Background. The CALFED Bay Delta program was formed in 1995 to improve planning and coordination among the 25 state and federal agencies with regulatory and management responsibilities in the San Francisco Bay/Sacramento-San Joaquin Delta. Prior to its formation, implementation of programs to protect and restore the bay-delta was hampered by disagreement among state and federal agencies resulting in the lack of action to protect the Bay-Delta.

The Legislature reorganized the CALFED governance structure in 2006, in an effort to clarify lines of accountability within the program and hold the program accountable for its performance. The reorganization included the transfer of all of California Bay-Delta Authority's positions to the Secretary for Resources and five other CALFED implementing agencies.

At this point, it is clear that Delta water policy has arrived at a crossroads. Prior efforts of the program to resolve ecosystem stability and water reliability issues have been largely unsuccessful and many various studies and action plans requested by the Legislature and the Administration are reaching completion. The following list outlines the key planning activities that have been conducted to address the current crisis in the delta:

- **Delta Vision** Secretary for Resources statutorily required to develop a strategic vision for a "sustainable" Delta, including sustainable ecosystems; land-use patterns; flood management strategies; and transportation, water supply, utility, and recreation uses. Blue ribbon task force adopted a vision statement in December 2007, and is developing a strategic plan to implement the vision, to be completed by November 2008.
- **Delta Risk Management Strategy** Department of Water Resources statutorily required to evaluate the potential impacts of levee failures in the Delta (from risks such as earthquakes and climate change) and, along with the Department of Fish and Game, evaluate options to mitigate these risks. □ Required report to Governor and Legislature by January 1, 2008, has been delayed and is currently undergoing independent scientific review.
- **Bay Delta Conservation Plan** Several CALFED agencies, along with local public water agencies and environmental organizations, signed an agreement in 2006 to participate in a conservation planning process authorized under state law that has both conservation and water supply objectives. The plan is under development.

- **CALFED End of Stage One Assessment** Staff of CALFED agencies prepared a report in November 2007 reviewing the program's performance during "stage one"—the first seven years.
- **CALFED Program Performance Assessment** The CALFED Bay-Delta Public Advisory Committee completed a retrospective assessment of CALFED's progress in achieving its original goals, in August 2007.

LAO Recommendation. In their analysis, the LAO has commented that the Administration has not provided sufficient information to demonstrate that the scientific work to be funded in the budget year will provide information that is (1) available in time to inform the Delta Vision process and subsequent legislative decision-making, and (2) focused on key policy issues under consideration, as opposed to being for general scientific research. Therefore, the LAO recommends the Legislature reject the bulk of this proposal—the portion (\$25.3 million) allocated to grants for scientific research. The LAO further recommends the Administration present a revised proposal at the May Revision that proposes funding only for research activities meeting the two criteria listed above.

Staff Comments. Through discussions at the staff level, the Resources Agency has agreed to continue to work with the LAO and subcommittee staff on this issue. Because this and other CALFED BCPS in the Department's of Fish and Game and Water Resources are all interrelated with the larger issue of Delta sustainability, staff recommends that this proposal be held open.

STAFF RECOMMENDATION: Hold all CALFED related proposals open.

3790 – DEPARTMENT OF PARKS AND RECREATION

ISSUE 1: LAO RECOMMENDATION – STATE PARK FEE INCREASES

In their Analysis of the 2008/09 budget, the LAO has recommended that the Department of Parks and Recreation raise fees at state parks in order to generate \$25 million in additional fee revenue. Under their proposal, this revenue could be used to offset proposed General Fund Reductions and provide additional funding for maintenance needs at statewide parks.

In their report, provided below, the LAO bases this recommendation on two primary points:

1) **State Parks entrance fees have not kept up with inflation.** The LAO feels that over the last decade, State Park fees have not kept up with inflation. If the Department were to increase fees to a level equal to inflation, the LAO figures Parks could generate \$25 million in additional revenue.

2) **Impact of Fees on Park Attendance.** Through their review of multiple year park attendance visitation data, the LAO has concluded that evidence does not validate the assertion that attendance will decline if fees are increased to proposed levels.

Staff Comments. While there has been a clear and justifiable disagreement on how much revenue an increase in fees could generate, staff has more broad concerns about this proposal's affects on the Department's ability to conduct short and long term core-operational planning Rangers, basic maintenance workers, public safety, etc.

