AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Assemblymember Fran Pavley, Chair

WEDNESDAY, MAY 4, 2005
STATE CAPITOL, ROOM 447
8:30 A.M.

Hearing Items

Proposed Consent Calendar	
Program	**Proposal**
Air Resources Board Capital Outlay	**April 1 Finance Letter – $103,000(Special Funds)** for preliminary plans for the seismic retrofit of the Haagen-Smit Laboratory.
Department of Parks and Recreation	**April 1 Finance Letter – $6.2 million (Prop 40)** be reverted in order to address repair and damage to state parks caused by the San Simeon earthquake and Southern California Fires.

STAFF RECOMMENDATION: Staff had no issues with these proposals. Approve Consent Calendar.

0540– 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 2005-06 Budget proposes expenditures of $58.1 million for the Secretary, a decrease of $14.3 million from estimated current year estimates.

3 Year Expenditures and Positions
(dollars in thousands)

	2003-04	2004-05	2005-06
Support	$148,346	$72,423	$58,062
Unallocated Reduction	--	--	--
Positions	27.5	36.6	36.6

ISSUE 1: RIVER PARKWAYS AND SIERRA NEVADA CASCADE CONSERVATION GRANTS PROGRAMS

Established in the Office of the Secretary by Chapter 230, Statutes of 2004 - SB 1107 (Committee on Budget) the California River Parkways Program and the Sierra Nevada Cascade Conservation Grant program were created to provide grants that result in the protection, preservation, restoration and acquisition of many areas of California's River Parkways and Sierra Nevada Cascade.

Governor's Budget. For 2004-05, the River Parkways Grant Program was appropriated $10 million in Proposition 50 funds while the Sierra Nevada Cascade grant program received $4.5 million in Proposition 50 funds. In the Governor's 2005-06 Budget, the Secretary for Resources is proposing that $50 million be appropriated out of Proposition 40 funds and Proposition 50 funds. Breakdown of the appropriation would be as follows:

- $7.85 million in local assistance for Proposition 40 River Parkways grants.
- $30.5 million in local assistance for Proposition 50 River Parkways grants.
- $11.65 million in local assistance for Proposition 50 Sierra Nevada Cascade Conservation grants.

Proposition 50 funds are scheduled to be allocated using a competitive solicitation process. In contrast, grants allocated from Proposition 50 are proposed to be allocated as opportunity grants under the direction of the Secretary and will not go through a competitive process.

The administration is planning to draft grant guidelines at the end of March and holding public meetings in April to discuss the guidelines. For the Sierra Nevada Cascade Program, draft guidelines will be set up on a later timeline than the River Parkways Program.

Opportunity grants: The administration is proposing that $7.85 million Prop 40 of the grant funds be allocated as opportunity grants. With opportunity grants, the Secretary has control over solicitation and awarding of grants – allowing the flexibility needed to act on purchasing opportunities that become available with short notice. While the legislature has acknowledged the usefulness and need for administrative flexibility in opportunity grants, the legislature has also set forth in statute, expectations that there be a sufficient level of transparency within the opportunity grant allocation process.

Staff Comments: When this item was initially heard on April 6, 2005, the subcommittee expressed some concern to the criteria that the opportunity grants will be determined by and to the transparency that is built into the awarding process. The administration has provided the following criteria that the opportunity grant process will use:

1. Properties that are highly desirable, suddenly become available for purchase, and could be lost without quick action, and quick funding.
2. Project clearly demonstrated that asking for funding through the Prop 50 competitive program will take too long, die to expiration of funding authority for other funding partners, such as the Corps of Engineers.
3. Projects with multiple funding partners that find themselves short of funds when projects go out to bid.
4. Geographic balance will be considered.
5. Multiple benefits are presented.
6. Projects significantly leverage other funding sources.
7. Waterways located in areas that have not previously received River Parkway awards are given additional consideration.