From discussions with Parks, staff understands that the multiple years of cuts that the Department has been forced to take has eroded basic levels of service to a point that even without the proposed cuts, Parks might still be forced to look at draconian cost reduction measures. Adding to this fiscal instability, the amount of fee revenue that the Department is able to collect in a year is not solely dependent on the market elasticity. Factors such as weather, economy, weekend and payday schedules play a very significant role in final end of the year tallies of park entrance fee revenue. Additionally, in the past when the Legislature has directed Parks to raise fees by \$6 million to fund waste water system deferred maintenance, the Department was not able achieve those revenue targets. By linking more of the Department's core functions to a fund source that historically has not been too consistent, how should the Department go about making long range operational spending decisions under this scenario?

While a proposal to raise fees is valid and most likely achievable to a certain level, staff feels that the Subcommittee should consider this along with all options when looking at backfilling proposed budget balancing reductions. Staff recommends that this issue remain open for further discussion at the staff level.

STAFF RECOMMENDATION: Hold Open

ISSUE 2: IMPROVING FIRE PREVENTION AT STATE PARKS

Governor's Budget. The Governor's budget proposes \$3 million General Fund for increased fire prevention in the state park system. The proposal would fund 30 new park ranger positions statewide and related equipment and vehicles. According to the Department, the additional park ranger positions requested would not participate in fire prevention or in firefighting activities. Rather, the requested positions would be used to augment the Department's law enforcement presence in state parks—potentially deterring park visitors from accidentally or intentionally starting fires—and reporting fires to firefighting agencies.

LAO Recommendation. The Department's primary responsibility with regard to wildland fire is prevention. Park rangers are not directly involved in prevention activities. We find that adding park ranger positions will not address the Department's primary responsibility with respect to wildfire—vegetation management and prescribed burns. In addition, while there may be general law enforcement benefits from adding park ranger positions, the Department has not demonstrated that adding 30 park rangers across the entire park system will cost-effectively prevent human-caused fires in state parks. We therefore recommend the budget request be denied.

Staff Comments. Staff agrees with the comments made by the LAO that this proposal be denied. This is a General Fund augmentation that should be used to fund some of the cuts proposed in the BBRs. However, because the larger issue of Parks funding is still in discussion, staff recommends that this issue remain open.

Staff Recommendation. Hold Open

ISSUE 3 PROPOSITION 84 FUNDED PROPOSALS

The Governor's budget is proposing to expend \$5 million from Proposition 84 on the following four programs:

1. **Deferred Maintenance.** \$12.3 million (Proposition 84) to address the growing backlog of facility, natural resource, and cultural resource deferred maintenance projects throughout the State Park System totaling approximately \$1.24 billion and 8,000 projects. These funds will be used over the course of 6 years to complete various deferred maintenance projects. In recent years, the Department has experienced dramatic shifts in deferred maintenance funding. Starting with the 2005/06 budget act, the Legislature approved \$250 million in General Fund dollars for deferred maintenance. In subsequent years, \$175 million of this augmentation was reverted back to the General Fund while an additional \$30 million in Proposition 84 funds was used to backfill cuts.
2. **Natural Heritage Stewardship Program.** \$2 million (Proposition 84) in 2008/09 for Natural Heritage Stewardship Program projects in accordance with the bond act. The purpose of this program is to restore natural landscapes and to protect and preserve sensitive natural environments at risk to fire, exotic species or other potential dangers. This proposal is part of a five-year, \$8.6 million expenditure plan for the program.
3. **Statewide Cultural Stewardship.** \$1.2 million (Proposition 84) in 2008/09 is part of a five year, \$6.97 million program to plan and implement cultural stewardship projects to preserve and restore the historical resources of the existing California State Park system. Under this proposal, the Archaeology History and Museums Division will administer a program to preserve and restore cultural resources in the State Park System with a four program emphases: historic adobes, historic cemeteries, archaeological sites, and museum collections.
4. **Statewide interpretive Exhibit Program.** \$1.45 million (Proposition 84) in 2008/09 to design and oversee smaller scale projects such as visitor center exhibits, outdoor exhibits, installation of historic house museum displays, self guided interpretive trails and updating of audiovisual systems. This proposal is the first year of a 6 year \$8.6 million program.

Staff Comments. While each of these proposals is consistent with the requirements of Proposition 84, staff feels that these proposals in some cases supplant programs that used to be a General Fund responsibility. At the hearing, the Department should be prepared to discuss how Proposition 84 funds can be used for long range fiscal planning and to fill shorter term funding holes in the Department.

3480 – DEPARTMENT OF CONSERVATION

ISSUE 1: INCREASED WILLIAMSON ACT/RECYCLING ENFORCEMENT

In two separate proposals, the Governors budget is requesting that funding, approved in 2006/07 on a temporary basis, be transitioned to a permanent baseline augmentation for the purpose of maintaining increased enforcement levels in two departmental programs - Williamson Act and Recycling.