While these proposed criteria set out a clear process for the awarding of Opportunity Grants, the subcommittee may wish to consider, in order to address transparency concerns, approving supplemental report language that requires the Secretary to report annually on acquisitions conducted through Proposition 40 Opportunity Grants.

ISSUE 2: REAPPROPRIATION

In order to extend various coastal resources grants awarded by the Resources Agency to the Santa Barbara area, the following budget bill language is being proposed:

0540-492 Extension of liquidation period, Resources Agency, notwithstanding any other provision of law, funds appropriated in the following citation shall be available for liquidation until June 30, 2006:

(1) Item 0540 – Coastal Resources Grant Program

0555 – SECRETARY OF ENVIRONMENTAL PROTECTION
3900 – AIR RESOURCES BOARD

ISSUE 1: APRIL 1 FINANCE LETTER – HYDROGEN HIGHWAY

April 1 Finance Letter Proposal. In an April 1 Finance Letter, the Administration is proposing an augmentation of $10.5 million (Motor Vehicle Funds and Energy Resources Programs Account) and the following activities to implement the Hydrogen Highway Network Blue Print Plan Program:

Hydrogen Stations. Co-fund the installation of 11 hydrogen refueling stations throughout the state. Hydrogen fueling stations are expected to cost $1 million each, with the state share of the cost being $500,000.

Vehicle Incentives and Placement Assistance. Provide $10,000 cash incentives to purchase hydrogen fuel cell vehicles in order to promote the use of hydrogen vehicles within government fleets. The current estimated cost for a single hydrogen vehicle is $1 million.

Public Private Partnership. Establish a Public Private partnership to realize the goal of establishing 50-100 hydrogen fuelling stations by 2010.

Codes and Standards Development. Develop codes and standards to streamline the permitting and safety issues around hydrogen station placement.

Site Specialists. Work with stakeholders, station operators/builders and communities to address all of the issues related to installing hydrogen infrastructure.

Public Education. Provide public outreach and education on hydrogen energy technology.

Research. Provide research that addresses the societal benefits and costs of utilizing hydrogen and the expected demand for hydrogen vehicles.

Biennial Review. Provide a biennial review by all of the stakeholders to ensure that rapid progress is being made in the constructing hydrogen infrastructure.

Background. On April 20, 2004, the Governor signed Executive Order S-7-04 to begin implementing a rapid transition to a hydrogen transportation economy in California. Subsequent to the Executive Order, the California Hydrogen Highway Network Blueprint Plan was developed by five teams that included approximately 200 representatives from both the private and public sectors. The plan sought to outline the benefits, challenges and important steps needed to implement a hydrogen highway network in California. The plan identified a need for the State to take a significant role in implementing a hydrogen infrastructure and support development of hydrogen vehicles. Included were plans to install 50-100 hydrogen fueling stations in California by 2010, support of deployment of hydrogen vehicles, cost share for hydrogen stations, incentives for hydrogen vehicles and public education outreach.

Hydrogen as a Fuel Source. Currently there are two types of vehicles that utilize hydrogen as a fuel source: hydrogen fuel cell vehicles and hydrogen combustion vehicles. Hydrogen fuel cells essentially convert the chemicals hydrogen and oxygen into water and in the process, produce electricity which powers the vehicle. Hydrogen combustion vehicles are similar to traditional combustion vehicles with the exception of the use of hydrogen rather than fossil fuels. In both cases, the use of hydrogen as a fuel source produces zero direct emissions from the vehicles. An extremely common element, hydrogen is present in the chemical composition of a number of different compounds including water. However, because hydrogen is not a natural occurring substance such as natural gas or oil, it must be extracted from other compounds – a process that requires considerable amounts of electricity. .

LAO Comments: The LAO has expressed concern that since the Legislature has not yet concurred that the hydrogen highway is a state priority, the administration should not be requesting a hydrogen highway program through the budget process. The LAO feels that this is a policy decision that should be vetted through the policy bill process.

Staff Comments: As an emerging green technology, hydrogen as a fuel sources has a long term potential to possibly alleviate much of our dependency on fossil fuels for energy consumption. Though hydrogen technology is considerably developed and is being implemented currently to fuel automobiles on a very limited scale, the widespread use of the technology is obstructed by the following issues:

Affordability and Availability. Today's estimated cost of a fuel cell powered vehicle is approximately $1 million. This high cost can be attributed to a minimal production volume that is largely hand made and limited to experimental and prototype use.

Infrastructure. In the State currently there are 4 hydrogen fueling stations, none of which are open to the public. In order for the statewide use of hydrogen powered automobiles to be truly viable, there would need to be some type of network – statewide or regional - of hydrogen fueling stations in place to support hydrogen vehicles. The proposal calls for the construction of 11 additional fueling facilities throughout the state.

A Reliable "Green" Source of electricity. Because electricity is needed to extract hydrogen from other chemical compounds and the majority of electric generation is dependent on either fossil fuels or natural gas, the net sum of pollutants emitted from the time hydrogen is created to when it is consumed makes it a non "zero-emission' fuel source in today's energy landscape. In order to attain a truly "zero-emission" classification, an increased supply of "green" power would be needed to replace the state's and nation's fossil fuel dependent power generation facilities. This obstacle of providing "green" power sources is compounded with the current overall scarcity of electric generation in the state and the long term stresses that are expected on the energy landscape due to population increases and limited construction of new power generation plants in the state.

Though hydrogen fuel cell technology has potential to help our country alleviate our dependence on fossil fuel consumption, when looking at the obstacles stated above it is questionable whether the administration's proposal and the fiscal commitment associated with it will result in adequate short term and long term environmental gains to justify the investment at this time. The subcommittee may want to consider whether it is premature to initiate the construction of hydrogen fueling facilities and provide fiscal incentives purchasing of vehicles while this technology is in its developmental state and its environmental benefits are still contingent on the development of additional "green" energy sources. Further, because the legislature has not yet signified that the development of fuel cell technology is statewide priority the subcommittee may wish to suggest that this proposal be fully vetted in policy committee.

3790– DEPARTMENT OF PARKS AND RECREATION

ISSUE 1: APRIL 1 FINANCE LETTER – EMPIRE MINE POLLUTION MITIGATION STUDY

In an April1 Finance letter, the administration is proposing to augment the department's budget by $500,000 (General Fund) to provide for a pollution mitigation study of the Empire Mine State Historic Park. The study would include a human risk assessment, storm water pollution and prevention plan, and an implementation strategy to mitigate identified contaminants.

Potential pollution problems at the Empire Mine have only recently gained attention. The site includes large piles of mine tailings which may hold asbestos and other toxic materials.

LAO Comments. The LAO has expressed concern that the General Fund might not be the appropriate funding source for this proposal. Instead, they suggest that the Surface Mining and Reclamation Account (SMARA) is an appropriate alternative to the General Fund. Because under current law, SMARA funds are only available to remediate abandoned mines that were operational *after 1976*, if the subcommittee wishes to use the SMARA account for the Empire Mine study, a "notwithstanding" clause could be added to the budget bill (since the Empire Mine was closed in 1956).

Staff Comments.
The majority of revenues of the SMARA account originate from the federal land royalties earned through mining operations. A portion of these royalties are deposited into the SMARA account annually. The amount deposited is statutorily triggered so that when combined earned federal royalties total $40 million or greater, $2 million is deposited in to the SMARA. Subsequently, when federal royalties total less than $40 million, only $1.2 million is deposited. Because of this drastic trigger, year to year, the fund balance of the SMARA is dependent on an oscillating source of revenue – creating an unstable funding situation for the programs dependent on the SMARA. In the budget year, the fund balance for the SMARA is projected to be $2.1 million.

When looking at funding this proposal directly from the SMARA, the subcommittee may wish to consider statutory changes that would readjust the trigger that controls deposits into the account. This could possibly provide some stability in the revenue flow into the SMARA from Federal Lands Royalties.