In 2006/07, funding for both programs was approved on a limited term basis in order to allow the Department time to support its claim that the cost of increased enforcement efforts would be more than offset by the collection of new revenues. As outlined in the following bullets, in both instances the increased enforcement positions were correlated with substantial increases in new revenue that directly benefited special funds and the General Fund.

- **Williamson Act Enforcement** - \$910,000 (Soil Conservation Fund) and five permanent positions to conduct standard enforcement activities at the state level in order maintain consistent Williamson Act contract implementation state wide. These positions were also requested to backfill cuts that were made in prior years due to General Fund reductions.

In their 2006/07 BCP, the Department committed to the legislature that the approved limited term positions would increase revenue collected from cancellation fees by \$4.5 million over previous average levels of \$3 million to total \$7.5 million. At the conclusion of 2006/07, the Department much surpassed these estimates and was able to collect a total of \$23.7 million that was deposited in the General Fund.

- **Recycling Enforcement** - \$945,000 (California Beverage Container Recycling Fund) and 8 Auditor positions. In their 2006/07 BCP, the Department estimated that by expanding its enforcement of the recycling program it would be able to bring a 9 – 1 return on investment. Since the time of this augmentation, the fraud eliminated from the program and funds recovered increased by 82 percent in one year from \$10 million in 2005/06 to \$18.2 million in 2006/07.

Staff Comments. For both programs, by adding additional limited term positions the Department was able to far surpass the costs of these positions through increased revenue collections. Aside from benefits to the General Fund and the Beverage Container Recycling Fund, proper enforcement maintains the integrity of these two programs that have wide reaching benefits to environment and public trust. For the hearing, the Department should be prepared to comment on whether additional opportunities exist to expand revenue collection through increased enforcement for these two programs.

STAFF RECOMMENDATION: Approve as budgeted

ISSUE 2: INFORMATIONAL: BEVERAGE CONTAINER RECYCLING FUND

The California Beverage Container Recycling Fund is used by the Department of Conservation to collect revenues at the point of sale from beverage containers that have a Container Recycling Value (CRV) under statute. Under the program, the Department expends these funds broadly among the participants of the program (consumers, recyclers, manufacturers, and others) – all with the intent to boost container recycling rates and to divert materials for the waste stream.

In past years, CRV revenues have greatly outpaced recycling rates creating ballooning balances in the CBCRF. These surpluses have been allocated through legislation to various entities related to the manufacturing or recycling of containers. In the budget year, because of rising recycling rates and a loan of \$32 million to fund AB 32 (Núñez) implementation, the balance in the fund has been reduced to \$96,818 million or roughly 8 percent of total revenues.

CBCRF Fund Condition Statement	2006-07	2007-08	2008-09
Beginning Balance	\$213,979	\$155,845	\$98,765
Total Revenues Transfers and Other Adjustments	\$834,173	\$1,106,962	\$1,242,157
Total Expenditures and Expenditure Adjustments	\$892,307	\$1,164,042	\$1,244,104
Fund Balance	\$155,845	\$98,765	\$96,818
*Prudent Reserve		\$83,398	\$105,322
*Surplus		\$15,367	(\$8,504)

Notes:

- All data from Governor's Budget, except where noted.
- * Not included in Governor's Budget.
- Total Revenues Transfers and Other Adjustments includes loan to Air Pollution Control Fund of \$32 million in fiscal year 2008-09.
- All balances reflect estimated cash balance (in thousands).
- Prudent Reserve is based on Public Resources Code Section 14580(a)(2) and Government Code 16418.5(b)
- Projections are based on estimated recycling rates from increased returns resulting from the passage of AB3056 as follows: 68% for 2007-08 and 70% for 2008-09.

Staff Comments. Because of an increase in CRV redemption values to 5 - 10 cents per container and a significant public outreach ramp up, statewide recycling rates have surged in the past year. More recycling of containers that are carrying higher CRV price tags has driven up the cost associated with percentage increases in recycling rates. In prior years, the Department could assume that every one percent increase in recycling would reciprocate a \$10 million cost in revenue. With the increased CRV rates, the Department now assumes a 1.5 -2% increase in cost that for a single recycling rate point increase.

At the hearing, the Department should be prepared to walk the subcommittee through its expectations for recycling rates in the next two years. Additionally, the Department should discuss how it goes about determining what is a prudent reserve for the fund considering these potential shifts in cash-flow.

3560 – STATE LANDS COMMISSION

ISSUE 1: BUDGET BALANCING REDUCTION PROPOSALS

As an extension of the discussion's previously held in Subcommittee the State Lands Commission should be prepared to present on the two BBRs proposed in the Governor's budget.

**3560 California State Lands Commission (SLC)
Land Management**

Title: Land Title/Boundary Support—Surface Lease Appraisals and Rent Reviews

	GF	FF	Other	Total Reductions	PY Reduction
<u>2007-08</u>					
Workload Budget	\$7,245				
Reductions	\$0			\$0	0.0
Governor's Budget	\$7,245				
<u>2008-09</u>					
Workload Budget	\$6,110				
Reductions	\$611			\$611	5.7
Governor's Budget	\$5,499				

Program Description

Primary responsibility is the surface management of all sovereign and school lands in California, including the identification, location, and evaluation of the State's interest in these lands and its leasing and management. 2006-07 Revenues were in excess of \$12 million.

A fundamental function of the Land Management Program is the title and boundary support of ownership determination requests from developer and local jurisdictions. The program also supports litigation by the Attorney General in issues regarding State lands ownership such as quiet title actions, trespass and unauthorized use or extraction of State resources and ensures that the State receives a fair rent for the use of its land and a fair price for the sale, purchase or exchange of real property. The annual rent for most of the revenue-generating leases issued by the Commission is established through appraisals prepared by staff appraisers. Most leases contain a five-year rent review provision.

Program Reduction

This reduction will decrease the Commission's ability to respond and/or participate in land title and boundary ownership determination requests from developer and local jurisdictions as

well as its ability in support of litigation by the Attorney General for issues regarding State lands ownership, such as quiet title actions, trespass and unauthorized use or extraction of State resources. It will also diminish the appraisal unit to one position and reduce the staff available to perform rent reviews, negotiate lease terms and process new lease applications. (\$611,000 and six positions)

Reduction Impacts

The Commission performs a considerable volume of work in support of land title and ownership issues for other jurisdictions as well as in support of litigation by the Department of Justice. The inability to perform this work may require other state agencies and the Attorney General to contract out the work to private survey and title companies. The legal and boundary staff's advice to the Wildlife Conservation Board, Coastal Conservancy, Santa Monica Mountains Conservancy, San Joaquin River Conservancy, Caltrans and State Parks on acquisition issues may also be reduced as well as support to legislative grantees in determining Public Trust boundaries within their jurisdictions. Important activities such as title settlements, land exchanges and litigation support will be at risk of receiving little or no support.

This reduction impacts the Commission's ability to ensure the State receives a fair rent for the use of its land and a fair price of the sale, purchase or exchange of real property plus delays processing of new applications and eliminates the possibility to explore new rental revenue sources.

Timing of Implementation

The title and boundary reduction will be delayed till January 1, 2008 due to layoffs the remainder reductions would be effective July 1, 2008.

Statutory and/or Regulatory Change

Will not require a change in state statute and emergency regulations.

**3560 California State Lands Commission (SLC)
Mineral Resources Management
Title: Oil and Gas Lease Management & Royalty Verification**

	GF	FF	Other	Total Reductions	PY Reduction
<u>2007-08</u>					
Workload Budget	\$3,452				
Reductions	\$0			\$0	0.0
Governor's Budget	\$3,452				
<u>2008-09</u>					
Workload Budget	\$3,350				
Reductions	\$335			\$335	1.9
Governor's Budget	\$3,015				

Program Description

The SLC Mineral Resources Management Program manages the use of energy and mineral resources on more than 130 oil, gas, geothermal and mineral leases covering more than 95,000 acres of state-owned lands. The program goals are to ensure public safety, protect the environment, and maximize revenue. 2006-07 General Fund revenues were in excess of \$252 million.

Program Reduction

Reduce oversight of royalty income and development of oil and gas leases (\$335,000 and 2 positions).

Reduction Impacts

Increased oil prices have resulted in an acceleration of development activities. These activities result in workload to the existing seven General Fund engineering staff. They are responsible to ensure that development of the oil reservoir is consistent with best interests of the State goal of maintaining production over the long term to ensure the flow of revenues to the State, and to not develop the reservoir in such a way as to extract only the most readily available oil to maximize operator short term profits. This reduction reduces the number of engineering staff and support.

Timing of Implementation

The reduction would be effective July 1, 2008.

Statutory and/or Regulatory Change

Will not require a change in state statute and emergency regulations.

3760 – STATE COASTAL CONSERVANCY

ISSUE 1: PROPOSITION 84 - COASTAL CONSERVANCY

The Governor's budget is proposing to appropriate \$89.09 million to the Coastal Conservancy to carry out the second year of a variety of the Conservancy programs to provide access to and restore wetland and watershed resources of the state's coast and San Francisco Bay region.

Coastal Resource Enhancement. The Conservancy's coastal resource enhancement program is focused primarily on large-scale wetland restoration efforts in southern California and on comprehensive planning and restoration of coastal watersheds statewide. When developing and evaluating natural resource enhancement projects carried out pursuant to this proposal, the Coastal Conservancy will give priority to projects that demonstrate one or more of the following characteristics: 1) Landscape/habitat linkages; 2) Watershed Protection; 3) Protection of large under protected habitats; 4) Non state matching funds.

Public Access and Coastal Resource Development. The primary purpose of this program is to promote the public's access to and enjoyment of the coast, complete the California Coastal Trail, and provide trail connections to the coast from inland areas, including the development of regional river parkway systems and to reduce the contributions of urban communities to global warming through projects which promote urban greening and non-motorized transportation.

San Francisco Bay Conservancy. The San Francisco Bay Conservancy program provides funding for various public access and natural resources enhancement and restoration programs within the San Francisco Bay.

Staff Comments. Funding provided in these sections of the bond is for existing programs within the Conservancy. Staff does not have any issues with these expenditures but because this is the second year of a multi year appropriation, the Conservancy should be prepared to give the Subcommittee an update of Proposition 84 expenditures to-date.

STAFF RECOMMENDATION: Approve as budgeted

ISSUE 2: PROPOSITION 84 - OCEAN PROTECTION COUNCIL

The Governor's budget is proposing \$26.42 million for the Ocean Protection Council (OPC) from Proposition 84 in 08/09 and 426.8 million in 09/10. These appropriations to the Ocean Protection Trust fund will be used by the OPC for projects for the following projects that are consistent with the OPC's strategic plan:

- 1. Seafloor mapping.** The OPC strategic plan calls for mapping all state waters over the next five years. This will be done in concert with the federal government which has offered use of its research vessels and which will also be mapping non-state waters. The maps that come from this effort will be essential tools in implementing both the Marine Life Management Act (MLMA) and the Marine Life Protection Act (MLPA) and ecosystem based management (EBM).
- 2. Ocean Observing.** The OPC is working to develop an ocean monitoring system and funds will be used to establish an ocean science application program, and build on efforts to synthesize solutions to problems based on increased development of and access to ocean data, and the development of baseline data for marine protected areas.
- 3. Ocean Research.** The OPC recently published its *Information and Outreach Strategy* (IRO) that outlines the importance of basic and applied research to a host of ocean related management problems. Consistent with the IRO, funds would be used to sponsor general research into specified areas of ocean research. Research topics would be selected by OPC in concert with resource management agencies and academics.
- 4. Invasive Species.** The OPC will be operating various programs related to invasive species. Invasive species of plants and animals are a major threat to California's aquatic ecosystems.
- 5. Habitat Restoration.** Funds will be used to restore coastal and ocean habitat through restoration of wetlands, and watersheds and removal of fish barriers. Funds will also be used to establish goals for subtidal and intertidal habitat and begin restoration or protective programs. Stream gauges will be installed in various locations to determine water supply availability for habitat purposes.
- 6. Beach Erosion.** Funds would be used to complete and implement the Coastal Sediment Master Plan being developed by the Coastal Sediment Management Workgroup, and for the rebuilding of beaches through mapping of undersea sand deposits, removal of barriers to sediment flows, the use of opportunistic sand sources, and research into and implementation of sand retention methodologies that minimize impacts on adjoining beaches, or other sensitive resources.
- 7. Water Quality.** The OPC will work with the State Water Resources Control Board, the regional boards, and the Coastal Commission to improve the quality of waters flowing to the ocean and to eliminate pollution into areas of special biological significance.
- 8. Marine Debris.** Funds will be used to implement suggestions from the *California Marine Debris Action Plan* including technical solutions, research, enforcement (i.e. acquisition of sensing or other equipment), and education.

9. Hazards. The OPC will sponsor research and help to monitor key coastal hazards. These include the impacts of climate change on sea level and ecosystem health, and tsunamis.

10. Coastal Economies. The OPC will be considering a range of measures that can help to modernize California's fisheries in order to preserve local economies, the fishing industry, and the related tourist economy.

Staff Comments. In last year's budget, the OPC was appropriated \$28.5 million to provide grants in this program. For the hearing, the OPC should be prepared to give the Subcommittee a review of how OPC has ensured that awards to date tied into their comprehensive strategic plan.

STAFF RECOMMENDATION: Approve as budgeted.